

D13A13
Maryland Energy Administration

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$380	\$502	\$481	-\$21	-4.1%
Special Fund	1,586	1,338	1,978	640	47.9%
Federal Fund	1,390	863	837	-26	-3.0%
Reimbursable Fund	<u>99</u>	<u>103</u>	<u>92</u>	<u>-11</u>	<u>-10.8%</u>
Total Funds	\$3,456	\$2,806	\$3,388	\$583	20.8%
Contingent & Back of Bill Reductions			-7	-7	
Adjusted Total	\$3,456	\$2,806	\$3,381	\$576	20.5%

- The Maryland Energy Administration's (MEA) fiscal 2006 budget allowance provides a 20.5%, or \$575,563 increase over fiscal 2005. General funds decrease by 4%, special funds increase by 48%, and federal funds decrease by 3%. The significant increase in special funds is due to MEA drawing down funds from the Energy Overcharge Restitution Fund balance.

Personnel Data

	FY 04	FY 05	FY 06	FY 05-06
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	20.00	20.00	20.00	0.00
Contractual FTEs	<u>0.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	20.50	20.00	20.00	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.60	3.00%
Positions Vacant as of 12/31/04	2.00	10.00%

- MEA's regular positions and contractual full-time equivalents remain level at 20 in the fiscal 2006 allowance.
- MEA's fiscal 2006 allowance assumes 3% turnover. As of December 31, 2004, two positions were vacant.

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

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Analysis in Brief

Issues

Is MEA Adequately Positioned to Achieve State Goals?: While the fiscal 2006 budget allowance does not reflect any significant organizational shifts, MEA advises that there are several pending changes that may better align personnel, programs, and resources dedicated to the State’s energy efficiency efforts. **MEA should be prepared to discuss the status of, and programmatic, fiscal, and personnel implications associated with, transferring energy use tracking and the Energy Performance Contracting (EPC) program to the Department of General Services.**

New \$30 Million EPC Master Lease: The status of a new EPC Master Lease-Purchase Financing contract and a new Indefinite Delivery Contract is described. **Narrative is recommended requiring the Department of General Services to report to the committees on steps it is taking to ensure that the new EPC project selection process is competitive, fair, and working smoothly.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete funds for the Solar Energy Grant Program.	\$ 103,500	
2. Delete one administrator position.	64,586	1.0
3. Adopt committee narrative requesting an update on the new Energy Performance Contracting Indefinite Delivery Contract.		
Total Reductions	\$ 168,086	1.0

Updates

Green Building Tax Credit: An update is provided on MEA’s implementation of the Green Building Tax Credit Program.

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Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy related policies and activities among State and local agencies. MEA's enabling legislation is found in §§9-2001 et seq. of the State Government Article of the Maryland Code. MEA also manages federal energy conservation programs, coordinates the State's participation in interstate energy activities, advises the Governor on energy emergency issues, and maintains energy emergency preparedness.

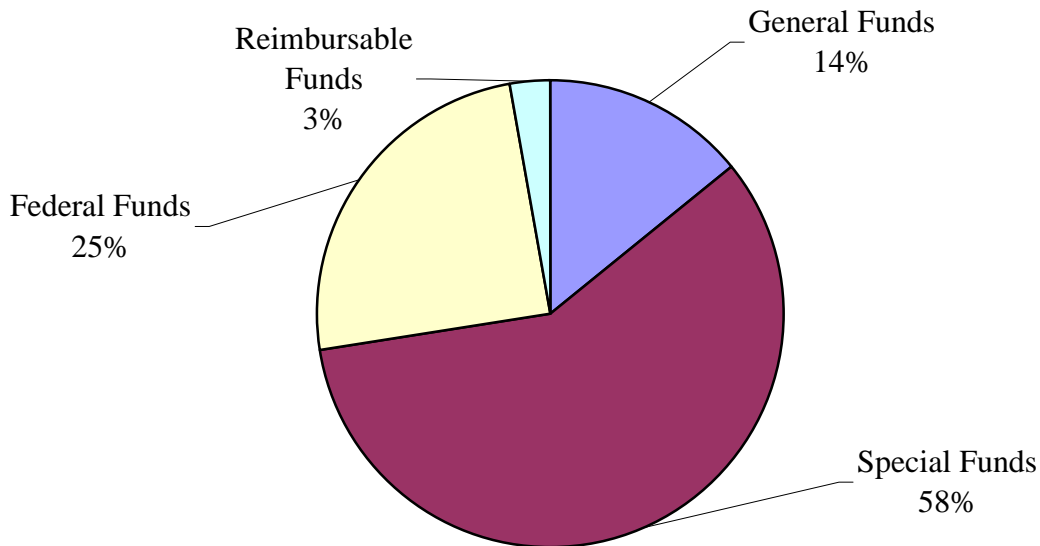
MEA is tasked with numerous statutory duties, including coordinating with the Department of General Services (DGS) to implement the most economical and efficient alternatives in the design, construction, and renovation of State facilities. Other statutory duties include the management of the Community Energy Loan and solar schools programs and the administration of the Energy Overcharge Restitution Fund (EORF). MEA is also responsible for creating and implementing contingency plans for mitigating the impact of any severe shortage of fuel resources and running a petroleum set-aside program in the event of an energy emergency.

