

Weatherization and LIHEAP Fuel Benefit Analysis

December 2004

Prepared in accordance with

Act No. 122 Sec. 136

of the 2004 Legislative Session

Prepared by Joint Fiscal Office

Office of Economic Opportunity

Department of Public Service

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I. CURRENT STATUTORY CHARGE

Sec. 136. WEATHERIZATION FUND ANALYSIS

(a) On or before December 15 of each year, the department of public service and the agency of human services in consultation with the joint fiscal office shall develop and submit a report to the senate and house committees on appropriations which provides:

(1) any projected or actual reserves in the special fund established pursuant to 33 V.S.A. § 2503, the expenditure of which would not adversely impact ongoing levels of weatherization services; and

(2) an analysis of the projected need of households eligible for fuel assistance in meeting their heating bills in the current heating season as compared to previous heating seasons. A heating season shall be defined as the six months from October through March.

II. EXECUTIVE SUMMARY

Analysis of the Weatherization Fund

- Expenses are increasing.
- The Office of Economic Opportunity has been aggressively ramping up weatherization services based on the cash balance.
- Liability insurance increases for FY 05 and FY 06 are significantly higher than anticipated.
- Revenues are decreasing.
- Weatherization Trust Fund revenues show a downward trend.
- A possible reduction in low-income residential services by Efficiency Vermont will require increased unanticipated costs as Weatherization fills this gap.
- The \$400,000 budgeted for the Emergency Heating System Grant Program will fall short if demand for this program increases.
- Revenues for FY 05 and FY 06 are estimates. A cushion should be maintained to ensure grant obligations can be met in the event that state and federal revenues do not meet expectations. Without this cushion the impact would result in reducing the number of homes weatherized.

Analysis of Fuel Benefits

- Projections of the cost to heat a house during the current October through March heating season, when compared to the LIHEAP benefit, indicate that the overall purchasing power of the LIHEAP benefit this year will be lower than the prior year and lower than the average of the prior eight years. During the current heating season, 2004-2005, the projected LIHEAP benefit of \$665 is projected to cover 42% of the entire season's heating bill. During the 2003-2004 heating season the LIHEAP benefit of \$695 covered 59% of the entire season's heating bill. The benefit covered 62% of the season's heating bill for the average of the prior eight years.

III. INTRODUCTION

The legislature directed the Department of Public Service and the Agency of Human Services in consultation with the Joint Fiscal Office to prepare a report detailing reserves in the Weatherization Trust Fund, accompanied by a description of the impact of spending such reserves. The report also required an analysis of the adequacy of the Low Income Home Energy Assistance Program (LIHEAP) fuel benefit compared to the benefit of the previous year.

IV. WEATHERIZATION FUND ANALYSIS¹

The table below shows a significant downward trend in the unobligated cash balance in the weatherization fund. As such, the Office of Economic Opportunity urges that caution be taken when considering any diversion of Weatherization Trust Fund dollars as it may affect the ability to maintain Weatherization services at the current level.

Outlined below are a number of the variables that the Office of Economic Opportunity is monitoring that impact the weatherization fund's cash balance.

- Expenses are increasing. The Office of Economic Opportunity has been aggressively ramping up weatherization services based on the cash balance. Liability insurance and worker's compensation increases for contractors who perform the weatherization work during FY 05 and FY 06 are significantly higher than anticipated. The U.S. Department of Energy has added a new requirement that insurance coverage be extended for pollution occurrences, basically lead paint and asbestos. This new requirement has contributed to the cost increase.
- Revenues are decreasing. Weatherization Trust Fund revenues show a downward trend.
- Revenues for FY 05 and FY 06 are estimates. The estimates are based on a three year rolling average. A cushion must be maintained to ensure grant obligations can be met in the event revenues do not meet expectations. Without this cushion the impact would result in reducing the number of homes weatherized.
- A possible reduction in low-income residential services by Efficiency Vermont will require increased unanticipated costs as Weatherization fills this gap.
- The \$400,000 budgeted for the Emergency Heating System Grant Program may be insufficient to meet the demand for this program.

¹ Pursuant to Sec. 149a (a) (1) of Act 66 of 2003. This section of the report has been prepared by the Office of Economic Opportunity.

