

**D13A13.02**  
**Maryland Energy Administration – PAYGO**

***Pay-As-You-Go Capital Budget Summary***

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(\$ in Thousands)

	<i>FY 2004 Approp.</i>	<i>FY 2005 Approp.</i>	<i>FY 2006 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
State Agency Loan Program	\$1,000	\$1,500	\$1,000	-33.3%	\$1,000
Community Energy Loan Program	1,000	1,500	1,500	0%	1,500
Energy Efficiency and Economic Development Loan Program	0	0	500	100%	0
<b>Total</b>	<b>\$2,000</b>	<b>\$3,000</b>	<b>\$3,000</b>	<b>0%</b>	<b>\$2,500</b>

<b>Fund Source</b>					
Special	2,000	3,000	3,000	0%	2,500
<b>Total</b>	<b>\$2,000</b>	<b>\$3,000</b>	<b>\$3,000</b>	<b>0%</b>	<b>\$2,500</b>

***Summary of Issues***

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***Saving State Funds through Energy Performance Contracting:*** Energy performance contracts (EPCs) are agreements between the State and a contractor in which the contractor installs energy-saving technologies in State facilities. The Maryland Energy Administration (MEA), which administers an EPC Program, has found it quite challenging to convince State agencies to consider and use EPCs when planning capital budgets. **The Department of Budget and Management (DBM) should discuss how it intends to ensure that EPCs are used more often to reduce State construction and operating costs. Budget bill language is recommended requiring DBM, the Department of General Services (DGS), and MEA to submit a report on how State agencies might better utilize EPCs.**

Note: Numbers may not sum to total due to rounding.

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## ***Summary of Recommended Actions***

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	<u><b>Funds</b></u>
1. Add budget bill language requiring a report on EPCs.	
2. Delete funds for EEEDLP.	\$ 500,000
<b>Total Reductions</b>	<b>\$ 500,000</b>

## ***Overview***

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MEA currently administers two revolving loan programs and is proposing to restart a third:

- the Community Energy Loan Program (CELP) provides low-interest rate financing for energy conservation efforts implemented by nonprofits and local government agencies;
- the State Agency Loan Program (SALP) provides zero-interest loans to State agencies for energy conservation projects; and
- the Energy Efficiency and Economic Development Loan Program (EEEDLP) seeks to provide low-interest rate financing for energy conservation efforts implemented by commercial and industrial businesses.

MEA's fiscal 2006 PAYGO budget allowance is \$3.0 million in special funds which is the same amount budgeted for fiscal 2005. However, the intended use of these funds has changed with CELP funding remaining level, SALP funding decreasing by \$500,000, or 33.3%, and EEEDLP rejoining the loan portfolio with an allowance of \$500,000.

MEA notes that before a loan is approved, any CELP or SALP project must be designated so that the savings from avoided energy costs covers associated loan costs. MEA disburses funds based on post-work invoices. MEA requires CELP projects to make semi-annual repayments and SALP projects to make annual repayments, and it may recover funds if a project is not completed. EEEDLP projects must be paid back within seven years, and it is expected that this repayment will be covered by the energy cost savings that are realized.

State agencies are required under the 2001 Green Buildings Executive Order (01.01.2001.02) to use cost-effective energy measures to reduce energy consumption per gross square foot in State buildings 10% by 2005 and 15% by 2010 relative to the 2000 baseline.

**Consolidated Administrative Expenses – All Programs**

	<b>FY 2004 Actual</b>	<b>FY 2005 Estimated</b>	<b>2006 Estimated</b>
<b>Sources:</b>			
Special Funds			
Community Energy Loan Program	\$64,457	\$84,587	\$77,993
State Agency Loan Program	30,118	30,000	30,000
<b>Total Funds</b>	<b>\$94,575</b>	<b>\$114,587</b>	<b>\$107,993</b>
<b>Uses:</b>			
Direct Expenses	94,575	114,587	107,993
<b>Total Expenses</b>	<b>\$94,575</b>	<b>\$114,587</b>	<b>\$107,993</b>

## *Overview Issues*

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### **1. Saving State Funds through Energy Performance Contracting**

EPCs are agreements between the State and a contractor in which the contractor installs energy-saving technologies in State facilities. The State repays the contractor with the savings achieved by instituting these technologies. EPCs bundle a number of energy conservation measures together to achieve an economy of scale, and they typically have longer repayment periods. As summarized in **Exhibit 1**, to date, MEA has 18 completed and 5 current EPC projects representing nearly \$84.1 million in energy upgrades and nearly \$10 million in annual energy savings. MEA has developed and managed the EPC program since 1993, but the agency recently advised that since the program has “matured” and realized success, DGS would be a more appropriate manager. Management of the EPC program is discussed in the fiscal 2006 operating budget analysis.

