

D13A13
Maryland Energy Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$1,161	\$1,008	\$0	-\$1,008	-100.0%
Adjusted General Fund	\$1,161	\$1,008	\$0	-\$1,008	-100.0%
Special Fund	2,397	1,791	71,935	70,143	3,916.3%
Contingent & Back of Bill Reductions	0	0	-4	-4	
Adjusted Special Fund	\$2,397	\$1,791	\$71,930	\$70,139	3,916.0%
Federal Fund	898	1,277	1,171	-106	-8.3%
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted Federal Fund	\$898	\$1,277	\$1,168	-\$108	-8.5%
Reimbursable Fund	109	122	124	2	1.3%
Adjusted Reimbursable Fund	\$109	\$122	\$124	\$2	1.3%
Adjusted Grand Total	\$4,565	\$4,198	\$73,222	\$69,025	1,644.4%

- The fiscal 2010 allowance increases \$69.0 million, or 1,644.6%, due primarily to the increase in special funds as part of Maryland's involvement in the Regional Greenhouse Gas Initiative auction of carbon dioxide allowances. No general funds are included for fiscal 2010.
- A \$7,060 reduction for deferred compensation is included in the allowance contingent upon the enactment of the Budget Reconciliation and Financing Act of 2009.

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

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Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	18.00	25.00	28.00	3.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	18.00	25.00	28.00	3.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.85	3.03%
Positions and Percentage Vacant as of 12/31/08	2.00	8.00%

- Maryland Energy Administration’s (MEA) regular positions increase by 3.0 in the fiscal 2010 allowance. The positions are intended to aid in the administration of the Strategic Energy Investment Fund and to implement the EmPower Maryland initiative. The positions consist of 2.0 administrator II positions and 1.0 assistant attorney general VI position. 5.0 positions were transferred to MEA in February 2009 from the State Department of Assessments and Taxation.
- To meet turnover, MEA only needs 0.85 vacant positions in fiscal 2010. However, MEA had 2.0 vacant positions as of December 31, 2008, one of which subsequently has been filled.

Analysis in Brief

Major Trends

Revenue Received from Regional Greenhouse Gas Initiative Auctions: The Regional Greenhouse Gas Initiative carbon dioxide auctions brought in \$16.4 million in September 2008, and \$18.0 million in December 2008, for a total of \$34.4 million. The fiscal 2010 allowance includes \$106.3 million in carbon dioxide auction revenue to be spent across a number of State agency budgets.

Substantial Federal Stimulus Funding Anticipated: The State is anticipating \$57.5 million in federal stimulus funding through the State Energy Program as part of the American Recovery and Reinvestment Act (ARRA) of 2009.

Issues

MEA Challenged by Unprecedented Funding Levels: The fiscal 2010 allowance includes substantial increases in funding for MEA from the Strategic Energy Investment Fund (SEIF) and federal stimulus funding as part of the ARRA of 2009. MEA's ability to disburse this funding in a timely fashion will be challenged. **The Department of Legislative Services (DLS) recommends that MEA comment on the level of need and administrative capacity for the influx of SEIF and federal funding. In addition, DLS recommends that (1) the SEIF allocation in the Budget Reconciliation and Financing Act of 2009 be amended to increase the funding for the Department of Human Resources bill assistance by \$21.0 million, and to allow for \$4.4 million in energy performance contract funding and \$0.4 million in Department of General Services' salaries; (2) authorization be provided for the \$21.0 million to be supplanted by a special fund budget amendment; (3) authorization be provided to bring in the federal State Energy Program funding through the ARRA of 2009 to replace the SEIF allocation for energy efficiency and renewable energy programs and projects; and (4) MEA and the other agencies that may receive either SEIF funding, federal stimulus funding, or both should report on how this funding will meet the State's energy goals.**

Recommended Actions

1. Adopt narrative requesting a report on the impact of fiscal 2010 bill assistance, rate relief, energy efficiency, and renewable energy program spending.

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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 Section 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 administering the Strategic Energy Investment Fund (SEIF); reviewing utility demand-side management plans for compliance with the EmPower Maryland Energy Efficiency Act; and coordinating with the Department of General Services 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 Jane E. Lawton Conservation Loan (formerly Community Energy Loan and Energy Efficiency and Economic Development Loan programs) and State agency loan 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.

MEA's five goals are to:

- increase Maryland's energy efficiency and energy conservation;
- reduce State agency energy consumption;
- improve energy efficiency of local governments, nonprofits, and businesses;
- increase electricity generation fuel diversity, improve air quality, and reduce greenhouse gas emissions through increased renewable energy use; and
- reduce Maryland's petroleum fuel consumption through increased use of alternative fuels and advanced transportation technologies.

