

**D13A1302**  
**Maryland Energy Administration – PAYGO**

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

---

(\$ in Thousands)

	<i><b>FY 2006 Approp.</b></i>	<i><b>FY 2007 Approp.</b></i>	<i><b>FY 2008 Allowance</b></i>	<i><b>Percent Change</b></i>	<i><b>DLS Recommd.</b></i>
State Agency Loan Program	\$1,000	\$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	500	500	0.0%	0
<b>Total</b>	<b>\$2,500</b>	<b>\$3,000</b>	<b>\$3,000</b>	<b>0.0%</b>	<b>\$2,500</b>

<b>Fund Source</b>					
Special	\$2,500	\$3,000	\$3,000	0.0%	\$2,500
<b>Total</b>	<b>\$2,500</b>	<b>\$3,000</b>	<b>\$3,000</b>	<b>0.0%</b>	<b>\$2,500</b>

***Summary of Issues***

---

***Fund Balances Do Not Necessarily Translate to Larger Appropriations:*** Fund balances for the Community Energy Loan Program (CELP) and State Agency Loan Program (SALP) would seem to indicate that the Maryland Energy Administration (MEA) could increase loan disbursements under these two programs. MEA advises that this is not necessarily the case for CELP and SALP because of the effect of the fiscal 2005 appropriation change on CELP loan repayment, the longer loan repayment period for SALP, and the depletion of both CELP's and SALP's recapitalization source, the Energy Overcharge Restitution Fund. **The Department of Legislative Services (DLS) recommends that MEA provide more information about appropriate fund balances for CELP and SALP and to what loan activity level this would translate.**

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

For further information contact: Andrew D. Gray

Phone: (410) 946-5530

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

---

	<b><u>Funds</u></b>
1. Delete funds for the Energy Efficiency and Economic Development Loan Program.	\$ 500,000
<b>Total Reductions</b>	<b>\$ 500,000</b>

## ***Overview***

---

The Maryland Energy Administration (MEA) currently administers three revolving loan programs:

- 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 2008 PAYGO budget allowance is level-funded at \$3.0 million in special funds. 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, 2006, the EORF balance was \$7.4 million. However, if prior fiscal year encumbrances, MEA fiscal 2007 operating amounts, and funds made available to the Department of Housing and Community Development and the Department of Human Resources for weatherization assistance are taken into account, the available balance for future expenditures is only \$3.2 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 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. EEEDLP projects must be paid back within 10 years, and it is expected that this repayment will be covered by the energy cost savings that are realized.

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 must conduct 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. Fund Balances Do Not Necessarily Translate to More Loan Activity**

Estimated fiscal 2008 fund balances for the Community Energy Loan Program (\$1.1 million) and State Agency Loan Program (\$1.6 million) would seem to indicate that the Maryland Energy Administration could increase loan disbursements under these two programs. MEA advises that this is not necessarily the case for CELP and SALP because of the following reasons:

- **CELP** – an increase in the appropriation in fiscal 2005 from \$1.0 million to \$1.5 million affects future loan repayment rates and thus the support that a fund balance provides is important;
- **SALP** – longer payback and resulting diminished annual repayments characterizes SALP loan repayments. In addition SALP is used in conjunction with Energy Performance Contracting which also lengthens the loan repayment period; and
- **CELP and SALP** – both are reliant on recapitalization from the Energy Overcharge Restitution Fund which will be depleted in the next couple of years.

**DLS recommends that MEA provide more information about appropriate fund balances for CELP and SALP.**

## ***State Agency Loan Program (Statewide)***

---

PAYGO SF

\$1,000,000

**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 1996 with \$3.3 million from the Energy Overcharge Restitution Fund.

As of August 2006, SALP had dedicated over \$15.6 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 \$2.7 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.