OFFICE OF ECONOMIC OPPORTUNITY
 WEATHERIZATION TRUST FUND
 Account Summary
 December 15, 2004

	***** Actual FY 2002	STATE Actual FY 2003	FISCAL Actual FY 2004	YEAR APPROPRIATED Estimated FY 2005	***** REQUEST Estimated FY 2006
Beginning Cash Balance	\$3,380,408.27	\$3,470,469.41	\$3,859,542.13	\$3,552,512.41	\$2,625,605.20
Revenue	\$4,802,886.91	\$5,231,678.33	\$5,572,811.24	\$4,933,061.39	\$5,245,850.32
Cash Expenditures	<u>\$4,712,825.77</u>	<u>\$4,842,605.61</u>	<u>\$5,879,840.96</u>	<u>\$3,173,573.42</u>	<u>\$5,410,700.00</u>
Ending Cash Balance	\$3,470,469.41	\$3,859,542.13	\$3,552,512.41	\$5,312,000.38	\$2,460,755.52
Obligations (NOTE 1)	\$0.00	\$0.00	\$0.00	\$2,686,395.18	\$629,175.75
Unobligated Cash Balance	<u><u>\$3,470,469.41</u></u>	<u><u>\$3,859,542.13</u></u>	<u><u>\$3,552,512.41</u></u>	<u><u>\$2,625,605.20</u></u>	<u><u>\$1,831,579.77</u></u>

NOTE 1. Obligations represent the Escrow for Utility Rebates pursuant to 33 V.S.A. § 2503, and grant agreements with Weatherization Providers to complete their program year workplans. The Weatherization Program Year is 4/1 through 3/31.

NOTE 2: OEO budgets funds based upon estimated revenues. OEO uses a rolling 3 year average of actual revenues to project revenues and plan appropriate expenditures per year.

V. PROJECTED NEED OF HOUSEHOLDS FOR FUEL ASSISTANCE IN MEETING HEATING BILLS²

During the 2002/2003 Legislative session, the Department of Public Service prepared an analysis of how adequate the LIHEAP benefit was taking into consideration the need for heating fuel, measured by heating degree days, the price of heating fuels, and the size of the fuel assistance benefit. The analysis was prepared on February 21, 2003 and covered roughly five months of the six-month heating season, ending March 31. The legislature then passed language in Sec. 149a of Act No. 66 of 2003 requiring that the Department of Public Service prepare the analysis annually. This same language was included in Sec. 136 of Act No. 122 of 2004.

The legislation in Sec. 136 of Act 122 of 2004 requires that an analysis be done of the projected need of households eligible for fuel assistance in meeting their heating bills in the current heating season as compared to previous heating seasons. To be consistent with the prior year's analysis, three factors are considered as follows:

1. The need for heating fuels as measured by heating degree days (HDD)
2. The price of fuel oil
3. The size of the fuel assistance benefit (LIHEAP benefit)

The Joint Fiscal Office prepared this analysis, with some assistance from the Department of Public Service, to satisfy the requirements of Sec. 136 of Act No. 122. The analysis, due on December 15 of each year, covers only two and one-half months of actual experience in each October-through-March heating season.

Analysis of Heating Degree Days, Cost of Heating Fuel Oil, and Size of LIHEAP benefit

In December 2004, the U.S. Congress adopted a conference report providing a total of \$1.9 billion for the federal LIHEAP benefit and \$300 million for emergency contingency funds for the 2004/2005 heating season. However, there was a mandatory across-the-board rescission of .8%, so the final figures are \$1,884.8 billion for the regular block grant and \$297.6 million for emergency contingency funds. This figure compares with federal funding of \$1.8 billion for the state grant program and \$100,000 million in contingency funds for the last heating season. Uncertainties in the level and allocation of contingency funding by the federal government contribute to uncertainty in available Vermont program funds.

The criteria used to distribute the contingency funds have not been established, so the states do not know the full value of the benefit at this time. Last heating season, Vermont received a basic block grant of \$10,478,244 and a contingency payment of \$931,845. The number of households receiving benefits last season was 18,908, for an

² Pursuant to Sec. 149a (a) (2) of Act 66 of 2003, This section was prepared by the Joint Fiscal Office with assistance from the Department of Public Service.

average benefit of \$695. This season, Vermont's Office of Home Heating Assistance is estimating that the LIHEAP basic block grant will be \$11,046,117, an increase of \$567,873 over last year's block grant, in addition to a contingent payment of \$1,081,000. The current estimate of eligible LIHEAP clients for this heating season is 21,000 households. The benefit for the average household this heating season is estimated to be \$600 from the basic block grant in addition to a contingency payment of \$65, for a total benefit of \$665.