Performance Analysis: Managing for Results

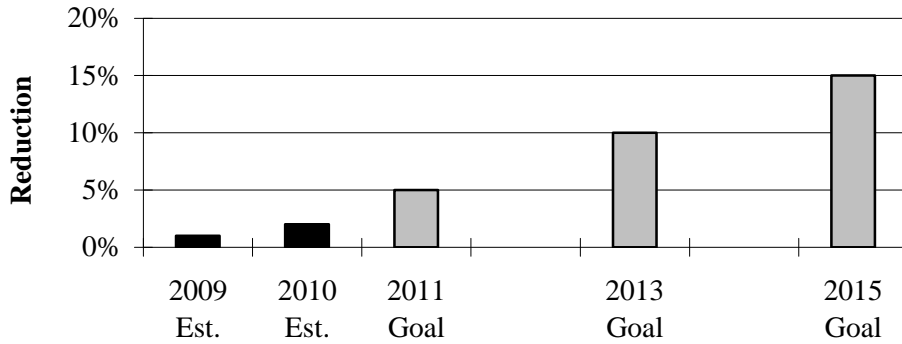
It is difficult to correlate MEA's Managing for Results (MFR) measures with actual activities conducted by MEA. This is because MEA has included MFR measures for governmentwide improvements that cannot be directly attributed to MEA's programs.

The enactment of Chapter 131 of 2008 (EmPower Maryland Energy Efficiency Act) established a goal of reducing peak demand and per-capita electricity consumption 15% by 2015. The SEIF, funded by revenue from the auction of carbon dioxide allowances as part of Maryland's involvement in the 10-state cooperative Regional Greenhouse Gas Initiative (RGGI), is one source of funding which MEA is using to help reach the EmPower Maryland initiative goals. **Exhibit 1** shows the progress toward meeting the EmPower Maryland goals. This progress is reflected in new measures included in MEA's fiscal 2010 allowance as follows:

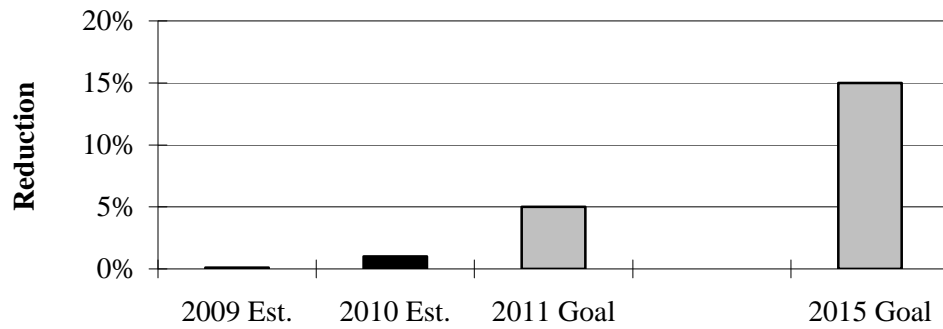
- **Percent Reduction in Statewide Per-capita Peak Demand (Calendar 2007 Baseline of 14,387 Megawatts)** – the goals of 5, 10, and 15% reductions in per-capita peak demand in fiscal 2011, 2013, and 2015, respectively, appear to be ambitious relative to the fiscal 2009 and 2010 estimates;
- **Percent Reduction in Statewide Per-capita Energy Consumption (Calendar 2007 Baseline of 69,300,000 Megawatt Hours)** – the goal of 5 and 15% reductions in per capita energy consumption in fiscal 2011 and 2015, respectively, also appear to be ambitious; and
- **Reduction of Greenhouse Gases Emitted** – the measure reflects an increase in the amount of greenhouse gas (carbon dioxide) emissions reduced; however, there is no goal presented to which the measure can be compared, such as the Maryland Commission on Climate Change's goal of 25 to 50% reduction by 2020 from a 2006 base year; although, the Greenhouse Gas Emissions Reduction Act of 2009 reflects a possible goal of a 25% reduction from a 2006 base year by 2020.

The Department of Legislative Services (DLS) recommends that MEA comment on the likelihood of meeting the 2011 per-capita peak demand and energy consumption reduction goals and what standard MEA will use to measure greenhouse gas emission reductions progress.

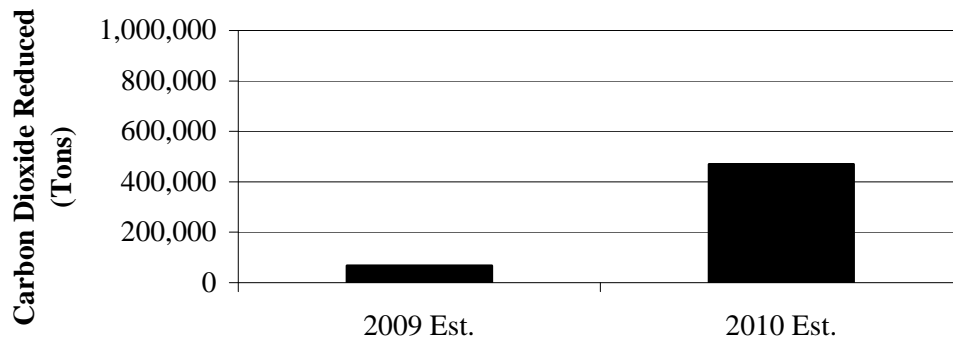
**Exhibit 1
Reduction in Statewide Per-capita Peak Demand
Fiscal 2009-2015**