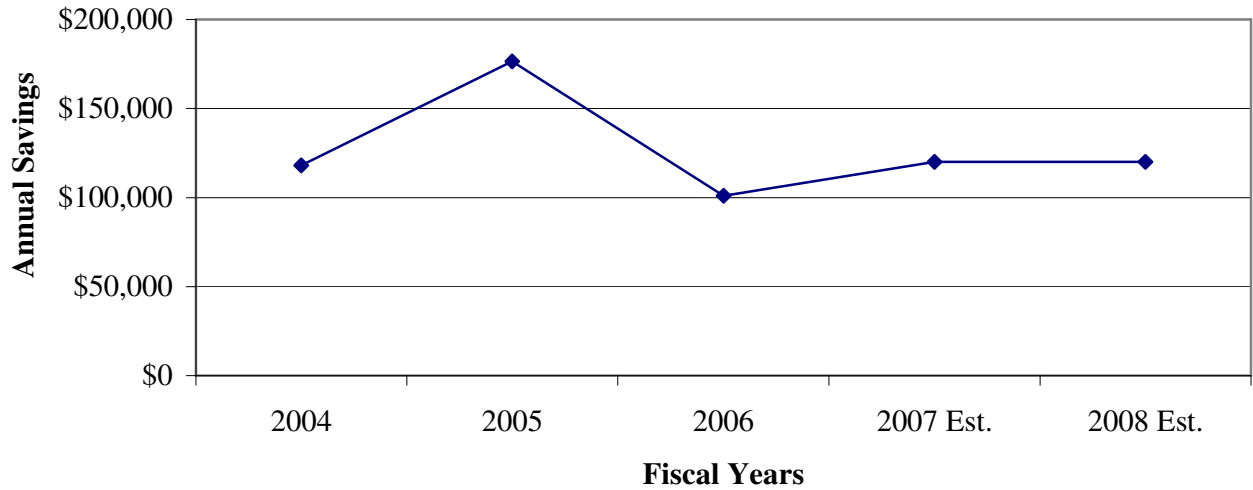
SALP helps State agencies meet the legislatively mandated goal of reducing energy consumption in buildings from the level in 2005, by 5% in 2009 and 10% in 2010. The funds are also used to supplement and encourage the use of Energy Performance Contracts (EPC).

**Program Performance Analysis:** Due to SALP, the estimated savings in State energy costs for the projects approved that year amount to over \$100,000 annually, as shown in **Exhibit 1**. However, SALP savings decreased in fiscal 2006 relative to fiscal 2005, and are expected to remain level between fiscal 2007 and 2008.

**Comments:** The \$1.0 million fiscal 2008 allowance for SALP is level with what was provided in fiscal 2007. MEA has requested less SALP funding in recent years because it anticipates that more State agencies will take advantage of 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 not seen any impact from Chapter 427 of 2006. **MEA should be prepared to discuss how SALP is facilitating agency use of energy performance contracts, especially since it is likely that agencies with small project proposals may also be candidates for larger EPCs.**

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 \$310,119 in fiscal 2005. **The Department of Legislative Services recommends that MEA comment on why it has experienced such a high volume of encumbrance cancellations in recent years.**

**Exhibit 1**  
**Annual Savings from SALP Projects**



Source: Governor's Budget Books, Fiscal 2007-2008

---

## ***State Agency Loan Program Fund Data***

### **Fund History**

	<i><b>FY 2006 Actual</b></i>	<i><b>FY 2007 Estimated</b></i>	<i><b>FY 2008 Estimated</b></i>
Beginning Balance	\$1,933,262	\$1,650,268	\$1,889,866
<b>REVENUE</b>			
General Funds	0	0	0
Loan Repayments	642,316	535,460	632,572
Investment Interest	101,385	107,079	116,795
Transfer from Other Funds	0	0	0
Cancellation of Encumbrances	0	627,059	0
<b>TOTAL REVENUE</b>	<b>743,701</b>	<b>1,269,598</b>	<b>749,367</b>
<b>TOTAL AVAILABLE</b>	<b>\$2,676,963</b>	<b>\$2,919,866</b>	<b>\$2,639,233</b>
<b>ENCUMBRANCES</b>			
Loans	1,000,000	1,000,000	1,000,000
Operating Expenses	26,695	30,000	30,000
<b>TOTAL ENCUMBRANCES</b>	<b>\$1,026,695</b>	<b>\$1,030,000</b>	<b>\$1,030,000</b>
<b>Ending Balance</b>	<b>\$1,650,268</b>	<b>\$1,889,866</b>	<b>\$1,609,233</b>

\*Loans encumbered reflects the entire appropriation but does not reflect the amount that has actually been expended.

(\$ in Millions)

<i><b>Description</b></i>	<i><b>2006 Approp.</b></i>	<i><b>2007 Approp.</b></i>	<i><b>2008 Request</b></i>	<i><b>2009 Estimate</b></i>	<i><b>2010 Estimate</b></i>	<i><b>2011 Estimate</b></i>	<i><b>2012 Estimate</b></i>
<b>PAYGO SF</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>	<b>\$1.000</b>

## ***Recommended Actions***

---

1. Concur with Governor's allowance.

### ***Fiscal 2008 Proposed Projects***

---

MEA notes that fiscal 2008 projects are yet to be determined. **DLS recommends that MEA provide information about potential projects.**

### ***Fiscal 2007 Project Status***

---

<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Amount</u></b>	<b><u>Status</u></b>
Military Department Energy Performance Contract	Statewide Armories – Headquarters in Baltimore City	\$406,255	Under construction
Remaining funds		\$593,745	To be determined



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

---

**PAYGO SF**

**\$1,500,000**

**Recommendation: Approve**

**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 January 2006, CELP has loaned \$14.2 million for 53 projects providing for a total estimated savings of \$3.9 million.

