

D13A1302
Maryland Energy Administration – PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Millions)

	<i>FY 2007 Approp.</i>	<i>FY 2008 Approp.</i>	<i>FY 2009 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
State Agency Loan Program	\$0.906	\$1.000	\$1.000	0.0%	\$1.000
Community Energy Loan Program	0.999	1.500	1.200	-20.0%	1.200
Energy Efficiency and Economic Development Loan Program	0.500	0.000	0.000	-100.0%	0.000
Total	\$2.405	\$2.500	\$2.200	-12.0%	\$2.200
Fund Source					
Special	\$2.405	\$2.500	\$2.200	-12.0%	\$2.200
Total	\$2.405	\$2.500	\$2.200	-12.0%	\$2.200

Summary of Issues

Extent of CELP and SALP Role in EmPower Maryland Initiative Unclear: The EmPower Maryland initiative is a commitment made by the Governor on July 2, 2007, to reduce per capita electricity consumption in Maryland 15% by 2015. State agencies and local schools both will need to reduce their electricity consumption in order for this commitment to be met. While both the State Agency Loan Program (SALP) and the Community Energy Loan Program (CELP) were included as significant components of the Administration’s EmPower Maryland initiative, neither program is scheduled to receive funding above base levels in either the fiscal 2009 allowance or the Department of Budget and Management’s five-year *Capital Improvement Program*. **The Department of Legislative Services (DLS) recommends that the Maryland Energy Administration (MEA) brief the committees on what overall reduction in electricity consumption is expected of State agency buildings and local government buildings by 2015; how SALP and CELP are expected to contribute to these reduction goals on an annual basis; and what level of loan appropriation would be required in each of these loan programs energy reduction goals.**

Summary of Recommended Actions

1. Restrict Community Energy Loan Program fiscal 2008 deficiency appropriation spending for projects in partnership with the Reinvestment Fund until a report is submitted on the nature of the projects to be supported and of the relationship between the Reinvestment Fund and the Community Energy Loan Program.

Overview

MEA currently administers three revolving loan programs:

- 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 2009 pay-as-you-go budget allowance of \$2.2 million in special funds is \$0.3 million less than the fiscal 2008 appropriation. In addition, no funding is in the fiscal 2009 allowance for the EEEDLP, as was the case for fiscal 2008.

The loan funds were capitalized with Energy Overcharge Restitution Funds (EORF), and periodically, EORF funds have been transferred to SALP and CELP to provide additional revenues to support loan activity. The EORF is composed of federal court settlement monies from oil and gas producers who have violated federal regulations. As of December 31, 2007, the EORF balance was \$6.1 million. However, if prior fiscal year encumbrances, MEA fiscal 2008 operating amounts, funds made available to the Department of Housing and Community Development and the Department of Human Resources for weatherization assistance, and \$2.0 million of proposed fiscal 2008 deficiency appropriations (\$1.0 million to support programs funded in the MEA operating budget and \$1.0 million for SALP and CELP combined) are taken into account, the available balance for fiscal 2009 expenditures is only \$1.2 million. Furthermore, MEA's fiscal 2009 operating budget allowance includes an appropriation of \$1.0 million for energy efficiency programs, which leaves approximately \$200,000 in unobligated EORF monies for fiscal 2010. According to MEA, the sale of carbon dioxide allowances as part of Maryland's commitment to the Regional Greenhouse Gas Initiative may generate revenue that could be used to either supplement the EORF or the general fund in the out-years.

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MEA notes that before a loan is approved, any CELP or SALP project must be designed 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.

The Department of General Services (DGS), in cooperation with MEA, must set energy performance standards to reduce the average energy consumption in State buildings from the level in 2005, by 5% in 2009 and 10% in 2010 (Chapter 427 of 2006). By December 31, 2007, each State agency was to have conducted an analysis of the gas and electric consumption in each of the buildings under its jurisdiction, and by July 1, 2008, each State agency must upgrade its energy conservation plan, developed in consultation with MEA and DGS, to achieve the performance standards set by DGS. Chapter 427 of 2006 is the third such measure to set energy performance standards in recent years. It remains to be seen whether State agencies will take this opportunity to use SALP and Energy Performance Contracts to achieve energy reductions.