**Reduction in Per-capita Energy Consumption
Fiscal 2009-2015**



**Reduction of Greenhouse Gases Emitted
Fiscal 2009-2010**



Source: Governor's Budget Books, Fiscal 2010

Fiscal 2009 Actions

Impact of Cost Containment

The net impact of the June 25, 2008, and October 15, 2008, Board of Public Works (BPW) actions is a reduction of \$341,343 in general funds, \$1,739 in special funds, and \$4,653 in federal funds. A summary of the reductions follows:

- replacement of general funds with RGGI funding – \$313,145;
- Other Post Employment Benefits (OPEB) prefunding – \$18,347; and
- statewide employee health insurance balances – \$16,243.

Proposed Budget

MEA’s fiscal 2010 allowance increases by \$69.0 million, or 1,644%, relative to the fiscal 2009 working appropriation as shown in **Exhibit 2**. The changes by fund are a decrease of \$1.0 million in general funds, reflecting a complete shift to non-general fund revenues; an increase of \$70.1 million in special funds from the SEIF allocation from the revenue received from the auction of carbon dioxide allowances; a decrease of \$0.1 million in federal funds; and an increase of \$2,000 in reimbursable funds. There is one item reduced contingent upon the enactment of the Governor’s Budget Reconciliation and Financing Act (BRFA) of 2009. The main categories of spending are personnel and other changes. Under other changes, funding is budgeted for contractual services and grants from the allocation of SEIF funding and for other operating expenses.

Exhibit 2
Proposed Budget
Maryland Energy Administration
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2009 Working Appropriation	\$1,008	\$1,791	\$1,277	\$122	\$4,198
2010 Allowance	<u>0</u>	<u>71,935</u>	<u>1,171</u>	<u>124</u>	<u>73,229</u>
Amount Change	-\$1,008	\$70,139	-\$108	\$2	\$69,025
Percent Change	-100.0%	3,916.0%	-8.5%	1.3%	1,644.4%

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Where It Goes:

Personnel Expenses

Salaries for five positions transferred mid-year and increments	\$611
New positions (3).....	167
Reclassification to pay three new and five transferred positions above base salary.....	118
Retirement contribution	72
Other fringe benefit adjustments	63
Employee and retiree health insurance pay-as-you-go costs	59
Other Post Employment Benefits' unfunded liability	-28
Deferred compensation contingent reduction	-7

Other Changes

Contractual Services Funding for Energy Efficiency from the Strategic Energy Investment Fund (SEIF)

Home energy efficiency retrofits	\$14,561
Multi-family buildings.....	3,000
Measurement and verification	3,000
Industrial and commercial energy assessments	3,000
Energy education	2,000
Renewable energy capital cost reduction.....	1,400
Energy workforce training.....	1,000
Farm audits	750
Program funded from Energy Overcharge Restitution Fund revenues.....	-679

Grants, Subsidies, and Contributions Funding for Energy Efficiency from SEIF

Rate relief distributed as determined by the Public Service Commission	\$24,732
Community grants	10,200
Renewable energy grants	4,408
Alternative fuel grants	1,000
Change in the Solar/Geothermal Energy Grant Program budgeting	-591

Operations

Other adjustments	\$113
Rent increase.....	76

Total **\$69,025**

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

Personnel

Overall, personnel expenses increase \$1.1 million in the fiscal 2010 allowance relative to fiscal 2009. One of the decreases is the deletion of the \$27,659 to reduce OPEB's unfunded liability. Increases in personnel expenses are as follows:

- **Salaries for Five Positions Transferred Mid-year and Increments** – the fiscal 2010 allowance reflects underbudgeted salary funding for five positions that were transferred from the State Department of Assessments and Taxation to MEA and increments;
- **New Positions** – three new positions are included in the fiscal 2010 allowance in order to aid in the administration of the SEIF and to implement the EmPower Maryland initiative;
- **Reclassification to Pay Three New and Five Transferred Positions Above Base Salary** – there is \$117,766 included in the allowance to pay positions at the mid-range of the salary structure; and
- **Retirement Contribution, Other Fringe Benefit Adjustments, and Employee and Retiree Health Insurance** – \$193,793 is included in the fiscal 2010 allowance.

