JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
Fiscal Impact Review
2011 Session

Bill Number: SB 1011
Review Requested By: Senator Colgan

JLARC Staff Fiscal Estimates

JLARC staff estimate that SB 1011 could have a net revenue impact on the State that ranges from \$400,000 to \$571,000 in FY 2013 and \$351,000 to \$523,000 in FY 2014, depending on the number of individuals who meet the bill's eligibility criteria. SB 1011 would require Virginia's investor-owned utility companies to provide a 20 percent discount on electricity rates to certain benefit program recipients between the billing months of December and April. Investor-owned utility companies would receive a tax credit equal to 1.45 percent of the revenue that they lost as a result of offering the 20 percent discount. A range for the fiscal impact of the tax credit was estimated because of data limitations in the number of Virginians who participate in approved benefit programs and have utilities registered in their own name. Estimates consist of the foregone State tax revenue associated with issuing tax credits to investor-owned utility companies, and the added administrative costs anticipated by State agencies.

The revenue impact that SB 1011 would have on the State is derived from the number of individuals eligible for the reduced electricity rates, the revenue that investor-owned utility companies would lose as a result of reduced electricity rates, and the cost of the increased administrative burden on State agencies. Social Security Administration, Department of Social Services, and American Community Survey data indicate that between 170,382 and 262,935 individuals may meet the eligibility criteria outlined in SB 1011 for reduced electricity rates. According to Energy Information Administration (EIA) data, providing reduced electricity rates to these individuals could result in an estimated revenue loss ranging from \$24.2 million to \$36.1 million among all investor-owned utility companies in Virginia. Therefore, a tax credit worth 1.45 percent of utility companies' revenue loss, in addition to the increased administrative costs anticipated by State agencies, could cost the State between \$400,000 and \$571,000 in FY 2013 and between \$351,000 and \$523,000 in FY 2014.

The estimated revenue impact of SB 1011 is conservative because the extent to which Virginians participate in multiple benefit programs and have utilities registered in their own name is not known with precision. In addition, participation in benefit programs is expected to decrease in FY 2013 and 2014. Further, future levels of electricity consumption are currently unknown.

An explanation of the JLARC staff review is included on the following pages.

Authorized for Release:

Glen S. Tittermary
Director

JLARC offers Fiscal Impact Reviews in accordance with Item 30D of Chapter 874 (2010 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.

Bill Summary: SB 1011 requires Virginia's investor-owned utility companies to offer eligible residential customers a 20 percent reduction on the cost of electricity for the billing months of December, January, February, March, and April. To be eligible, utility customers must receive (i) supplemental security income (SSI), (ii) Temporary Assistance for Needy Families (TANF or TANF-UP), or (iii) food stamps if recipients are 60 years of age or older. Additionally, customers must have the utility registered in their own name. The Department of Social Services is required to inform eligible individuals about the reduced rates and assist utilities in determining customers' eligibility. The State Corporation Commission is responsible for certifying the revenue deficiency that each investor-owned utility experiences as a result of the reduced electricity rates. Investor-owned utilities would receive a tax credit equal to 1.45 percent of their total certified revenue deficiency.

Discussion of Fiscal Implications: The net revenue impact that the proposed tax credit would have on the State depends on three key factors: (i) the number of individuals eligible for the reduced electricity rates, (ii) the revenue loss experienced by investor-owned utility companies as a result of reduced electricity rates, and (iii) the cost of the increased administrative burden on State agencies. These factors were calculated to approximate the tax credit's anticipated revenue impact in FY 2013 and FY 2014. However, due to data limitations, several assumptions were made regarding the number of individuals eligible for reduced rates and their consumption behavior.

Individuals Eligible for Reduced Electricity Rates

Social Security Administration (SSA) and Department of Social Services (DSS) data were used to estimate the number of individuals that would be eligible for reduced electricity rates under SB 1011. These data indicate that there were 148,501 SSI recipients, 38,704 TANF cases, and 350,599 SNAP cases in Virginia in 2010. To estimate the percentage of Virginia SNAP cases involving recipients who were 60 years of age and older, 2010 American Community Survey data were used. Survey results indicate that 28 percent of Virginia households receiving SNAP benefits met this criterion. Therefore, only 96,765 out of 350,599 SNAP recipients qualified for reduced electricity rates in 2010. According to forecasts generated by the Congressional Budget Office (CBO), spending on programs designed to provide income security is projected to decline from 2010 levels in FY 2013 and FY 2014. However, because the exact number of SSI, TANF, and SNAP program participants does not appear to have been forecasted for these years, 2010 data were used to produce conservative estimates of the number of program participants in FY 2013 and FY 2014.

Importantly, certain individuals appear to receive benefits from multiple assistance programs. To calculate the overlap between program beneficiaries and ensure that eligible individuals are counted only once, two estimates were generated. The first estimate uses data from a 2006 analysis conducted for the JLARC report entitled Self-Sufficiency Among Social Services Clients in Virginia, which indicate that in approximately 40 percent of cases Virginians receive benefits from multiple benefit programs, including SSI, TANF, SNAP, child care, and energy assistance. However, these data capture the degree of overlap between two programs in addition to those included in SB 1011, child care and energy assistance. As a result, the overlap may be overestimated and more individuals may be eligible under SB 1011. A second estimate was generated using data on non-public assistance (NPA) SNAP cases in Virginia. These data include SNAP beneficiaries who live in households where at least one individual is not eligible to receive SSI, TANF, or General Relief benefits. These data appear to eliminate the overlap between SNAP beneficiaries and individuals who receive TANF and SSI benefits; however, they do not account for the overlap between SSI and TANF beneficiaries and are likely understated. Using both estimates creates an eligibility range of 170,382 to 262,935 individuals who participate in the benefit programs outlined in SB 1011.