Given the timing of this report, key components of the client heating costs and the adequacy of the LIHEAP benefit for the current heating season are estimated. Fuel consumption and fuel prices are projections for the months of January through March of the 2004/05 heating season. Primary data sources for this report include the Department of Public Service's Vermont Fuel Price Report and the National Climatic Data Center's online archives for climatological data.

The following table shows the cost of fuel oil for a hypothetical "average customer" by month. To be consistent with the prior year's analysis, the average customer uses one gallon of fuel oil per eight heating degree days and buys the oil at the state average price in the month in which it is used. Burlington's weather data is used for purposes of the calculations as it is the most reliable in the state. The dollar figures are in nominal terms, not adjusted for inflation.

The Department of Energy's EIA (Energy Information Administration) is projecting that the average cost of heating oil in the northeast for the current heating season is \$1.85 per gallon. To date, actual figures are available for the months of October through December. The average cost of heating fuel oil #2 for the month of December 2004 is \$1.94, which is above the EIA forecast of \$1.85 per gallon. This heating season is very unusual due to the sharp rise in oil prices. Actual prices per gallon of oil are available for the months of October through December. The source of these actual prices is the Vermont Department of Public Service.

In order to forecast the price of heating oil for the months of January, February, and March, the average of the last three years was taken for each of those months, and then the percent change from month to month was calculated. This average monthly percent change was then applied to the Vermont Department of Public Service's December forecast, the last actual price available. It was decided to cap the price at \$2.02, which is the price from the month of November 2004, and is the highest price on record. We are assuming that this season's price fluctuations are not similar to other seasons due to the spike in oil prices this past Fall. If historical trends were applied, the price of heating oil for the month of March would be as high as \$2.316 per gallon, a figure that we are not anticipating.

The table below represents an estimate of fuel costs by month during the prior eight heating seasons, along with the current season. The table includes estimates for monthly fuel costs for January through March of this heating season. Monthly fuel costs are calculated by multiplying the average monthly cost of fuel oil by the average heating

degree days each month. This calculation estimates the amount of money that the average LIHEAP client will need each month to heat a house with fuel oil. The table below shows, for example, a cost of \$117.93 to heat a client's house during October 2004.

Average Monthly Fuel Oil Cost							
Year	Oct	Nov	Dec	Jan	Feb	March	Total
1996-97	\$69.31	\$123.36	\$130.59	\$190.20	\$148.72	\$150.58	\$812.77
1997-98	\$63.31	\$99.68	\$136.96	\$150.21	\$117.54	\$106.88	\$674.58
1998-99	\$46.65	\$73.25	\$100.29	\$139.86	\$110.34	\$102.79	\$573.18
1999-00	\$65.00	\$77.33	\$143.30	\$193.03	\$273.33	\$155.03	\$907.03
2000-01	\$87.34	\$155.56	\$262.84	\$259.17	\$219.36	\$206.18	\$1,190.45
2001-02	\$67.34	\$102.34	\$150.07	\$169.79	\$158.54	\$143.45	\$791.54
2002-03	\$85.98	\$129.16	\$184.15	\$267.48	\$244.97	\$230.64	\$1,142.38
2003-04	\$86.74	\$123.94	\$206.70	\$307.43	\$262.75	\$184.24	\$1,171.79
2004-05	\$117.93	\$209.58	\$299.49	\$367.42	\$316.89	\$263.86	\$1,575.15
Prior Eight Year Average	\$71.46	\$121.58	\$164.36	\$209.65	\$191.94	\$159.97	\$918.96

To be consistent with the prior year's analysis, the table below projects the percentage of the fuel cost that the LIHEAP benefit covers for the entire season and the period of October through January. This table assumes that the current heating season is an average one for purposes of heating needs based on heating degree days. The heating degree days for the months of December through March have been forecasted using the monthly average of the past 30 years. The cost projections in the table below include the procedure used to forecast oil prices discussed above. The table also assumes that the LIHEAP benefit will not change from the estimated \$665. Based on the data in the table above, it will cost the average LIHEAP oil-heat client \$1,575.15 to heat a house this heating season. The estimated LIHEAP benefit of \$665 will support 42% of the season's cost. When comparing the purchasing power of the LIHEAP benefit this heating season with the purchasing power of the LIHEAP benefit over the prior eight-year average, it is clear that this season's benefit will purchase less heating oil than the prior years.