Overview Issues

1. Extent of CELP and SALP Role in EmPower Maryland Initiative Unclear

The EmPower Maryland initiative is a commitment made by the Governor on July 2, 2007, to reduce per capita electricity consumption in Maryland 15% by 2015 (SB 205). The initiative is to be administered as follows:

- State government savings – SALP and Energy Performance Contracting are both part of this components and complement one another – for example, they are expected to reduce Spring Grove Hospital Center energy costs by 47.9% and energy use by 60%;
- State agency administered programs – CELP which provides local government and nonprofits loans for energy conservation improvements is a part of this component as are statewide energy efficiency programs funded with the proposed sale of carbon dioxide allowances (SB 268/HB 368); and
- utility administered programs.

State agencies and local schools will need to reduce their electricity consumption in order for this commitment to be met. The SALP and CELP programs address this objective in concert with other programs and have been included as components of the Governor's EmPower Maryland initiative. However, the two programs combined receive less funding in the proposed fiscal 2009 budget than in fiscal 2008. While \$0.5 million deficiency appropriations have been requested for both SALP and CELP for fiscal 2008, neither program receives an increased appropriation for fiscal 2009. In fact, CELP's appropriation actually decreases from \$1.5 million to \$1.2 million between fiscal 2008 and 2009. As revolving loan programs, it makes sense that annual appropriation be tied to the available fund balance and other revenues that accrue to the revolving fund accounts,

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which in the case of SALP and CELP consists of loan repayment revenue and EORF transfers. However, given the growing importance placed on energy efficiency and conservation in the portfolio of options for improving the State's energy outlook, the transfer of EORF funds should be considered one-time because EORF will be substantially depleted after fiscal 2009. Overall, the proposed EORF transfer will not substantially improve the amount of SALP and CELP funds available for energy reduction-related loans.

MEA reports that State agencies have expressed increased interest in SALP but that it takes several years for an energy efficiency plan to translate into an actual signed loan. According to MEA, the \$500,000 deficiency appropriation for SALP would translate into \$50,000 in additional savings per year.

MEA's fiscal 2008 and 2009 CELP project lists include a partnership with the nonprofit Reinvestment Fund. MEA states that the Reinvestment Fund is a financing organization that provides funding for schools, hospitals, clinics, and other nonprofit organizations doing renovations, expansions, and new construction. One possible CELP project with the Reinvestment Fund is a loan to a Baltimore City charter school with which the Reinvestment Fund is working. Overall, the partnership with the Reinvestment Fund appears to be a new relationship for CELP, whereby the Reinvestment Fund is used to expand CELP's penetration into the market for nonprofits seeking energy efficiency loans.

DLS recommends that MEA brief the committees on what overall reduction in electricity consumption is expected of State agency buildings and local government buildings by 2015; how SALP and CELP are expected to contribute to these reduction goals on an annual basis; what level of loan appropriation would be required in each of these loan programs to be consistent with energy reduction goals; and what role the Reinvestment Fund and other partnerships will play in the marketing of CELP and meeting the EmPower Maryland initiative goal.

State Agency Loan Program (Statewide)

PAYGO SF	\$1,000,000	Recommendation:	Approve
Fiscal 2008 PAYGO SF Deficiency	\$500,000	Recommendation:	Approve

Program Description: The State Agency Loan Program (SALP) is a non-lapsing, revolving loan fund that provides zero-interest loans to State agencies for energy conservation projects. The Maryland Energy Administration (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 1997 with \$3.3 million from the Energy Overcharge Restitution Fund.