Contractual Services Funding for Energy Efficiency from the SEIF

The SEIF was created by Chapters 127 and 128 of 2008 in order to receive the revenue from the auction of carbon dioxide allowances as part of Maryland's involvement in the 10-state cooperative RGGI. The fiscal 2010 allowance includes \$106.3 million. Of this amount, \$71.4 million is included in MEA's budget. Of the \$71.4 million, \$28.0 million in SEIF funding is for contractual services as follows:

- **Residential Retrofits** – \$14.6 million is included for MEA's signature program which involves working with contractors on audits and installation of energy efficiency retrofits in low/moderate income residences and non-low/moderate income residences;
- **Multi-family Buildings** – \$3.0 million for grants to low/moderate income multi-family residences in order to share the cost of energy audits and installation of energy efficiency measures;
- **Measurement and Verification** – \$3.0 million to measure energy savings in both the low/moderate-income and non-low/moderate-income components of the energy efficiency program;
- **Industrial and Commercial Energy Assessments** – \$3.0 million for cost-sharing energy assessments with industrial facilities that are not offered energy assessments as part of utility demand response programs;

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- **Energy Education** – \$2.0 million for public outreach to include paid advertising, printed materials, MEA’s web site, and community outreach activities that inform consumers about how to reduce their energy costs and meet their energy needs;
- **Renewable Energy Capital Cost Reduction** – \$1.4 million for reducing start-up costs for large-scale renewable energy generators and for home energy mortgages paid for by an addition to the homeowner’s property tax;
- **Energy Workforce Training** – \$1.0 million for MEA to train companies that work in the clean energy industry on how to properly sell, install, operate, and value clean energy products and services;
- **Farm Audits** – \$750,000 for technical assistance or rebates on energy efficient farm equipment and for energy assessments cost-shared with farmers that is then reimbursed if assessment recommendations are implemented; and
- **Reduced EORF Expenditures** – a \$679,000 reduction due to the EORF monies being expended and the Fund drawing close to a zero balance.

Grants, Subsidies, and Contributions Funding for Energy Efficiency from SEIF

The operating budget also includes approximately \$39.8 million for SEIF funded grants as follows:

- **Rate Relief Distributed as Determined by the Public Service Commission** – \$24.7 million for the statutory allocation of 23% of the SEIF funding to rate relief that the Public Service Commission has yet to determine how it will be disbursed by MEA;
- **Community Grants** – \$10.2 million for grants for local governments and non-profits to identify specific energy efficiency needs in their communities;
- **Renewable Energy Grants** – \$4.4 million for renewable energy grants to be distributed to residences, small businesses, local governments and nonprofits to expand the existing Solar/Geothermal Grant Program for installation of solar, wind, and geothermal production capacity;
- **Alternative Fuel Grants** – \$1.0 million for competitive grants targeted to local governments, businesses, and nonprofits for projects that reduce greenhouse gas emissions and displace petroleum and fossil fuel use; and

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- **Change in the Solar/Geothermal Energy Grant Program Budgeting** – the \$591,000 reduction reflects the budgeting of the Solar/Geothermal Energy Grant Program under the new renewable energy grants program.

Operations

The fiscal 2010 allowance includes approximately \$113,000 for other operating budget adjustments and \$76,000 for an increase in rent at MEA’s Annapolis headquarters.

Impact of Cost Containment

The one cost containment action in MEA’s fiscal 2010 allowance is a contingent reduction for deletion of the deferred compensation match, which reduces MEA’s appropriation by \$7,060.

Issues

1. MEA Challenged by Unprecedented Funding Levels

The fiscal 2010 allowance includes substantial increases in funding for MEA from the SEIF and federal stimulus funding as part of the American Recovery and Reinvestment Act (ARRA) of 2009. MEA's ability to disburse this funding in a timely fashion will be challenged.

Strategic Energy Investment Fund

Chapters 23 and 301 of 2006 (Healthy Air Act of 2006) required the Governor to include the State in RGGI, a coalition created to design a regional cap-and-trade program to reduce emissions of greenhouse gases from certain power plants in the region. The centerpiece of RGGI is the Carbon Dioxide Budget Trading Program, which will result in a 2018 annual power plant emissions budget that is 10% smaller than the initial 2009 annual emissions budget.

Chapters 127 and 128 of 2008 (RGGI – Maryland Strategic Energy Investment Program) established SEIF within MEA to receive the RGGI auction proceeds and created the Maryland Strategic Energy Investment Program. Pursuant to the Acts, the fund must be distributed as follows:

- at least 46.0% for energy efficiency, conservation, and demand response programs (of which at least one-half must target the low-income residential sector with no cost to participants and the moderate-income residential sector);
- 23.0% to provide rate relief to residential customers;
- 17.0% transferred to the Department of Human Resources (DHR) for electricity assistance programs;
- up to 10.5% for renewable and clean energy programs and initiatives, energy-related public education and outreach, and climate change programs; and
- up to 3.5% (but not more than \$4.0 million) for MEA administration.