SB 1011 further requires that approved program beneficiaries have utilities registered in their own name to qualify for reduced electricity rates. Because the number of individuals who meet this criterion is currently unknown, an assumption was made that all SSI, TANF, and SNAP (60 years old and over) beneficiaries are utility accountholders. The demographic profile of benefit recipients indicates that the vast majority of TANF and SNAP recipients are non-married and live in single – parent households, suggesting that they would likely be the heads of households who are responsible for utilities. However, spouses, family members, or friends of benefit recipients may have utilities registered in their names as well, which would reduce the number of program beneficiaries who would qualify for reduced electricity rates. Using the conservative assumption that all benefit recipients have utilities registered in their own name, the number of individuals who could qualify for the reduced electricity rates outlined in SB 1011 would remain between 170,382 and 262,935.

Program	**# Cases in Virginia (Estimate 1: 40 Percent Overlap)**	**# Cases in Virginia (Estimate 2: NPA SNAP)**
SSI	148,501	148,501
TANF & TANF-UP	38,704	38,704
SNAP (60 years and older)	96,765	75,730
Total Cases	283,970	262,935
Total Unduplicated Cases	**170,382**	**262,935**

Revenue Deficiencies Experienced by Investor-Owned Utility Companies

To estimate the revenue deficiencies that investor-owned utility companies in Virginia could experience as a result of SB 1011, assumptions were made that
(i) average electricity costs (per kWh) in FY 2013 and FY 2014 will equal costs in 2010,
(ii) investor-owned utility sales will not change significantly from 2010 levels,
(iii) low-income customers use the same amount of electricity as other consumers,
(iv) electricity consumption does not have significant seasonal variability in Virginia, and
(v) individual electricity consumption is relatively inelastic and will not dramatically increase as electricity costs decrease among eligible individuals.

Energy Information Administration data (2010) were used to calculate the difference between the revenue of Virginia's three investor-owned utility companies before and after applying reduced electricity rates to the eligible population. If between 170,382 individuals and 262,935 individuals receive a 20 percent reduction in the cost of electricity during the billing months of December through April, investor-owned utility companies could experience a total revenue loss of between $24.2 million and $36.1 million.

	Without Reduced Rates	**With Reduced Rates (Estimate 1)**	**With Reduced Rates (Estimate 2)**
Average Electricity Cost Per Consumer ($/kWh)	$0.10	$0.08	$0.08
Average Electricity Use Per Consumer (kWh/ month)	1,259	1,259	1,259
# Consumers Not Eligible for Reduced Rate	2.5 million	2.4 million	2.3 million
# Consumers Eligible for Reduced Rate	0	170,382	262,935
Utility Revenue (5 months)	$1.63 billion	$1.60 billion	$1.59 billion
Total Utility Revenue Loss	**$0**	**$24.2 million**	**$36.1 million**

Source: 2010 Energy Information Administration data, form EIA-861.

JLARC offers Fiscal Impact Reviews in accordance with Item 30D of Chapter 874 (2010 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.

Increased Administrative Costs in Agencies

According to staff from the Department of Social Services (DSS), State Corporation Commission (SCC), and Department of Taxation (TAX), the majority of administrative responsibilities outlined in SB 1011 could be absorbed by existing agency personnel. DSS predicts that informing program recipients about their potential eligibility for reduced electricity rates would not incur any substantial new costs. Similarly, the SCC does not anticipate a significant cost increase associated with certifying revenue deficiencies experienced by investor-owned utilities. Further, TAX reports that implementing SB 1011 would be routine and would not require additional funding.

However, in addition to routine, ongoing costs, DSS anticipates having to hire a technology contractor in order to create a system that facilitates data sharing with investor-owned utilities in Virginia. In total, DSS estimates that programming and testing the system will take approximately 400 hours to complete. At $100 per hour, the system will cost an estimated $48,000. Therefore, in addition to the costs routinely absorbed by agencies, SB 1011 could impose a one-time administrative cost increase of approximately $48,000.

Revenue Impact Estimates

In total, JLARC staff estimate that SB 1011 could have a net revenue impact on the State that ranges from $400,000 to $571,000 in FY 2013 and $351,000 to $523,000 in FY 2014, depending on the number of individuals in Virginia who participate in approved benefit programs and have utilities registered in their own name. These estimates consist of the foregone tax revenue associated with issuing tax credits to investor-owned utility companies and the added administrative cost anticipated by DSS to facilitate a system of data sharing with utility companies. Additionally, these estimates assume immediate take-up of the credit as a result of DSS's role in informing individuals of their eligibility and sharing such information with utility companies.

	FY 2013		**FY 2014**	
	Estimate 1	**Estimate 2**	**Estimate 1**	**Estimate 2**
Revenue Loss of Utilities	$24.2 million	$36.1 million	$24.2 million	$36.1 million
Tax Credit	1.45 %	1.45 %	1.45 %	1.45 %
Impact on State Tax Revenue	$351,000	$523,000	$351,000	$523,000
Agency Administrative Costs	$48,000	$48,000	$0	$0
Net Revenue Impact on State	**$400,000**	**$571,000**	**$351,000**	**$523,000**

Budget Amendment Necessary: Yes. General Fund revenue would need to be adjusted downward beginning in FY 2013, and the Department of Social Services budget would be increased by $48,000 in FY 2013.

Agencies Affected: State Corporation Commission, Department of Social Services, and Department of Taxation.

Date Released, Prepared By: 12/02/2011; Lauren Axselle.

JLARC offers Fiscal Impact Reviews in accordance with Item 30D of Chapter 874 (2010 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.