As illustrated in **Exhibit 1**, MEA receives over 80% of its operating revenues from special and federal funds. Approximately 81% of MEA's fiscal 2006 special fund revenue comes from Energy Overcharge Restitution Funds. These funds are federal court settlement monies from oil and gas producers who have violated federal regulations. Other MEA special funds come from a utility surcharge on electric bills. MEA receives federal funding for implementing energy conservation programs and monitoring the State's heating fuel prices and supplies.

MEA's three primary goals are to:

- increase energy efficiency and reduce the cost of State government;
- provide resources and assistance to individuals, businesses, local governments, and nonprofit organizations for the use of renewable energy, clean energy technologies, and energy efficiency; and
- support the use of alternative fuels and the development of advanced transportation technologies.

Exhibit 1
Maryland Energy Administration
Fiscal 2006 Projected Revenue Sources



Source: Fiscal 2006 Budget Books

Performance Analysis: Managing for Results

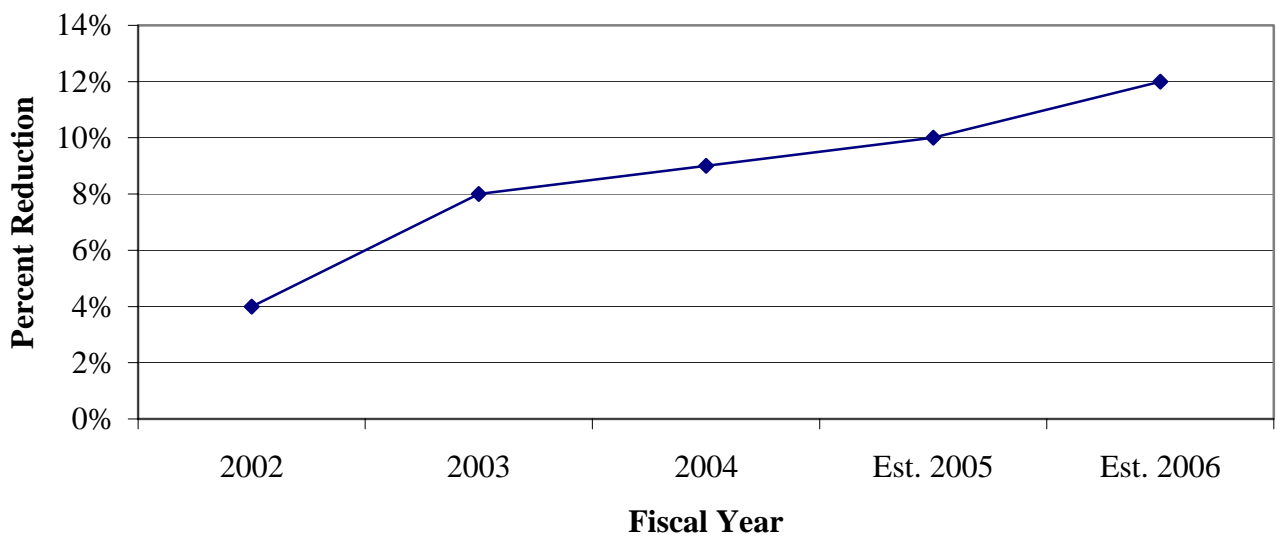
State agencies are seeking to meet the mandated goal of reducing energy consumption in buildings by 15% by 2010. Two years ago, MEA transferred its State energy use data tracking responsibility to the Department of General Services (DGS) with the understanding that electronic submissions from the State’s three major power utilities would facilitate the data collection process. However, DGS was ultimately not able to collect the data; and as a result, MEA was not able to fulfill its responsibility to track State progress toward energy conservation and efficiency goals. As a result, MEA re-assumed this role last year in hopes of making more progress than DGS. MEA now advises that the management of the energy-use database should move back to DGS control. These transfers make it appear that a game of “program hot potato” has begun. **The Department of Legislative Services recommends that MEA brief the committee on the current status of the State’s energy use database, why it is recommending yet another transfer of responsibility, how the State can ensure that this essential data is captured, and whether the fiscal 2003 through 2006 energy use and savings data provided in the fiscal 2006 budget books is reliable.**

