

D13A1302
Maryland Energy Administration PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	<i>FY 2005 Approp.</i>	<i>FY 2006 Approp.</i>	<i>FY 2007 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
State Agency Loan Program	\$1,500	\$1,000	\$1,000	0.0%	\$1,000
Community Energy Loan Program	1,500	1,500	1,500	0.0%	1,500
Energy Efficiency and Economic Development Loan Program	0	0	500	100%	250
Total	\$3,000	\$2,500	\$3,000	20.0%	\$2,750

Fund Source					
Special	\$3,000	\$2,500	\$3,000	20.0%	2,500
Total	\$3,000	\$2,500	\$3,000	20.0%	\$2,750

Summary of Issues

Maryland Energy Administration Loan Fund Transfer May Be Problematic: A July 2005 Office of Legislative Audits report found that funds may have been improperly transferred on two occasions from the Community Energy Loan Program to the State Agency Loan Program (SALP). **The Maryland Energy Administration (MEA) should be prepared to discuss the status of resolving this audit finding.**

State Agency Interest in Energy Loans Increases as Energy Costs Escalate: Interest in participation in SALP has increased over the past year, concurrent with the increasing burden that rising utility rates are placing on State agency budgets. **MEA should be prepared to discuss why additional SALP funds were not sought for fiscal 2007 in response to increased demand and elaborate on potential programmatic changes that could be made to spark more diverse interest in the program.**

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

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Summary of Recommended Actions

	<u>Funds</u>
1. Reduce funds for the Energy Efficiency and Economic Development Loan Program.	\$ 250,000
Total Reductions	\$ 250,000

Overview

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;
- 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 2007 PAYGO budget allowance is \$3.0 million in special funds, a 20% increase over fiscal 2006 due to EEEDLP rejoining the loan portfolio with an allowance of \$500,000.

The loan funds were all capitalized with Energy Overcharge Restitution Funds (EORF). EORF is composed of federal court settlement monies from oil and gas producers who have violated federal regulations. As of December 31, 2005, the EORF balance was \$8.7 million. Periodically, EORF has been transferred to and/or among SALP and CELP to ensure sufficient loan funds.

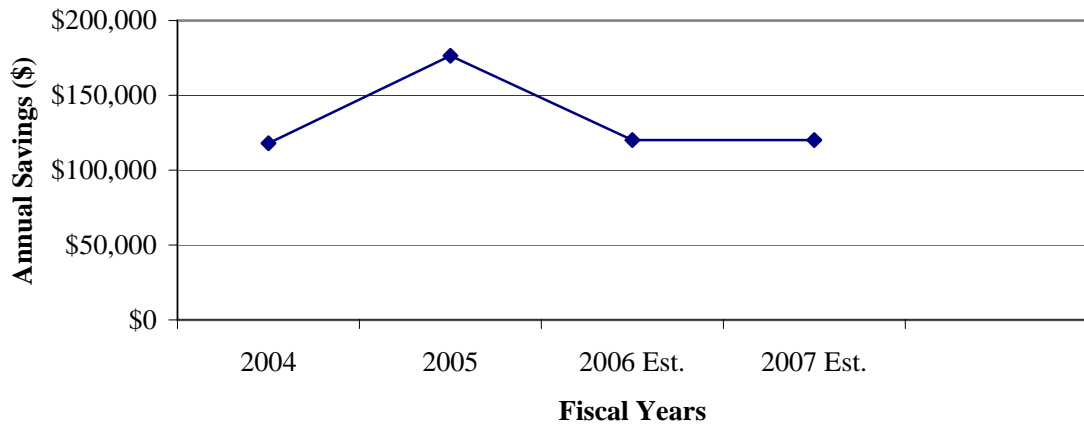
MEA notes that before a loan is approved, any CELP or SALP project must be designated so that the savings from avoided energy costs covers associated loan costs. MEA disburses funds based on post-work invoices. MEA requires CELP projects to make semi-annual repayments and SALP projects to make annual 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 15% by 2010 relative to the 2000 baseline.

Consolidated Administrative Expenses – All Programs

	FY 2005 Actual	FY 2006 Estimated	2007 Estimated
Sources:			
Special Funds			
Community Energy Loan Program	\$66,739	\$70,866	\$75,279
State Agency Loan Program	26,768	30,000	30,000
EEEDLP	0	0	0
Total Funds	\$93,507	\$100,866	\$105,279
Uses:			
Direct Expenses	93,507	100,866	105,279
Total Expenses	\$93,507	\$100,866	\$105,279

Exhibit 1
Annual Savings from SALP Projects (\$)



Source: MEA Managing for Results Plan

State Agency Loan Fund Data

Fund History

	<i>FY 2005 Actual</i>	<i>FY 2006 Estimated</i>	<i>FY 2007 Estimated</i>
Beginning Balance	\$504,778	\$269,846	\$685,441
REVENUE			
Loan Repayments	410,094	635,595	764,642
Investment Interest	80,623	60,000	70,000
Transfer from EORF*	500,000	750,000	0
Cancellation of Encumbrances	301,119	0	0
TOTAL REVENUE	1,291,836	1,445,595	834,642
TOTAL AVAILABLE	1,796,614	1,715,441	1,520,083
ENCUMBRANCES			
Loans	1,500,000	1,000,000	1,000,000
Operating Expenses	26,768	30,000	30,000
TOTAL ENCUMBRANCES	1,526,768	1,030,000	1,030,000
Ending Balance	\$269,846	\$685,441	\$490,083

* Transfers from the Energy Overcharge Restitution Fund to keep the SALP self-funding.