For comparison purposes, if the Department of Energy's EIA projection of \$1.85 was used for the price of fuel oil during the months of January through March, the LIHEAP benefit would cover 44% of the estimated season's fuel bill.

The following table shows the LIHEAP benefit as a percent of the October to January portion of the heating season as well as the entire season. The estimated LIHEAP benefit this heating season will pay an estimated 67% of the October through January heating bill. The average benefit for the prior eight-year period almost covered the total heating bill through January (99%). In summary, when considering the entire heating season or the October through January portion of the heating season, the LIHEAP benefit does not have the same purchasing power this season as it had during the average of the prior eight heating seasons.

According to the Vermont's Department of Children and Family Services, administrator of the LIHEAP program, there are 4,304 fuel liability households, roughly one-third of clients who heat with oil, who have lines of credit with their fuel supplier averaging \$1.65 per gallon for a total of \$525. The amount of LIHEAP funds spent on these lines of credit in total was \$2,259,600. These clients will pay the current market price for any oil expenditures above the \$525.

Comparison of LIHEAP Benefit to Fuel Cost						
	Total Cost	Oct-Jan Cost Subtotal	Oct-Jan as % of Total Season	LIHEAP Benefit	Benefit as % of Season Cost	Benefit as % of Oct-Jan Cost
1996-97	\$812.77	\$513.46	63%	\$458	57%	89%
1997-98	\$674.58	\$450.16	67%	\$355	53%	79%
1998-99	\$573.18	\$360.05	63%	\$345	61%	96%
1999-00	\$907.03	\$478.67	53%	\$494	55%	103%
2000-01	\$1,190.45	\$764.90	64%	\$805	69%	105%
2001-02	\$791.54	\$489.55	62%	\$590	75%	121%
2002-03	\$1,058.50	\$666.77	63%	\$695	66%	104%
2003-04	\$1,171.79	\$724.80	62%	\$695	59%	96%
2004-05	\$1,575.15	\$994.40	63%	\$665	42%	67%
Prior Eight Year Average	\$972.78	\$556.05	62%	\$555	62%	99%

APPENDIX

STATUTORY HISTORY OF HOME WEATHERIZATION AND LIHEAP PROGRAM

The Legislature established the Home Weatherization Trust Fund, the Home Weatherization Assistance Program, and the fuel gross receipts tax in Act No. 272 of 1990 which is found in Title 33 V.S.A. Chapter 25, Sec 2501, 2502 and 2503.

33 V.S.A. § 2501. Home weatherization assistance trust fund

§ 2501. Home weatherization assistance trust fund

(a) There is created in the state treasury a fund to be known as the home weatherization assistance trust fund to be expended by the director of the state office of economic opportunity in accordance with federal law and this chapter.

(b) The fund shall be composed of the receipts from the gross receipts tax on retail sales of fuel imposed by section 2503 of this title, such funds as may be allocated from the oil overcharge fund, such funds as may be allocated from the federal low income energy assistance program, and such other funds as may be appropriated by the general assembly.

(c) All balances in the fund at the end of any fiscal year shall be carried forward and remain part of the fund. Interest earned by the fund shall be deposited into the fund. Disbursements from the fund shall be made by the state treasurer on warrants drawn by the commissioner of finance and management. (Added 1989, No. 272 (Adj. Sess.), § 1; amended 1991, No. 262 (Adj. Sess.), § 2.)

33 V.S.A. § 2502. Home weatherization assistance program

§ 2502. Home weatherization assistance program

(a) The director of the state office of economic opportunity shall administer a home weatherization assistance program under such rules, regulations, funding and funding requirements as may be imposed by federal law.