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Exhibits 2, 3, and 4 present data on a handful of performance measurements that reflect MEA’s core programs. The data provided in this chart indicate the following trends:

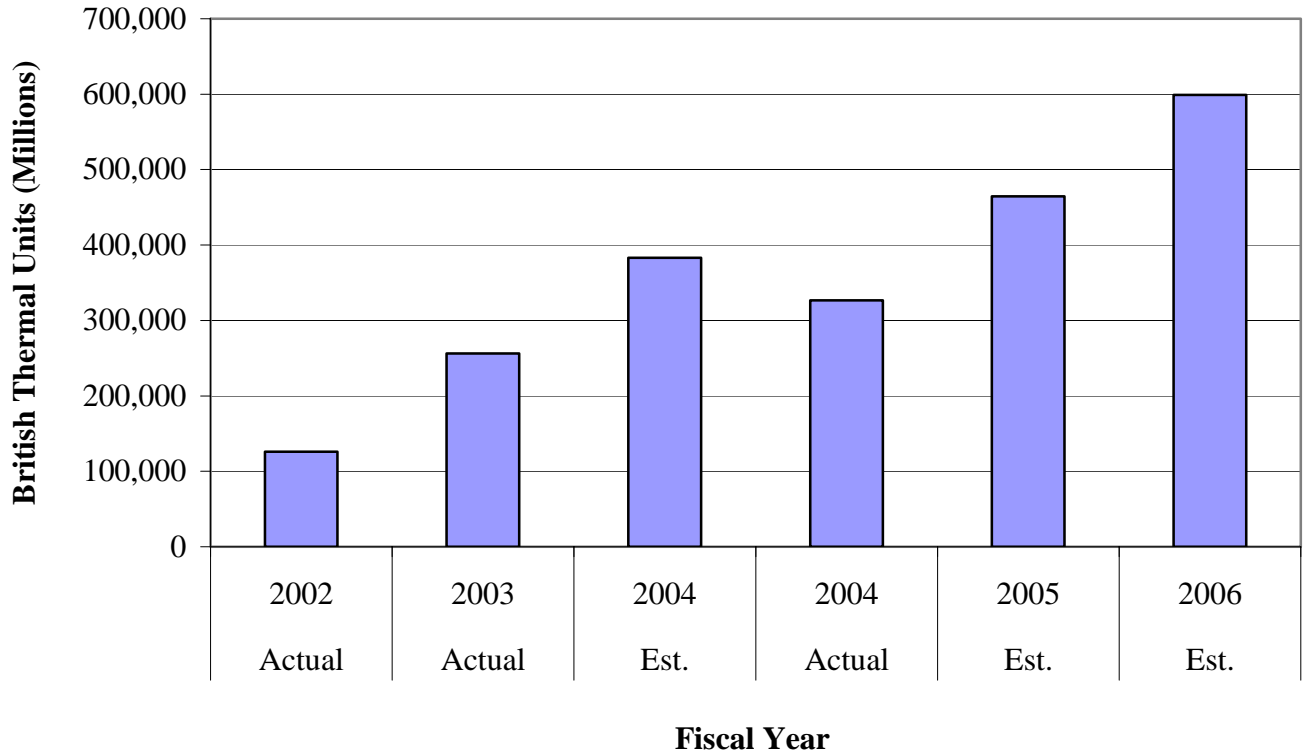
- reductions in State government energy usage;
- significant increases in energy savings in non-State facilities, though not as significant as estimated in fiscal 2004; and
- expanded use of alternative fuel vehicles.