**Exhibit 1**  
**State Agency EPCs Completed or Underway as of November 2004**  
**(\$ in Millions)**

	<u>No. of Projects</u>	<u>Project Costs</u>	<u>Annual Savings</u>
Education	5	\$21.0	\$2.1
Department of General Services	2	21.1	1.6
Health/Human Services	8	19.5	2.8
Public Safety	5	11.5	1.8
Other	3	11.0	1.7
<b>Total</b>	<b>23</b>	<b>\$84.10</b>	<b>\$10.00</b>

Source: Maryland Energy Administration

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MEA has indicated that the agency has found it quite challenging to convince State agencies to consider and use EPCs when planning capital budgets. State agencies appear comfortable with the traditional State capital program process. To overcome this challenge, DBM has expressed its intent to promote EPCs as a tool for reducing State construction costs by requiring State agencies to consider the program within the capital budget planning process. As long as capital dollars are awarded without such a requirement, State agencies may forgo considering EPCs, and the State may lose valuable cost savings opportunities.

**DBM should discuss why EPC Program management should change and how it intends to ensure that EPCs are used more often to reduce State construction and operating costs. Budget bill language is recommended requiring DBM, DGS, and MEA to submit a report on how State agencies might better utilize EPCs.**

## ***Recommended Actions***

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1. Add the following language:

Provided that the Maryland Energy Administration, Department of General Services, and Department of Budget and Management shall submit a report to the budget committees by September 1, 2005, outlining policy and program changes the State could implement to ensure maximum utilization of Energy Performance Contracts (EPC) by State agencies. This report should address the feasibility, benefits, and disadvantages of establishing EPC utilization requirements for State agencies, and the potential impact increased use of EPCs could have on the State's energy costs and capital budget needs. The committees shall have 45 days to review and comment upon the report.

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**Explanation:** This bill language requires the Maryland Energy Administration (MEA), Department of General Services (DGS), and the Department of Budget and Management (DBM) to submit a report by September 1, 2005, outlining policy and program changes the State intends to implement to maximize the use of EPCs. The report should discuss (1) the feasibility, benefits, and disadvantages of establishing EPC utilization requirements for State agencies and (2) the potential impact increased use of EPCs could have on the State's energy costs and capital budget needs.

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Energy Performance Contract Report	MEA DGS DBM	September 1, 2005

## ***State Agency Loan Program***

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**PAYGO SF**                                      **\$1,000,000**                                      **Recommendation: Approve**

**Program Description:** SALP is a non-lapsing, revolving loan fund that provides zero-interest loans to State agencies for energy conservation projects. MEA charges a 1% administrative fee to State agencies for SALP loans. The loans are repaid from the resulting energy savings. The loans can be used for technical assistance studies, design, construction, and fees for special services. The program was capitalized between fiscal 1991 and 1996 with \$3.3 million from the Energy Overcharge Restitution Fund.

Through fiscal 2004, SALP had dedicated over \$8.96 million in loans to installing energy conservation measures such as energy efficient lighting, controls, and boilers. The estimated savings in State energy costs amount to nearly \$2.0 million annually. On average, it takes 4.35 years for a State agency to achieve the energy cost savings necessary to pay back the loan.

SALP helps State agencies meet the mandated goal of reducing energy consumption in buildings by 10% below 2000 levels by 2005 and 15% by 2010. The funds are also used to supplement and encourage the use of EPCs.

**Year Program Began:** 1991

**Comments:** The \$1.0 million fiscal 2006 allowance for SALP represents a \$500,000 reduction from what was provided in fiscal 2005. MEA has requested less SALP funding because it anticipates that more State agencies will take advantage of EPCs and advises that SALP will become self-sustaining sooner at the lower annual amount of loans.