(b) In addition, the director shall supplement, or supplant, any federal program with a state home weatherization assistance program providing:

(1) an enhanced weatherization assistance amount exceeding the federal per unit limit allowing amounts up to an average of \$3,000.00 per unit pursuant to rules adopted by the director allocating additional per unit amounts on a cost-effective basis. In units where costs exceed the allowable average by more than 25 percent, prior approval of the director of the state economic opportunity office shall be required before work commences. This amount shall be adjusted annually by increasing the last year's amount by the lesser of:

(A) the percentage increase in the Consumer Price Index for the previous year; or

(B) three percent;

(2) amounts for low income customers utilizing any high operating cost fuel, to convert to another fuel source under rules adopted by the director based on the cost effectiveness of the converted facility over the life cycle of the equipment.

(c) The secretary of the agency of human services shall by rule establish rent stabilization agreements and provisions to recapture amounts expended for weatherization of a rental unit which exceed the amount of energy cost reductions projected to be obtained by eligible tenants of the unit. The time periods established for rent stabilization and recapture shall be set taking into account the size of benefits received by tenants and landlords as well as the effect on program participation. Funds recaptured under this section shall be deposited into the weatherization assistance trust fund established under section 2501 of this title.

(d) Amounts raised by the gross receipts tax on retail sales of fuel imposed by section 2503 of this title may be used for energy assistance to low income persons, provided that such transfer does not reduce the fiscal capacity of the state office of economic opportunity to meet the obligations of the weatherization program as set forth in this chapter.

(e) The emergency board may direct that a portion of the amounts raised by the gross receipts on retail sales of fuel imposed by section 2503 of this title be used for energy assistance to low income persons and deposited into the home heating fuel assistance trust fund, for the purpose of meeting the home heating fuel assistance needs of the program recipients under chapter 26 of this title, provided that the emergency board determines such transfer does not reduce the fiscal capacity of the state office of economic opportunity to meet the budgeted obligations of the weatherization program set forth in this chapter. (Added 1989, No. 272 (Adj. Sess.), § 1; amended 1991, No. 262 (Adj. Sess.), § 3; 2001, No. 63, § 129c, eff. June 16, 2001.)

33 V.S.A. § 2503. Fuel gross receipts tax.

§ 2503. Fuel gross receipts tax.

(a) There is imposed a gross receipts tax of 0.5 percent on the retail sale of the following types of fuel by sellers receiving more than \$10,000.00 annually for the sale of such fuels:

- (1) heating oil and kerosene not used to propel a motor vehicle;
- (2) propane;
- (3) natural gas;
- (4) electricity;

(5) coal.

(b) The tax shall be levied upon and collected quarterly from the seller. Fuel sellers may include the following message on their bills to customers:

"The amount of this bill includes a 0.5% gross receipts tax, enacted in 1990, for support of Vermont's low income home weatherization program."

(c) The tax shall be administered by the commissioner of taxes, and all receipts shall be deposited by the commissioner in the home weatherization assistance trust fund. All provisions of law relating to the collection, administration and enforcement of the sales and use tax imposed by chapter 233 of Title 32 shall apply to the tax imposed by this chapter.

(d) [Repealed.]

(e) Fuel sellers, which are regulated "companies" as defined in 30 V.S.A. § 201(a), which provide conservation programs that meet the goals of the weatherization program in a manner approved by the public service board, and which enhance the weatherization program's capacity to serve low income households may be eligible for rebates from the fuel gross receipts tax imposed under this section. To establish rebate eligibility, such a company shall file with the public service board, on or before August 15 of each year, a request for approval of rebates based on the company's activities during the prior fiscal year. The public service board shall make a determination of the amount of rebate for each applicant on or before January 15 of each year, and such amount shall be rebated by the state economic opportunity office under the provisions of subsection (g) of this section. The public service board shall authorize rebates equal to the expenditures undertaken by the regulated utilities provided that such expenditures were prudently incurred and cost-effective, that they provided weatherization services following a comprehensive energy audit and work plan, except in cases where the fuel seller and weatherization staff jointly conclude that the need for weatherization services can be determined without a comprehensive energy audit, and that they were targeted to households at or below 150 percent of the federally-established poverty guidelines.