Exhibit 2
Maryland Energy Administration
Estimated Percent Reduction in Energy Use Relative to a 2000 Baseline
Fiscal 2002 – 2006



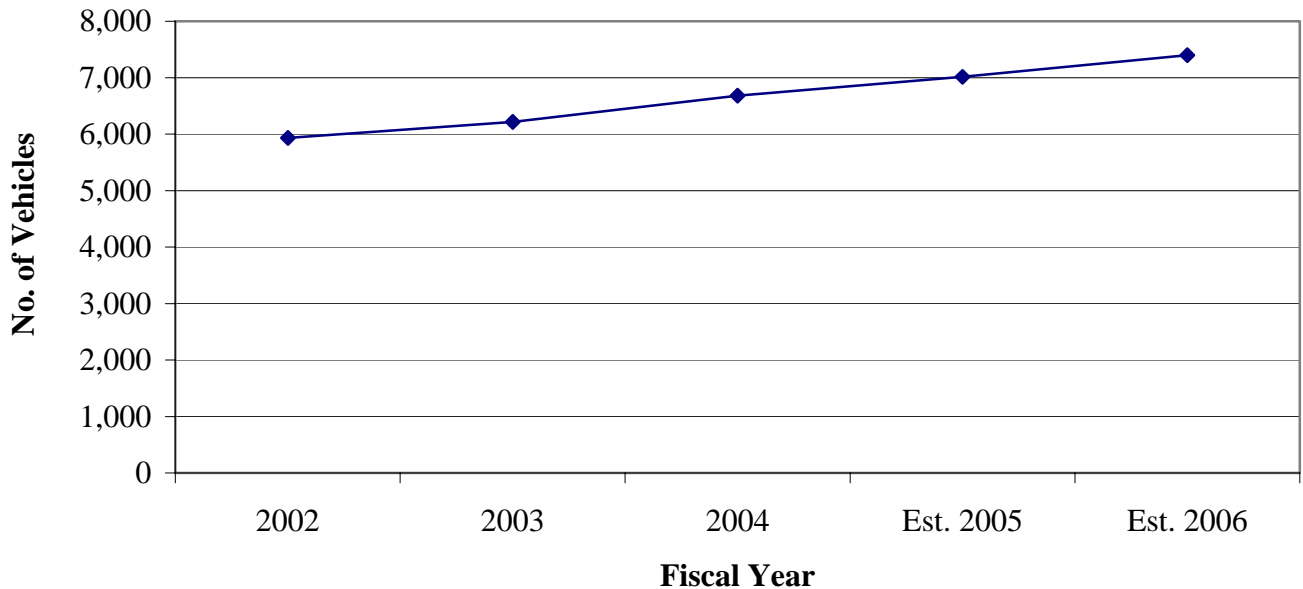
Source: Governor’s Budget Books, fiscal 2005 and 2006

Exhibit 3
Maryland Energy Administration
Annual Energy Savings from Energy Projects Completed Since Fiscal 2002
Excluding State Facilities
Fiscal 2002 – 2006



Source: Governor's Budget Books, fiscal 2005 and 2006

Exhibit 4
Maryland Energy Administration
Number of Alternative Fuel Vehicles Registered in the State
Fiscal 2002 – 2006



Source: Governor's Budget Books, fiscal 2005 and 2006

Governor's Proposed Budget

As shown in **Exhibit 5**, MEA's fiscal 2006 budget allowance provides a 20.5%, or \$575,563 increase over fiscal 2005. While there is a significant increase in special funds, MEA's general, federal, and reimbursable funds all decrease. MEA's \$640,254, or 48% increase in special funds is due to additional funds being drawn from the EORF fund balance. MEA intends to use these additional funds for the Energy Star Program and transportation efficiency projects, with a focus on hydrogen fuels and technologies. Energy Star is a voluntary labeling program introduced by the U.S. Environmental Protection Agency designed to identify and promote energy-efficient products. In support of President George W. Bush's Hydrogen Fuel Initiative, MEA is proposing to fund development of hydrogen, fuel cell, and infrastructure technologies needed to make it practical and cost effective to use fuel cell vehicles by 2020.