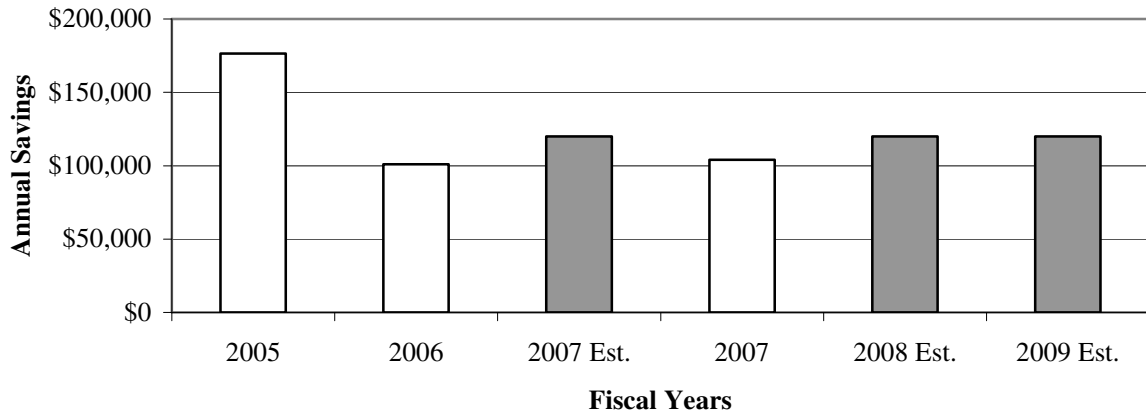
As of August 2007, SALP had dedicated over \$16.5 million in loans to installing energy conservation measures such as energy efficient lighting, controls, and boilers. The estimated savings in State energy costs amounts to \$2.8 million a year. On average, it takes approximately five years for a State agency to achieve the energy cost savings necessary to pay back the loan.

SALP helps State agencies meet the legislatively mandated goal of reducing energy consumption in buildings from the level in 2005, by 5% in 2009 and 10% in 2010. The funds are also used to supplement and encourage the use of Energy Performance Contracts (EPC).

Program Performance Analysis: The estimated savings in State energy costs due to SALP projects approved that year amounts to over \$100,000 annually, as shown in **Exhibit 1**. However, SALP savings decreased in fiscal 2006 relative to fiscal 2005 and were lower than expected in fiscal 2007. In fiscal 2008, SALP savings are expected to increase to the goal of providing at least \$120,000 of annual savings.

Comments: The \$1.0 million fiscal 2009 allowance for SALP is level with what was provided in fiscal 2008 before taking into account the proposed \$500,000 fiscal 2008 deficiency appropriation. The 2008 *Capital Improvement Program* (CIP) does not schedule increased special fund spending authority. Thus the deficiency should be considered a one-time increase. MEA has requested less SALP funding in recent years because it anticipates that more State agencies will take advantage of the EPC program and advises that SALP will become self-sustaining sooner at the lower annual amount of loans. However, MEA also advises that small projects for agencies (\$500,000 or less) will need level SALP funding into the future and that passage of Chapter 427 of 2006 may increase SALP activity. At this point MEA has seen increased interest due to Chapter 427 of 2006, but MEA says that it is too early to actually receive signed loans due to the time between energy efficiency project planning and the actual funding. **MEA should be prepared to discuss how SALP is facilitating agency use of EPCs, especially since it is likely that agencies with small project proposals may also be candidates for larger EPCs.**

Exhibit 1
Annual Savings from the State Agency Loan Program Projects



Source: Governor's Budget Books, Fiscal 2008-2009

As shown in the Fund History table, a \$627,059 encumbrance cancellation occurred in fiscal 2007 for a Department of General Services energy and water project that did not occur. In addition to the above cancellation, MEA reports that the cancellation history for SALP is as follows: \$19,717 in fiscal 1996; \$79,498 in fiscal 1999; \$593,982 in fiscal 2003; and \$301,119 in fiscal 2005.