**Program Performance Analysis:** Due to SALP, the estimated savings in State energy costs amount to nearly \$2.0 million annually. **MEA should be prepared to discuss how SALP has targeted its funds toward State agencies that procure the most energy, such as the Department of Public Safety and Correctional Services.**

## State Agency Loan Fund Data

### Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
<b>Beginning Balance</b>	\$665,628	\$504,778	\$361,277
<b>REVENUE</b>			
Loan Repayments	425,923	535,380	545,433
Investment Interest	43,345	50,000	75,000
Transfer from CELP*	400,000	0	0
Transfer from EORF**	0	500,000	750,000
Cancellation of Encumbrances	0	301,119	0
<b>TOTAL REVENUE</b>	869,268	1,386,499	1,370,433
<b>TOTAL AVAILABLE</b>	1,534,896	1,891,277	1,731,710
<b>ENCUMBRANCES</b>			
Loans	1,000,000	1,500,000	1,000,000
Operating Expenses	30,118	30,000	30,000
<b>TOTAL ENCUMBRANCES</b>	1,030,118	1,530,000	1,030,000
<b>Ending Balance</b>	\$504,778	\$361,277	\$701,710

\* CELP funds were transferred because SALP is being used to provide supplemental funding to EPCs, which typically have longer payback periods.

\*\* Transfers from the Energy Overcharge Restitution Fund, to provide supplemental funding to EPCs, which typically have longer payback periods.

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
<b>PAYGO SF</b>	<b>\$1.000</b>	<b>\$1.500</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>

## ***Recommended Actions***

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1. Concur with Governor's allowance.

## ***Fiscal 2006 Proposed Projects***

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<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Project Cost</u></b>	<b><u>FY 2006 Request</u></b>
St. Mary's College EPC	St. Mary's County	\$500,000	\$500,000
Unallocated	Statewide		500,000
<b>Total</b>			<b>\$1,000,000</b>

## ***Fiscal 2005 Project Status***

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<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Amount</u></b>	<b><u>Status</u></b>
Department of Health and Mental Hygiene (DHMH) – Finan Hospital Center and Brandenburg Center	Allegany County	\$151,806	In progress
DHMH – Deers Head Center	Wicomico County	500,000	In progress
Unallocated		848,194	
<b>Total</b>		<b>\$1,500,000</b>	

***Community Energy Loan Program (Statewide)***

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**PAYGO SF**                                      **\$1,500,000**                      **Recommendation: Approve**

**Program Description:** CELP is a non-lapsing, revolving loan fund that provides low-interest loans for energy conservation project design and installation. MEA makes these loans to nonprofit organizations and local governments. The program was capitalized in fiscal 1989 and 1990 with \$3.2 million from the Energy Overcharge Restitution Fund. Interest rates are individually negotiated with borrowers. Rates are guaranteed to be below market rates and may go as low as 0%.

CELP allows borrowers to use the cost savings generated by the energy efficiency improvements as the primary source of revenue for repaying loans. On average, it takes participants 4.55 years to achieve the energy cost savings necessary to pay for the cost of the loan. Through fiscal 2004, CELP has loaned \$10.8 million for 47 projects providing for a total estimated savings of \$2.3 million annually.

**Year Program Began:** 1989

**Comments:** The fiscal 2006 allowance provides \$1.5 million for CELP, level with fiscal 2005.

## Community Energy Loan Fund Data

### Fund History

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
<b>Beginning Balance</b>	\$1,921,776	\$1,396,436	\$569,849
<b>REVENUE</b>			
Loan Repayments and Interest	939,117	758,000	650,000
Transfers	-400,000*	0	1,500,000**
<b>TOTAL REVENUE</b>	539,117	758,000	2,150,000
<b>TOTAL AVAILABLE</b>	2,460,893	2,154,436	2,719,849
<b>ENCUMBRANCES</b>			
Loans	1,000,000	1,500,000	1,500,000
Operating Expenses	64,457	84,587	77,993
<b>TOTAL ENCUMBRANCES</b>	1,064,457	1,584,787	1,577,993
<b>Ending Balance</b>	\$1,396,436	\$569,849	1,141,856

\* Funds were transferred to SALP because SALP is being used to provide supplemental funding to EPCs, which typically have longer payback periods.

\*\* Estimated additional funds from the EORF fund balance. MEA may reduce this amount depending on the fund balance at the close of fiscal 2005.

### (\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
<b>PAYGO SF</b>	<b>\$1.000</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>

## ***Recommended Actions***

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1. Concur with Governor's allowance.

## ***Fiscal 2006 Proposed Projects***

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There have been numerous changes to MEA's project lists in the past due to the shifting availability of local funds, a preference for grants as opposed to loans, and changes in local priorities. Therefore, MEA did not submit a project list for fiscal 2006.