Exhibit 5
Governor's Proposed Budget
Maryland Energy Administration
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimburs able Fund	Total
2005 Working Appropriation	\$502	\$1,338	\$863	\$103	\$2,806
2006 Governor's Allowance	481	1,978	837	92	3,388
Contingent & Back of Bill Reductions	<u>-1</u>	<u>-2</u>	<u>-4</u>	<u>0</u>	<u>-7</u>
Adjusted Allowance	\$480	\$1,976	\$833	\$92	\$3,381
Amount Change	-\$22	\$639	-\$30	-\$11	\$576
Percent Change	-4.4%	47.7%	-3.4%	-10.8%	20.5%

Where It Goes:

Personnel Expenses

Employee increments and other compensation.....	\$32
Employee and retiree health insurance.....	-34
Retirement contribution cost increase.....	8
Turnover.....	-7
Adjustments due to downgrading three existing positions.....	-48

Other Changes

Increase in contractual service funds for Energy Star and hydrogen projects	645
Travel costs associated primarily with out-of-state trips.....	-10
Mandatory telecommunication cost increases.....	14
Other	-24

Total **\$576**

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

Impact of Contingent Actions

The fiscal 2006 allowance reflects the elimination of \$6,960 (subobject 0172), the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

Impact of Strategic Budget Reductions

While there was a slight reduction in MEA's general funds – 4% or \$20,712 – the agency's total fiscal 2006 allowance is 21% higher than fiscal 2005. In light of this significant overall funding increase and MEA's limited amount of general funds, it does not appear that MEA implemented any strategic budget reductions.

Issues

1. Is MEA Adequately Positioned to Achieve State Goals?

Background

MEA and other State agencies submitted a report to the General Assembly in early 2004 that summarized State energy efficiency programs and associated funding and staffing levels; described existing State energy efficiency policy and program coordination efforts; and made recommendations for improving and streamlining energy efficiency efforts related to State-owned facilities as well as private structures. In this report, MEA emphasized its goal of making substantial reductions in State energy use and its role as the lead facilitator and coordinator for State energy efficiency progress. However subsequent statements suggested confusion concerning State energy efficiency roles and responsibilities. Furthermore, MEA suggested that:

“...the State should enhance MEA by remaking it into a cohesive energy office with the resources and authority to reenergize the Energy Performance Contracting and the State Agency Loan Programs...Once this enhanced Energy Office is created through reassembling personnel and resources from MEA, DNR, and DGS, it can continue to function under the direction of the Governor’s Office or be incorporated into a State Cabinet Department.”

In addition to the recommendations contained in the MEA report, the Commission on the Structure and Efficiency of State Government’s (The Mandel Commission) December 2003 report criticized MEA’s organizational structure and responsibilities and recommended pursuing organizational changes and revision of the statewide energy policy.

Current Status

While the fiscal 2006 budget allowance does not reflect any organizational shifts, MEA advises that there are several pending changes that may better align personnel, programs, and resources dedicated to the State’s energy efficiency efforts. Two of these potential changes are described below.

- **State Energy Use Tracking:** As mentioned earlier in this analysis, MEA has proposed to transfer its State energy use data tracking duties to DGS, in spite of the fact that DGS was not able to perform this function in the recent past. MEA advises that DGS currently administers a fund, generated by assessing an administrative fee on agencies’ de-regulated energy purchases, that could provide funding to staff a data records function. According to MEA, DGS is not currently using these funds for the intended purpose but may do so if program responsibility is shifted. Perhaps in light of this management turmoil, there is an apparent lack of reliable State energy trend data for the past three years. Without this data, it is not clear how MEA can measure progress toward meeting its primary performance goal - to increase energy efficiency and reduce the cost of State government.

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- **Energy Performance Contracts:** MEA has proposed transferring responsibility for the Energy Performance Contracts (EPC) Program to DGS as well. An EPC is an agreement between the State and a contractor to make energy-efficient capital improvements. In accordance with Chapter 12-301 of the State Finance and Procurement Article, MEA is responsible for providing consultation and review services associated with potential State EPC projects. MEA has developed and managed the program since 1993, but the agency recently advised that since it has “matured” and realized success, DGS would be a more appropriate placement. MEA has 18 completed and 5 current EPC projects representing nearly \$84.1 million in energy upgrades and annual energy savings of nearly \$10 million.

The agency advises that shifting the EPC Program to DGS will allay confusion about program responsibility. However, this shift could result in a significant reduction in the use of EPCs and thus a reduction in potential State cost savings. Several concerns are described below.