(\$ in Millions)

<i>Description</i>	<i>2005 Approp.</i>	<i>2006 Approp.</i>	<i>2007 Request</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>
PAYGO SF	\$1.500	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000

Issues

1. MEA Loan Fund Transfer May Be Problematic

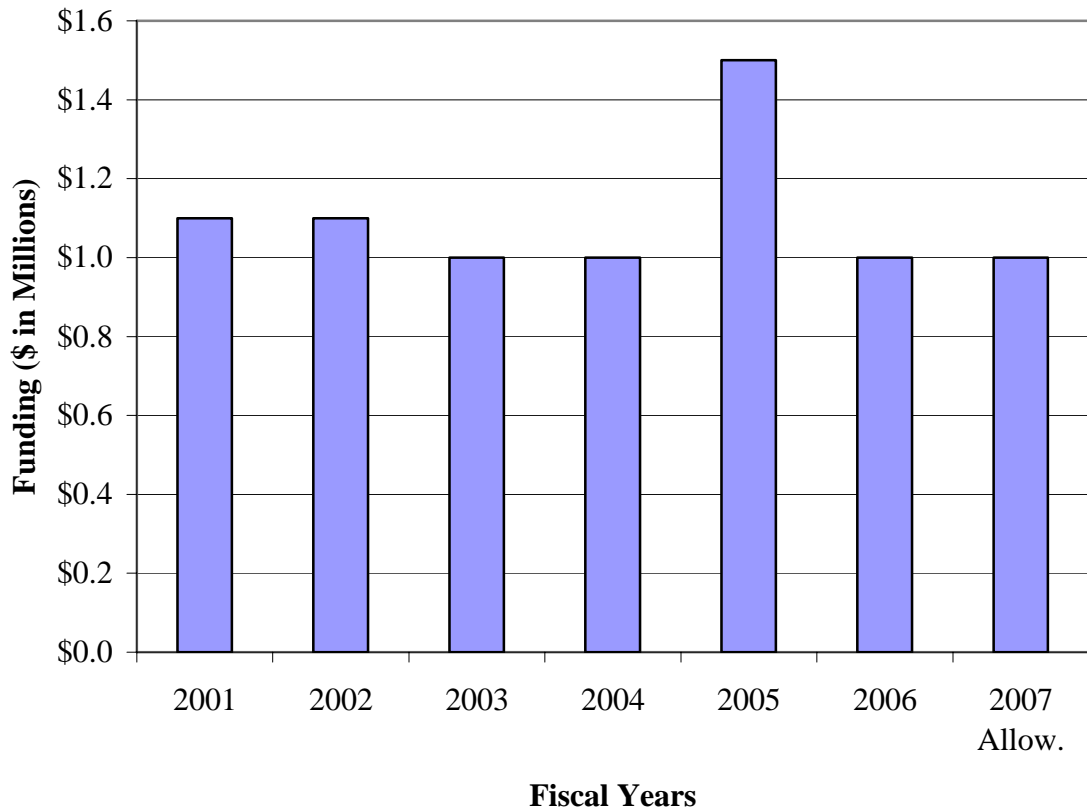
A July 2005 Office of Legislative Audits (OLA) report found that funds may have been improperly transferred on two occasions from the Community Energy Loan Program (CELP) to SALP. Specifically, funds totaling \$900,000 (\$500,000 in December 2001 and \$400,000 in November 2004) were transferred from CELP to provide additional loan funds for SALP. The audit report conveys that MEA's management thought that since both loan programs were funded from the Energy Overcharge Restitution Fund, the Director had the authority to move funds between the programs as disclosed in MEA's approved capital budgets. OLA questions this authority since the law governing CELP specifies that it is a special, non-lapsing revolving loan fund that is to be used to pay CELP expenses and to provide loans to CELP eligible sponsors and projects.

MEA should be prepared to discuss the status of resolving this audit finding, as well as the potential impact of not being able to transfer funds among the loan programs in the future.

2. State Agency Interest in Energy Loans Increases as Energy Costs Escalate

Interest in participation in SALP has increased over the past year, concurrent with the increasing burden rising utility rates are placing on State agency budgets. MEA advises that interest calls have increased by 50% over the past year, largely from State agencies that have participated in the program in the past. MEA allocated the full \$1.0 million fiscal 2006 SALP appropriation, and had to defer \$406,255 in projects. In spite of this increased interest, the fiscal 2007 allowance is level with fiscal 2006, perhaps due to the allocation of EORF to EEEDLP. As shown in **Exhibit 2**, in the past program demand prompted MEA to seek slightly higher SALP funding levels.