MEA's fiscal 2008 project list for SALP includes anticipated deficiency-funded projects that in total exceeds the fiscal 2008 appropriation by \$547,344. Overall, MEA expects SALP to become self-sufficient within a couple of years. An increase in the appropriation may be called for when the deficiency-funded loans are repaid in a couple years time and the fund balance builds up significantly.

State Agency Loan Program Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	-\$13,148	\$301,173	\$224,460
Revenue			
General Funds	\$0	\$0	\$0
Loan Repayment	459,710	786,204	936,180
Investment Interest	163,807	167,083	170,425
Transfer from Other Funds*	0	500,000	0
Cancellation of Encumbrances	627,059	0	0
Total Revenue	\$1,250,576	\$1,453,287	\$1,106,605
Total Available	\$1,237,428	\$1,754,460	\$1,331,065
Encumbrances			
Loans	\$906,255	\$1,500,000	\$1,000,000
Operating Expenses	30,000	30,000	30,000
Total Encumbrances	\$936,255	\$1,530,000	\$1,030,000
Ending Balance	\$301,173	\$224,460	\$301,065

* The \$500,000 fiscal 2008 transfer reflects the proposed deficiency appropriation. Should this deficiency be approved, the program loan encumbrances would increase from \$1.0 million to \$1.5 million based on the additional available funds.

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO SF	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Recommended Actions

1. Concur with Governor's allowance.

Fiscal 2009 Proposed Projects

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
Maryland Department of Agriculture	Anne Arundel County	\$250,000	Early development
To be determined	Statewide	750,000	To be determined
Total		\$1,000,000	

Fiscal 2008 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
University of Maryland, College Park (Phase I)	Prince George's County	\$203,765	Paid
University of Maryland, College Park (Phase II)	Prince George's County	643,579	Under construction
Department of Health and Mental Hygiene, Spring Grove Hospital Center	Baltimore County	500,000	Energy Performance Contract
Department of Public Safety and Correctional Services, Patuxent Institution	Howard County	200,000	Initial request
Total		\$1,547,344	

Note: The total is greater than the appropriation because the Maryland Energy Administration has included projects to be funded with the proposed \$0.5 million deficiency appropriation.

Community Energy Loan Program (Statewide)

PAYGO SF	\$1,200,000	Recommendation:	Approve
Fiscal 2008 PAYGO SF Deficiency	\$500,000	Recommendation:	Approve with language

Program Description: The Community Energy Loan Program (CELP) is a non-lapsing, revolving loan fund that provides low-interest loans for energy conservation project design and installation. The Maryland Energy Administration (MEA) makes these loans to nonprofit organizations and local governments; school system applications are given the highest priority. 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 approximately five years to achieve the energy cost savings necessary to pay for the cost of the loan. According to the Department of Budget and Management, through November 2007, CELP has loaned \$14.3 million for 56 projects (25 local governments and 31 nonprofit organizations) providing for a total estimated savings of \$3.7 million.

Program Performance Analysis: MEA's Managing for Results (MFR) plan does not incorporate any CELP performance data. In the past, MEA has reported that the amount loaned, number of loans, expected energy savings, and loan repayments function as performance measures. However, with the exception of energy savings, this data appears to be measuring outputs rather than outcomes and is not as conveniently presented as the State Agency Loan Program performance data, which is included in MEA's performance plan. **Due to the significant State funding for school construction and the priority given to school systems in CELP, the Department of Legislative Services recommends again that MEA include CELP energy savings performance information in its future MFR plans.**

Comments: The fiscal 2009 allowance provides \$1.2 million for CELP, which is \$0.3 million less than the fiscal 2008 appropriation and also \$0.3 million less than what was scheduled in the 2007 *Capital Improvement Program*. Taking into account the proposed \$500,000 fiscal 2008 deficiency appropriation, the difference between fiscal 2008 and 2009 is \$800,000. CELP's fiscal 2008 revenue is insufficient to allow for the full \$1.5 million appropriation. However, with the \$0.5 million deficiency appropriation CELP would be able to fund all projected fiscal 2008 projects within the appropriation. MEA reports that CELP is farther than SALP from being self-sustaining due to the increase in appropriations in recent years. However, the anticipated fiscal 2008 deficiency appropriation should help to allow CELP to reach its \$1.5 million appropriation for loans.