- **Scope:** The program’s scope may be narrowed from encouraging participation among all State agencies to focusing on just DGS facilities. As a result, State agencies would no longer have a guide to walk them through the process and protect the State’s interests.
- **Marketing:** It is not clear whether MEA would continue to “market” the program among State agencies.
- **EPC Project Management:** DGS may not have the expertise or resources to manage ongoing and pending EPCs at various State agencies.

MEA should be prepared to discuss the status of, and programmatic, fiscal, and personnel implications associated with, transferring energy use tracking and the EPC program to DGS.

2. New \$30 Million EPC Master Lease

The Board of Public Works (BPW) recently approved a new EPC Master Lease-Purchase Financing contract in September 2004. This contract provides up to \$30 million in financing over the next three years to contractors who make capital improvements to reduce energy costs in State-owned buildings. The Master Lease is administered by the Treasurer’s Office, which charges participating agencies a small administrative fee collected through the loan replacements.

An EPC is an agreement between the State and a contractor to make energy-efficient capital improvements. The contractor performs an energy audit to determine if retrofitting new capital equipment (boilers, furnaces, air conditioning units, windows, and lighting fixtures) can provide energy savings. If the audit projects savings, the contractor agrees to design and install improved capital equipment. This is financed through savings generated by the improvements. The contractor guarantees the savings. If the savings do not materialize, the contractor is required to reimburse the

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State for any savings that are not achieved. Most EPC projects exceed \$500,000 in cost and are financed over 13 or 14 years.

In spring 2004 a new Indefinite Delivery Contract (IDC) was approved by BPW. This IDC changed the process used to select companies to make the energy conservation improvements. Instead of rotating in a predetermined order among a handful of companies, just four companies (Pepco Energy Services, Noresco, ESG, and Johnson Controls, Inc.) are now qualified to participate. These four companies are eligible to submit proposals for every proposed EPC project. While the new IDC was intended to improve the project selection process, MEA advises that the process should be reevaluated to ensure that the State did not create a participation disincentive. MEA has suggested that DGS schedule a review process immediately.

Narrative is recommended requiring MEA and DGS to report to the committees on steps being taken to ensure the new EPC project selection process is competitive, fair, and working smoothly.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete funds for the Solar Energy Grant Program. This program was created in fiscal 2005 and is not an essential State function.	\$ 103,500	GF	
2. Delete one administrator position. As of January 2005, this position is vacant. This reduction is needed in order to meet the position cap goals enumerated by the Spending Affordability Committee. Furthermore, this position may not be necessary since management of several programs may shift to the Department of General Services.	64,586	SF	1.0
3. Adopt the following narrative:			

Energy Performance Contracting (EPC) Indefinite Delivery Contract Implementation:
 The Maryland Energy Administration (MEA) and the Department of General Services (DGS) shall submit an update to the committees by July 1, 2005, on steps that have been implemented to ensure that the new EPC Indefinite Delivery Contract is competitive, fair, and working smoothly.

Information Request	Authors	Due Date	
EPC Indefinite Delivery Contract Implementation Update	MEA DGS	July 1, 2005	
Total Reductions		\$ 168,086	1.0
Total General Fund Reductions		\$ 103,500	
Total Special Fund Reductions		\$ 64,586	

Updates

1. Green Building Tax Credit

Maryland businesses that construct or rehabilitate a building that conforms to specific standards intended to save energy and mitigate environmental impact may take a credit for a portion of the cost. The Green Building Tax Credit provides a credit against a taxpayer's personal or corporate income tax. The credit varies from 6 to 8% of total allowable construction costs for a building that meets specified green building standards. The current standard is the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Version 2.0 and the LEED Existing Building Pilot. Overall, projects must be at least 25 to 35% more efficient than a reference building.

MEA has administered the Green Building Tax Credit program since November 2003. Over the course of the past year, MEA has allocated six initial credit certificates valued at just over \$6.1 million. There is \$25.0 million available for the program, and current participants are listed in **Exhibit 6**.