(f) Unregulated fuel sellers that provide conservation programs that meet the goals of the weatherization program in a manner approved by the state economic opportunity office and which enhance the weatherization program's capacity to serve low income households may be eligible for rebates from the fuel gross receipts tax imposed under this section. To establish rebate eligibility, such a company shall file with the state economic opportunity office, on or before August 15 of each year, a request for approval of rebates based on the company's activities during the prior fiscal year. The state economic opportunity office shall make a determination of the amount of rebate for each applicant on or before January 15 of each year, and such amount shall be rebated by the state economic opportunity office under the provisions of this subsection. The state economic opportunity office shall authorize rebates equal to the expenditures undertaken by the unregulated fuel sellers provided that such expenditures were prudently incurred and cost-effective, that they provided weatherization services

following a comprehensive energy audit and work plan, except in cases where the fuel seller and weatherization staff jointly conclude that the need for weatherization services can be determined without a comprehensive energy audit, and that they were targeted to households at or below 150 percent of the federally-established poverty guidelines.

(g) On or before August 7 of each year, the director of the state economic opportunity office shall set aside a sum of money equaling 12 and one-half percent of the tax receipts of the fuel gross receipts tax for the preceding fiscal year in an escrow account. The monies in the escrow account are to be used for rebate, as approved under subsections (e) and (f) of this section, of the gross receipts tax established in subsection (a) of this section. Upon approval of rebates, the director shall pay the approved rebates out of the escrow account. In the event that the approved rebates exceed the amount of money set aside in the escrow account, the director shall prorate each rebate. Any balance of rebate awards remaining unpaid as a result of prorating may be carried forward for payment in a succeeding year. If monies set aside exceed approved rebates, then the balance shall be returned to the trust fund. The director of the state economic opportunity office shall use the remainder of the tax receipts of the fuel gross receipts tax for the preceding fiscal year to assure the provision of weatherization services as described in subsections (a), (b) and (c) of section 2502 of this title.

(h) No tax under this section shall be imposed for any quarter ending after June 30, 2008. Monies from the escrow account shall be issued for rebates pursuant to subsection (g) of this section until March 1, 2009. (Added 1989, No. 272 (Adj. Sess.), § 1; amended 1991 No. 262 (Adj. Sess.), §§ 5-7; 1993, No. 230 (Adj. Sess.), §§ 1, 2; 2003, No. 9, § 2.)

Chapter 26: HOME HEATING FUEL ASSISTANCE

33 V.S.A. § 2601. Policy and purpose

§ 2601. Policy and purpose

(a) It is the purpose of this chapter to secure the safety and health of low income Vermont households by providing needy Vermonters with assistance for the purchase of essential home heating fuel.

(b) This chapter establishes a home heating fuel assistance program in the agency of human services with both a seasonal fuel assistance component for very low income households and a crisis component to supply fuel assistance to low income households in crisis situations. (Added 1995, No. 158 (Adj. Sess.), § 1, eff. May 10, 1996.)

Title 33: Human Services

Chapter 26: HOME HEATING FUEL ASSISTANCE

33 V.S.A. § 2603. Home heating fuel assistance trust fund

§ 2603. Home heating fuel assistance trust fund

(a) There is created in the state treasury a fund to be known as the home heating fuel assistance trust fund to be expended by the director in accordance with this chapter and other federal laws and rules adopted pursuant thereto.

(b) The fund shall be composed of the receipts from any taxes dedicated to the fund, and such other funds as may be appropriated to it by the general assembly, including funds from the federal Low Income Home Energy Assistance Program (LIHEAP).

(c) All balances in the fund at the end of any fiscal year shall be carried forward and remain part of the fund. Interest earned by the fund shall be deposited into the fund. Disbursements from the fund shall be made by the state treasurer on warrants drawn by the commissioner of finance and management.

(d) The secretary may spend, in anticipation of federal receipts into the home heating fuel assistance trust fund established under this section, a sum no greater than 75 percent of the federal block grant funds allocated to Vermont for the current federal fiscal year under the Low Income Home Energy Assistance Program (LIHEAP), for the purpose of permitting preseason purchases of fuel and other cost-effective purchasing practices authorized by subsection 2602(c) of this title, in accordance with rules adopted by the secretary. (Added 1995, No. 158 (Adj. Sess.), § 1, eff. May 10, 1996; amended 2001, No. 63, § 129b, eff. June 16, 2001.)