## ***Fiscal 2005 Project Status***

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<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Amount</u></b>	<b><u>Status</u></b>
City of Rockville	Rockville	\$111,375	Paid out
Unallocated		1,388,625	
<b>Total</b>		<b>\$1,500,000</b>	

## ***Energy Efficiency and Economic Development Loan Program (Statewide)***

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**PAYGO SF**                                      **\$500,000**                      **Recommendation: Disapprove**

**Program Description:** EEEDLP is a non-lapsing, revolving loan fund that provides low-interest loans for energy conservation project design and installation. MEA makes these loans to commercial and industrial businesses. The program was originally capitalized in fiscal 1995 with \$1.7 million from the Energy Overcharge Restitution Fund. Interest rates are individually negotiated with borrowers but are guaranteed to be below market rates and are anticipated to be approximately 4%.

Loans under EEEDLP may be used to finance a variety of energy conservation project costs, including:

- surveys, plans, and specifications;
- project related construction, modification, and renovation; and
- reasonable fees for architectural, engineering, legal, and other special services.

Projects that qualify for financing must save energy or energy costs, be in a building that is either owned or under a long-term lease, and have a simple payback period between one and seven years. EEEDLP allows borrowers to use the cost savings generated by the energy efficiency improvements as the primary source of revenue for repaying loans. Repayments on EEEDLP loans may be deferred for a period to be negotiated for each loan. Following the deferral, repayments are made in annual or semiannual installments for the term of the loan.

**Year Program Began:** 1995

**Comments:** The fiscal 2006 allowance provides \$500,000 for EEEDLP, a 100% increase as funds have not been appropriated for this program since it made its only previous loan in 1995.

***Energy Efficiency and Economic Development Loan Fund Data***

**Fund History**

	<i>FY 2004 Actual</i>	<i>FY 2005 Estimated</i>	<i>FY 2006 Estimated</i>
<b>Beginning Balance</b>	\$0	\$0	\$0
<b>REVENUE</b>			
Transfer of EORF Funds	0	0	500,000
<b>TOTAL REVENUE</b>	0	0	500,000
<b>TOTAL AVAILABLE</b>	\$0	\$0	\$500,000
<b>ENCUMBRANCES</b>			
Loans	0	0	500,000
<b>TOTAL ENCUMBRANCES</b>	0	0	500,000
<b>Ending Balance</b>	\$0	\$0	\$0

(\$ in Millions)

<i>Description</i>	<i>2004 Approp.</i>	<i>2005 Approp.</i>	<i>2006 Request</i>	<i>2007 Estimate</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>
PAYGO SF	\$0.000	\$0.000	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500

***Recommended Actions***

- |   | <b><u>Amount<br/>Reduction</u></b> |
|---|------------------------------------|
| 1. Delete funds for the Energy Efficiency and Economic Development Loan Program. The Green Building Tax Credit is available to Maryland businesses to help offset the costs of energy efficient building construction. The State should focus limited capital | \$ 500,000 SF                      |

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resources on promoting energy efficiency within government and community buildings, to help reduce growing energy costs. The agency should consider dedicating these special funds to the State Agency Loan Program via budget amendment.

**Total Special Fund Reductions** **\$ 500,000**

***Fiscal 2006 Proposed Projects***

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<u>Project</u>	<u>Location</u>	<u>Project Cost</u>	<u>FY 2006 Request</u>	<u>State Share</u>
Unallocated	Statewide		\$500,000	
<b>Total</b>			<b>\$500,000</b>	

***Fiscal 2005 Project Status***

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None.

**Fiscal Summary  
Maryland Energy Administration PAYGO**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
02 Community Energy Loan Program - Capital Appropriation	\$ 1,000,000	\$ 1,500,000	\$ 1,500,000	\$ 0	0%
03 State Agency Loan Program - Capital Appropriation	1,000,000	1,500,000	1,000,000	-500,000	-33.3%
04 Energy Efficiency & Economic Develop. Loan Program	0	0	500,000	500,000	
<b>Total Expenditures</b>	<b>\$ 2,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 0</b>	<b>0%</b>
Special Fund	\$ 2,000,000	\$ 3,000,000	\$ 3,000,000	\$ 0	0%
<b>Total Appropriations</b>	<b>\$ 2,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 0</b>	<b>0%</b>

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.