A fiscal 2009 budget amendment brought appropriated monies from the first and second RGGI auctions held on September 25, 2008, and December 17, 2008. While the actual revenue was \$34.4 million, a budget amendment for only \$26.4 million was processed due to the timing of the budget amendment and the uncertainty about the revenue from the second auction. The allocation of SEIF funding in the budget amendment is shown in **Exhibit 3**.

Exhibit 3
Individual Agency Fiscal 2009 Budget Amendment Allocation
September 25, 2008 and December 17, 2008 Auction Revenues

<u>Agency</u>	<u>Allocation</u>	<u>Description</u>
Maryland Energy Administration	\$22,843,281	Energy efficiency programs (\$12,073,183); residential rate relief distributed as determined by the Public Service Commission (\$7,529,540); renewable and clean energy programs (\$2,420,000); administration costs including five new positions and contractual services (\$820,558)
Department of Housing and Community Development (DHCD)	2,500,000	Assisted Home Performance Program funding for energy efficiency measures in low/moderate-income homes and a contractual position (\$1,500,000); and house envelope improvements to enable DHCD Weatherization Assistance Program eligibility (\$1,000,000)
Maryland Department of the Environment	1,000,000	Climate change related contractual services (457,525); grant agreements (275,475); funding for four positions (\$255,000); and travel (\$12,000)
Department of General Services	100,000	One-time salary fund swap for two capital maintenance engineers in accordance with cost containment actions taken by the Board of Public Works in October 2008
Total	\$26,443,281	

Note: Maryland Energy Administration's allocation includes pay-as-you-go capital funding for the Jane E. Lawton Loan Program (\$2.3 million) and the State Agency Loan Program (\$0.8 million).

Source: Department of Legislative Services

Federal Stimulus Funding

MEA's base federal funding is \$1.1 million in the fiscal 2010 allowance for the State Energy Program grant that provides salaries and operations funding for MEA as the State energy office. In addition, MEA anticipates receiving federal stimulus funding as part of the ARRA of 2009, which was signed into law on February 17, 2009. The funding will not require the usual 20% match and will come in two forms as follows:

- **State Energy Program** – \$57.5 million from the U.S. Department of Energy for grants to deploy new renewable energy and energy efficiency technologies as Maryland's share of the \$3.1 billion that will provide funding for shovel-ready projects within 18 months of the Act (with only four months left in fiscal 2009, most of the spending will probably be in fiscal 2010 and the remainder in fiscal 2011); and

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- **Energy Efficiency and Conservation Block Grants** – a second source of funding will be partially administered by MEA but will not actually flow through MEA’s budget in that most of the funding will go to large counties and municipalities. MEA will administer funding for counties with populations less than 200,000; and for municipalities with populations less than 35,000, and MEA will receive a portion of the funding (anticipated to be approximately \$9.0 million) for administration purposes.

Exhibit 4 shows MEA’s proposed federal stimulus spending plan. MEA’s plan for the funding is to incorporate a certain amount of the funding into loans, which will then flow back into MEA’s budget through loan repayments over time, allowing for further energy efficiency funding.

Several stipulations are placed on the additional federal funding for the State Energy Program as follows:

- **Rate Decoupling** – the State should seek to implement financial incentives that encourage utilities to help customers use energy more efficiently; and
- **Building Codes** – the State will implement building energy codes for (1) residential buildings that meet or exceed the most recently published International Energy Conservation Code, (2) commercial buildings that meet or exceed the American National Standards Institute/American Society of Heating, Refrigerating, and Air-Conditioning Engineers/Illuminating Engineering Society of North America Standard 90.1-2007, and implement a plan for jurisdictions to achieve 90% compliance with the building energy codes for residential and commercial buildings within eight years of the enactment of the ARRA of 2009.

Exhibit 4
Maryland Energy Administration’s Proposed Federal Stimulus Spending Plan
Fiscal 2009-2011
(\$ in Millions)

<u>Category of Funding</u>	<u>Program</u>	<u>Description</u>	<u>Amount</u>
Energy Efficiency	Multi-Family Housing Retrofits for Low/Moderate Income	Conduct energy efficiency retrofits in 2,500 apartments with energy savings of 15 to 25% per unit; create jobs.	\$10.0
	State Agency Loan Program	Expand existing Maryland Energy Administration’s pay-as-you-go program.	10.0
	Residential/Small Commercial Revolving Energy Efficiency Loans	Loan \$10,000 for 800 families or businesses to conduct energy efficiency upgrades.	8.0
	Commercial/Industrial Loans	Loan commercial and industrial customers money to conduct energy efficiency upgrades; wastewater treatment plant and agricultural operations are eligible.	5.0
	Alternative Transportation Fuel and Infrastructure Grants	Expand existing MEA program to promote bio-fuels, electric hybrids, and infrastructure projects.	3.0
	Training and Technical Assistance	Work with Maryland’s Clean Energy Center to train green businesses on energy efficiency and renewable initiatives; conduct job fairs for energy efficiency or renewable energy workers.	1.0
	Subtotal		
Clean Energy	Grants to Attract Manufacturers and Generators to the State	Partner with Department of Business and Economic Development to attract clean energy companies such as thin film solar and wind turbine manufacturers.	9.0
	Residential Renewable Energy Grants	Fund the Solar/Geothermal Grant Program backlog of 335 households (\$2.0 million); fund 800 additional households (\$4.0 million).	6.0
	Revolving Loans for Residential and Commercial Customers	Loan \$20,000 for 50 families or businesses to finance renewable energy systems by reducing the upfront investment.	5.0
Subtotal			\$20.0
Grand Total			\$57.0