Exhibit 2
SALP Funding Trends



Source: Department of Legislative Services

MEA should be prepared to discuss why additional SALP funds were not sought for fiscal 2007 in response to increased demand, and elaborate on potential programmatic changes that could be made to spark more diverse interest in the program.

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2007 Proposed Projects

<u>Project</u>	<u>Location</u>	<u>Project Cost</u>	<u>FY 2007 Request</u>
Military Department	Statewide	n/a	n/a
University of Maryland/Center for Environmental Science/Horn Point Laboratory	Dorchester County	n/a	n/a
University of Maryland/Center for Environmental Science/Chesapeake Biological Laboratory	Calvert County	n/a	n/a
University of Maryland College Park	College Park	n/a	n/a
Total			\$1,000,000

Fiscal 2006 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
St. Mary's College EPC	St. Mary's County	\$500,000	Encumbered
Military Department	Statewide	500,000	Encumbered
Total		\$1,000,000	

Community Energy Loan Fund Data

Fund History

	<i>FY 2005 Actual</i>	<i>FY 2006 Estimated</i>	<i>FY 2007 Estimated</i>
Beginning Balance	\$1,396,436	\$392,366	\$1,334,588
REVENUE			
Loan Repayments and Interest	562,669	1,013,088	785,201
Transfers*	0	1,500,000	0
TOTAL REVENUE	562,669	2,513,088	785,201
TOTAL AVAILABLE	1,959,105	2,905,454	2,119,789
ENCUMBRANCES			
Loans	1,500,000	1,500,000	1,500,000
Operating Expenses	66,739	70,866	75,279
TOTAL ENCUMBRANCES	1,566,739	1,570,866	1,575,279
Ending Balance	\$392,366	\$1,334,588	\$544,510

* Transfers from the Energy Overcharge Restitution Fund

(\$ in Millions)

<i>Description</i>	<i>2005 Approp.</i>	<i>2006 Approp.</i>	<i>2007 Request</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>
PAYGO SF	\$1.500	\$1.500	\$1.500	\$1.500	\$1.500	\$1.500	\$1.500

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2007 Proposed Projects

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 2007.

Fiscal 2006 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
City of Frederick	Frederick County	\$95,448	To be encumbered
Montgomery County Board of Education	Montgomery County	600,000	To be encumbered
Unallocated	Statewide	804,552	
Total		\$1,500,000	

Energy Efficiency and Economic Development Loan Program (Statewide)

PAYGO SF **\$500,000** **Recommendation:** **Reduce by \$250,000**

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. Last year, Chapter 183, Acts of 2005, codified EEEDLP. 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 2007 allowance provides \$500,000 for EEEDLP; however, 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 2005 Actual</i>	<i>FY 2006 Estimated</i>	<i>FY 2006 Estimated</i>
Beginning Balance	\$0	\$0	\$0
REVENUE			
Transfer of EORF Funds	0	0	500,000
TOTAL REVENUE	0	0	500,000
TOTAL AVAILABLE	\$0	\$0	\$500,000
ENCUMBRANCES			
Loans	0	0	500,000
TOTAL ENCUMBRANCES	0	0	500,000
Ending Balance	\$0	\$0	\$0

(\$ in Millions)

<i>Description</i>	<i>2005 Approp.</i>	<i>2006 Approp.</i>	<i>2007 Request</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>
PAYGO SF	\$0.000	\$0.000	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce 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. In addition, the recently passed federal Energy Policy Act provides a variety of energy efficiency tax credits for businesses. The State should focus its limited capital 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	\$ 250,000 SF
Total Special Fund Reductions	\$ 250,000

Fiscal 2007 Proposed Projects

<u>Project</u>	<u>Location</u>	<u>Project Cost</u>	<u>FY 2007 Request</u>
Black Olive – Geothermal heating/cooling system	Baltimore City	\$2,900,000	\$300,000
Unallocated	Statewide		200,000
Total			\$500,000

Fiscal 2006 Project Status

None.

Fiscal Summary
Maryland Energy Administration PAYGO

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
02 Community Energy Loan Program - Capital Appropriation	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 0	0%
03 State Agency Loan Program - Capital Appropriation	1,500,000	1,000,000	1,000,000	0	0%
04 Energy Efficiency & Economic Develop. Loan Program	0	0	500,000	500,000	
Total Expenditures	\$ 3,000,000	\$ 2,500,000	\$ 3,000,000	\$ 500,000	20.0%
Special Fund	\$ 3,000,000	\$ 2,500,000	\$ 3,000,000	\$ 500,000	20.0%
Total Appropriations	\$ 3,000,000	\$ 2,500,000	\$ 3,000,000	\$ 500,000	20.0%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.