Exhibit 6
Green Building Tax Credit Participants
(as of December 2004)

<u>Project Name</u>	<u>Location</u>	<u>Use</u>	<u>Type</u>
Natty Boh	Baltimore City	Mixed use	Rehabilitation
Village Crest Retail	Ellicott City	Retail	New construction
Waverly Gardens	Woodstock, Howard County	Senior housing	New construction
Century Engineering	Hunt Valley	Office	New construction
Eastern Village	Silver Spring	Residential	Rehabilitation
Bowie Corporate Center	Prince George's County	Office	New construction

Source: Maryland Energy Administration

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Energy Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$411	\$1,027	\$761	\$99	\$2,298
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,000	1,062	0	2,062
Cost Containment	-25	0	0	0	-25
Reversions and Cancellations	-6	-440	-434	0	-880
Actual Expenditures	\$380	\$1,587	\$1,389	\$99	\$3,455
Fiscal 2005					
Legislative Appropriation	\$498	\$1,338	\$863	\$103	\$2,802
Budget Amendments	4	0	0	0	4
Working Appropriation	\$502	\$1,338	\$863	\$103	\$2,806

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

Fiscal 2004 Budget Changes

MEA's general funds dedicated to operating functions decreased by \$30,793. This reduction is largely due to cost containment actions under the provisions of Section 7-213(a) of the State Finance and Procurement Article (Budget Amendment 37-04).

The \$559,763 increase in special funds is the result of a \$1.0 million budget amendment off-set by \$440,237 in cancellations. MEA received \$1.0 million in one-time funding as part of the settlement terms associated with the merger of the utility companies Pepco and Conectiv. These funds were to be used to conduct education programs on purchasing energy efficient products that meet the U.S. Environmental Protection Agency's "Energy Star" label and installing energy efficient heating and air conditioning equipment. The special fund cancellations were primarily unspent Pepco/Conectiv settlement funds.

Federal funds increased by a total of \$628,321 due to several budget amendments. The U.S. Department of Energy provided \$1.1 million for several purposes, including implementing the Northeast State Residential Energy Codes Support Program, establishing the Mid-Atlantic Combined Heat and Power Center at the University of Maryland's Center for Environmental Energy Engineering, and purchasing compressed natural gas shuttle buses for Baltimore City and Prince George's County. These budget amendments were off-set by \$434,047 in project cancellations.

Fiscal 2005 Budget Changes

General funds increase slightly due to allocation of the cost-of-living adjustment general fund appropriation to State agencies as authorized in the fiscal 2005 budget bill (Budget Amendment 006-05).

Audit Findings

Audit Period for Last Audit:	January 27, 1999 – October 2, 2001
Issue Date:	February 2003
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	

Finding 1: Cash receipts were not recorded immediately upon receipt and an independent verification was not performed to ensure all collections were subsequently deposited.

**Object/Fund Difference Report
Maryland Energy Administration**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	20.00	20.00	20.00	0	0%
02 Contractual	0.50	0	0	0	0.0%
Total Positions	20.50	20.00	20.00	0	0%
Objects					
01 Salaries and Wages	\$ 1,499,687	\$ 1,516,392	\$ 1,474,199	-\$ 42,193	-2.8%
02 Technical & Spec Fees	9,917	2,200	0	-2,200	-100.0%
03 Communication	18,292	22,385	36,286	13,901	62.1%
04 Travel	19,658	35,405	25,130	-10,275	-29.0%
06 Fuel & Utilities	6,346	12,000	8,000	-4,000	-33.3%
07 Motor Vehicles	2,881	4,453	2,880	-1,573	-35.3%
08 Contractual Services	1,695,132	910,920	1,556,064	645,144	70.8%
09 Supplies & Materials	11,119	13,170	10,153	-3,017	-22.9%
10 Equip - Replacement	10,786	14,650	11,759	-2,891	-19.7%
11 Equip - Additional	929	1,500	0	-1,500	-100.0%
12 Grants, Subsidies, Contr	60,389	151,707	135,839	-15,868	-10.5%
13 Fixed Charges	120,445	120,805	127,800	6,995	5.8%
Total Objects	\$ 3,455,581	\$ 2,805,587	\$ 3,388,110	\$ 582,523	20.8%
Funds					
01 General Fund	\$ 380,086	\$ 501,869	\$ 481,157	-\$ 20,712	-4.1%
03 Special Fund	1,586,435	1,337,719	1,977,973	640,254	47.9%
05 Federal Fund	1,389,655	862,624	836,810	-25,814	-3.0%
09 Reimbursable Fund	99,405	103,375	92,170	-11,205	-10.8%
Total Funds	\$ 3,455,581	\$ 2,805,587	\$ 3,388,110	\$ 582,523	20.8%

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