Note: The Maryland Energy Administration only planned for \$57.0 million in federal stimulus funding; although the amount estimated by the Department of Legislative Services is \$57.5 million.

Source: Maryland Energy Administration

Budget Reconciliation and Financing Act of 2009

The BRFA of 2009 proposes to adjust the existing allocation of the SEIF. It would increase the allocation for DHR to be used for the Electric Universal Service Program and other electricity assistance programs in DHR from 17% to up to 50%. The percentage requirements/limits applicable to distribution of funds for other purposes are correspondingly adjusted downward.

In addition, the BRFA effectuates a \$35.6 million general fund contingent reduction in the fiscal 2010 allowance. Authorization is given in the proposed budget to process a special fund budget amendment of up to \$35.6 million to use the SEIF funding to replace the general fund amount. An equivalent general fund reduction of \$35.6 million is assumed for fiscal 2011; however, a change in funding needs of the DHR programs, or a change in available RGGI funding may affect the fiscal 2011 reduction. **Exhibit 5** shows the SEIF statutory, allowance, and BRFA allocations. In addition, the federal stimulus funding is added to the BRFA to portray a possible fiscal 2010 funding scenario.

Exhibit 5
Budget Reconciliation and Financing Act of 2009 and Federal Stimulus Funding
Fiscal 2010

	<u>Statute Percent</u>	<u>Statutory Allocation</u>	<u>Allowance Percent</u>	<u>Allowance Allocation</u>	<u>BRFA Percent</u>	<u>BRFA Allocation</u>	<u>Federal Stimulus</u>	<u>BRFA Plus Federal Stimulus Total</u>	<u>BRFA Plus Federal Stimulus Percent</u>
DHR – Bill Assistance	17.00%	\$18,070,429	16.97%	\$18,043,000	50.00%	\$53,148,320	\$0	\$53,148,320	32.55%
PSC – Rate Relief	23.00%	24,448,227	23.27%	24,731,603	23.00%	24,448,227	0	24,448,227	14.97%
MEA/DHCD – Low/Moderate Income Energy Efficiency	23.00%	24,448,227	23.29%	24,761,142	8.75%	9,300,956	10,000,000	19,300,956	11.82%
MEA/DGS – Non- Low/Moderate Income Energy Efficiency	23.00%	24,448,227	23.58%	25,062,823	8.75%	9,300,956	27,000,000	36,300,956	22.23%
MDE/MEA – Renewable and Clean Energy	10.50%	11,161,147	10.64%	11,307,900	6.50%	6,909,282	20,000,000	26,909,282	16.48%
MEA – Administration	3.50%	3,720,382	2.25%	2,390,172	3.00%	3,188,899	0	3,188,899	1.95%
Total	100.00%	\$106,296,640	100.00%	\$106,296,640	100.00%	\$106,296,640	\$57,000,000	\$163,296,640	100.00%

BRFA: Budget Reconciliation and Financing Act
DGS: Department of General Services
DHCD: Department of Housing and Community Development
DHR: Department of Human Resources
MDE: Maryland Department of the Environment
MEA: Maryland Energy Administration
PSC: Public Service Commission

Note: MEA has only planned for \$57.0 million in federal stimulus funding, although the amount estimated by the Department of Legislative Services is \$57.5 million.

Source: Maryland Energy Administration; Department of Legislative Services

Is MEA Ready?

In order to handle the potential \$163.3 million additional funding, it would appear that MEA will need a goal-driven plan for how the funding would be spent, a set of fully determined programs to meet the goal, and a staff prepared to handle the many tasks associated with such a large, complex, and time-sensitive mission. However, the State comprehensive energy plan that MEA is developing has not been completed; MEA appears to be still developing the programs planned for implementation; and a seasoned procurement officer has yet to be hired.

The request for proposals for a State comprehensive energy plan was issued on August 29, 2008. The selection of the company Energetics to do the work was effective as of February 25, 2009, and the financial and technical proposals required in the request for proposals are due no later than June 30, 2009. While it is likely that there will be communication between MEA and the contractor, it is also likely that MEA will have set the program mix for fiscal 2010 spending of the SEIF and federal stimulus funding before the final report is published.