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As shown in the Fund History chart, a \$160,625 cancellation occurred in fiscal 2007. The cancellation was due to a change in the loan amount for the Center for Strategic Studies from \$1,143,625 to \$983,000.

Community Energy Loan Program Fund Data

Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$294,614	\$92,542	\$127,176
Revenue			
General Funds	\$0	\$0	\$0
Loan Repayment	573,154	989,886	1,114,755
Investment Interest	117,048	119,389	121,777
Transfer from Other Funds*	0	500,000	0
Closing Fees Collected	3,556	0	0
Cancellation of Encumbrances	160,625	0	0
Total Revenue	\$854,383	\$1,609,275	\$1,236,532
Total Available	\$1,148,997	\$1,701,817	\$1,363,708
Encumbrances			
Loans	\$999,200	\$1,500,000	\$1,200,000
Operating Expenses	57,255	74,641	75,485
Total Encumbrances	\$1,056,455	\$1,574,641	\$1,275,485
Ending Balance	\$92,542	\$127,176	\$88,223

* The \$500,000 fiscal 2008 transfer reflects the proposed deficiency appropriation.

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO SF	\$1.500	\$1.500	\$1.200	\$1.500	\$1.500	\$1.500	\$1.500

Recommended Actions

1. Add the following language to the special fund appropriation:

, provided that no funds may be expended on projects in partnership with the Reinvestment Fund in fiscal 2008 until a report is submitted on the nature of the projects to be supported and of the relationship between the Community Energy Loan Program (CELP) and the Reinvestment Fund.

Explanation: The CELP has heretofore provided loans directly to nonprofit organizations for energy efficiency projects. The proposed involvement of the Reinvestment Fund in a partnership with CELP appears to be a break from this pattern of practice and requires further scrutiny. The report required to be submitted by the Maryland Energy Administration shall be provided before any funds are encumbered for projects with the Reinvestment Fund and shall describe both what the projects would entail and the exact relationship of the partnership between the Reinvestment Fund and the CELP.

Information Request	Author	Due Date
Report on Reinvestment Fund CELP projects	MEA	Before any funds are encumbered for projects in partnership with the Reinvestment Fund

Fiscal 2009 Proposed Projects

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
Baltimore Medical Center	Baltimore City	\$600,000	In design phase, creating funding
Partnership with the Reinvestment Fund	Statewide	600,000	To be determined
Total		\$1,200,000	

Fiscal 2008 Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
Richardson Learning Center	Baltimore City	\$600,000	Awaiting return to health of project manager
Montgomery Housing Partnerships	Montgomery County	400,000	Awaiting application
Partnership with the Reinvestment Fund	Statewide	500,000	To be determined
Total		\$1,500,000	

Fiscal Summary
Maryland Energy Administration PAYGO

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
02 Community Energy Loan Program – Capital Appropriation	\$ 999,200	\$ 1,500,000	\$ 1,200,000	-\$ 300,000	-20.0%
03 State Agency Loan Program – Capital Appropriation	906,255	1,000,000	1,000,000	0	0%
04 Energy Efficiency and Economic Develop. Loan Program	500,000	0	0	0	0%
Total Expenditures	\$ 2,405,455	\$ 2,500,000	\$ 2,200,000	-\$ 300,000	-12.0%
Special Fund	\$ 2,405,455	\$ 2,500,000	\$ 2,200,000	-\$ 300,000	-12.0%
Total Appropriations	\$ 2,405,455	\$ 2,500,000	\$ 2,200,000	-\$ 300,000	-12.0%

Note: The fiscal 2008 appropriation does not include deficiencies.