The federal stimulus spending plan involves a number of new loan programs. The reasoning behind the loan programs is sound in terms of the State retaining funding for future work; however, the loan programs likely will require additional resources to manage and will add to the complexity of expending the federal stimulus funding within the 18-month period. In addition, it is not clear whether these loan programs would become a permanent part of MEA's portfolio of programs. If not, then it may not be beneficial to create the loan programs in the first place.

MEA is concerned about the short turn-around period and the consequent premium on rapid procurement for contracts. In order to handle this procurement need, MEA has reprogrammed an existing position for procurement. However, this was necessary because MEA was unable to hire a dedicated procurement officer even though it continues to solicit one. While this procurement position will work closely with the Department of Budget and Management's procurement office, it is of concern that MEA will be potentially engaging in an historic amount of contracting work without a seasoned in-house procurement officer.

DLS recommends that MEA comment on the level of need for all of the proposed programs relative to the increased funding levels for fiscal 2010 and beyond; and on the administrative and programmatic capacity for handling the additional SEIF funding and the federal stimulus funding within the 18-month time period.

In addition, DLS recommends that (1) the SEIF allocation in the BRFA of 2009 be amended to increase the funding for Department of Human Resources bill assistance by \$21.0 million, and to allow for \$4.4 million in energy performance contract funding and \$0.4 million in Department of General Services' salaries; (2) authorization be provided for the \$21.0 million to be supplanted by a special fund budget amendment; (3) authorization be provided to bring in the federal State Energy Program funding through the ARRA of 2009 to replace the SEIF allocation for energy efficiency and renewable energy programs and projects; and (4) MEA and the other agencies that may receive either SEIF funding, federal stimulus funding, or both should report on how this funding will meet the State's energy goals. The

proposed committee narrative is included as a recommendation. The new SEIF allocation would be as follows:

- **DHR bill assistance – increase from “up to 50.0%” to “up to 69.76%”;**
- **PSC rate relief – retain the 23.0% allocation;**
- **MEA/Department of Housing and Community Development/Department of General Services energy efficiency programs – reduce the allocation from “at least 17.5%” to 4.53%;**
- **MEA/Maryland Department of the Environment renewable and clean energy programs – reduce the allocation from “at least 6.5%” to 0.0%; and**
- **MEA Administration – decrease the allocation from 3.0% to 2.71%.**

Recommended Actions

1. Adopt the following narrative:

Impact of Fiscal 2010 Bill Assistance, Rate Relief, Energy Efficiency and Renewable Energy Program Spending: The budget committees are concerned that a substantial amount of new funding from the Strategic Energy Investment Fund and federal stimulus funding has become available for bill assistance, rate relief, energy efficiency, and renewable energy programs in fiscal 2010. Yet, there is no overall plan for how this funding will be used to meet the State’s various energy goals as follows:

- per-capita peak demand reduction;
- per-capita energy consumption reduction;
- State agency energy consumption reduction;
- greenhouse gas reduction; and
- the renewable portfolio standard.

Therefore, the budget committees request that the Maryland Energy Administration coordinate with the Department of Human Resources (DHR), Public Service Commission (PSC), Department of Housing and Community Development (DHCD), Maryland Department of the Environment (MDE), and Department of General Services (DGS) on a report outlining how the fiscal 2010 funding will be used to meet each of the afore-mentioned goals and how the funding will be aligned with the State comprehensive energy plan proposed to be completed by June 30, 2009.

Information Request	Authors	Due Date
Report on impact of fiscal 2010 bill assistance, rate relief, energy efficiency, and renewable energy program spending	MEA, DHR, PSC, DHCD, MDE, and DGS	September 1, 2009

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 2008					
Legislative Appropriation	\$1,146	\$1,610	\$1,135	\$109	\$4,000
Deficiency Appropriation	0	1,000	0	0	1,000
Budget Amendments	16	5	0	90	111
Cost Containment	0	0	0	0	0
Reversions and Cancellations	-1	-219	-237	-90	-547
Actual Expenditures	\$1,161	\$2,396	\$898	\$109	\$4,564
Fiscal 2009					
Legislative Appropriation	\$1,340	\$1,419	\$1,281	\$122	\$4,162
Cost Containment	-341	-1	-5	0	-347
Budget Amendments	9	374	0	0	383
Working Appropriation	\$1,008	\$1,792	\$1,276	\$122	\$4,198

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

Fiscal 2008

MEA's general fund appropriation increased by \$0.02 million. The changes are as follows:

- budget amendments – an increase of \$10,038 for allocation of estimated fiscal 2008 health insurance expenditures and \$6,116 for allocation of the cost-of-living adjustment (COLA) general fund appropriation as authorized in the fiscal 2008 budget bill; and
- reversions and cancellations – a decrease of \$939 due to unspent funding.

MEA's special fund appropriation increased by a net of \$0.8 million. The changes are as follows:

- deficiency appropriation – an increase of \$1.0 million for a number of energy efficiency programs in support of the Governor's EmPower Maryland initiative;
- budget amendments – an increase of \$5,237 for allocating the COLA special fund appropriation as authorized in the fiscal 2008 budget bill; and
- reversions and cancellations – a decrease of \$218,786 due to the unspent amount of the EORF appropriation.

MEA's federal fund appropriation decreased by \$236,574 due to unspent federal funds that were not encumbered.

MEA's reimbursable fund appropriation remained the same. A budget amendment that increased the appropriation by \$89,867 was cancelled. The budget amendment provided additional appropriation from the Department of Natural Resources in order to fund two positions for the remainder of fiscal 2008 to do energy efficiency work and planning for the newly developed EmPower Maryland initiative.

Fiscal 2009

The general fund appropriation decreases by a net of \$0.3 million. The changes are as follows:

- cost containment – a decrease of \$341,343 due to reductions that replaced general fund administrative expenses with special funds obtained from the RGGI sale of carbon dioxide allowances as part of BPW actions on October 15, 2008, (\$313,145); fringe benefit appropriations being reduced as OPEB prefunding ceased (\$18,347) and statewide employee health insurance balances were used in lieu of budgeted funds (\$9,851), also at the October 15, 2008, BPW meeting; and

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- budget amendments – an increase of \$9,107 for allocation of the COLA general fund appropriation as authorized in the fiscal 2009 budget bill.

The special fund appropriation increases by a net of \$0.4 million. The changes are as follows:

- cost containment – a decrease of \$1,739 for cost containment actions relating to use of health insurance balances as part of BPW actions on June 25, 2008; and
- budget amendments – an increase of \$373,765 for reviewing and analyzing energy efficiency plans and programs submitted to electric utilities using the EORF monies, procurement of a consultant to perform technical analyses for the development of a State comprehensive energy plan using the Environmental Trust Fund monies (\$368,591), and allocation of the COLA special fund appropriation as authorized in the fiscal 2009 budget bill (\$5,174).

The federal fund appropriation decreases by \$4,653 for cost containment actions relating to use of health insurance balances as part of BPW actions on June 25, 2008.

The reimbursable fund appropriation remains unchanged from the legislative appropriation.

Audit Findings

Audit Period for Last Audit:	March, 2, 2005 – November 4, 2007
Issue Date:	August 2008
Number of Findings:	3
Number of Repeat Findings:	1
% of Repeat Findings:	33%
Rating: (if applicable)	

Finding 1: Inadequate collection process and expenditure monitoring for the Community Energy Loan Program (now the Jane E. Lawton Conservation Loan Program).

Finding 2: **Funds improperly transferred from the Community Energy Loan Program (now the Jane E. Lawton Conservation Loan Program) to the State Agency Loan Program have not been returned.**

Finding 3: Funds from the Environmental Trust Fund were accumulated and retained.

*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	18.00	25.00	28.00	3.00	12.0%
Total Positions	18.00	25.00	28.00	3.00	12.0%
Objects					
01 Salaries and Wages	\$ 1,452,776	\$ 1,479,219	\$ 2,541,377	\$ 1,062,158	71.8%
02 Technical and Spec. Fees	7,467	0	0	0	0.0%
03 Communication	28,546	19,478	38,997	19,519	100.2%
04 Travel	36,917	26,546	62,846	36,300	136.7%
06 Fuel and Utilities	9,829	14,977	11,795	-3,182	-21.2%
07 Motor Vehicles	-604	6,778	2,990	-3,788	-55.9%
08 Contractual Services	2,057,003	1,812,735	29,851,720	28,038,985	1546.8%
09 Supplies and Materials	217,972	9,667	19,400	9,733	100.7%
10 Equipment – Replacement	2,479	7,988	20,901	12,913	161.7%
11 Equipment – Additional	6,722	13,687	28,308	14,621	106.8%
12 Grants, Subsidies, and Contributions	606,761	661,239	40,430,054	39,768,815	6014.3%
13 Fixed Charges	138,771	145,266	220,784	75,518	52.0%
Total Objects	\$ 4,564,639	\$ 4,197,580	\$ 73,229,172	\$ 69,031,592	1644.6%
Funds					
01 General Fund	\$ 1,160,862	\$ 1,007,943	\$ 0	-\$ 1,007,943	-100.0%
03 Special Fund	2,396,710	1,791,078	71,934,518	70,143,440	3916.3%
05 Federal Fund	898,225	1,276,677	1,171,152	-105,525	-8.3%
09 Reimbursable Fund	108,842	121,882	123,502	1,620	1.3%
Total Funds	\$ 4,564,639	\$ 4,197,580	\$ 73,229,172	\$ 69,031,592	1644.6%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.