**Program Performance Analysis:** MEA's Managing for Results (MFR) plan does not incorporate any CELP performance data. MEA reports 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. In addition, this data appears to be outdated (January 2006 data was provided for CELP) 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 2008 allowance provides \$1.5 million for CELP, level with fiscal 2007.

As shown in the Fund History chart, a \$566,650 cancellation of a fiscal 2003 encumbrance occurred in fiscal 2006. The cancellation was for a loan to Harford Community College that Harford County decided it did not need.

## ***Community Energy Loan Program Fund Data***

---

### **Fund History**

	<i><b>FY 2006 Actual</b></i>	<i><b>FY 2007 Estimated</b></i>	<i><b>FY 2008 Estimated</b></i>
Beginning Balance	\$2,581,524	\$2,483,772	\$1,638,537
<b>REVENUE</b>			
General Funds	0	0	0
Loan Repayments	779,962	586,306	947,570
Investment Interest	97,836	126,809	106,543
Transfer from Other Funds	0	0	0
Closing Fees Collected	4,250		
Cancellation of Encumbrances	566,650		0
<b>TOTAL REVENUE</b>	<b>1,448,698</b>	<b>713,115</b>	<b>1,054,113</b>
<b>TOTAL AVAILABLE</b>	<b>\$4,030,222</b>	<b>\$3,196,887</b>	<b>\$2,692,650</b>
<b>ENCUMBRANCES</b>			
Loans	1,500,000	1,500,000	1,500,000
Operating Expenses	46,450	58,350	61,268
<b>TOTAL ENCUMBRANCES</b>	<b>\$1,546,450</b>	<b>\$1,558,350</b>	<b>\$1,561,268</b>
<b>Ending Balance</b>	<b>\$2,483,772</b>	<b>\$1,638,537</b>	<b>\$1,131,382</b>

\* Loans encumbered reflects the entire appropriation but does not reflect the amount that has actually been expended.

(\$ in Millions)

<i><b>Description</b></i>	<i><b>2006 Approp.</b></i>	<i><b>2007 Approp.</b></i>	<i><b>2008 Request</b></i>	<i><b>2009 Estimate</b></i>	<i><b>2010 Estimate</b></i>	<i><b>2011 Estimate</b></i>	<i><b>2012 Estimate</b></i>
<b>PAYGO SF</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>	<b>\$1.500</b>

## ***Recommended Actions***

---

1. Concur with Governor's allowance.

## ***Fiscal 2008 Proposed Projects***

---

MEA notes that fiscal 2008 projects are yet to be determined. **DLS recommends that MEA provide information about potential projects.**

## ***Fiscal 2007 Project Status***

---

<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Amount</u></b>	<b><u>Status</u></b>
Roland Powell Conference Center lighting and control systems upgrade	Ocean City	\$53,550	In progress

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

---

<b>PAYGO SF</b>	<b>\$500,000</b>	<b>Recommendation:</b>	<b>Reduce funding by \$500,000</b>
-----------------	------------------	------------------------	--

**Program Description:** The Energy Efficiency and Economic Development Loan Program (EEEDLP) 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 commercial and industrial businesses. The program was originally capitalized in fiscal 1995 with \$1.7 million from the Energy Overcharge Restitution Fund. Chapter 183 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 up to 10 years. EEEDLP allows borrowers to use the cost savings generated by the energy efficiency improvements as the primary source of revenue for repaying loans. A special emphasis will be placed on businesses with the following characteristics: produce energy efficient products, are part of the renewable energy industry, and help the State promote energy conservation through their products. Repayments on EEEDLP loans may be deferred for a period to be negotiated for each loan. Following the deferral, repayments are made in semi-annual installments for the term of the loan.

**Program Performance Analysis:** A performance measure has not been reported for EEEDLP. **The Department of Legislative Services recommends that a performance measure be created for EEEDLP.**

**Comments:** The fiscal 2008 allowance provides \$500,000 for EEEDLP and represents the second consecutive year the program has been active after making its only previous loan in 1995.

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

### **Fund History**

	<i><b>FY 2006 Actual</b></i>	<i><b>FY 2007 Estimated</b></i>	<i><b>FY 2008 Estimated</b></i>
Beginning Balance	\$0	\$ 0	\$65,051
<b>REVENUE</b>			
General Funds	0	0	0
Loan Repayments	0	42,857	100,000
Investment Interest	0	22,194	33,849
Transfer from EORF	0	500,000	500,000
Cancellation of Encumbrances	0	0	0
<b>TOTAL REVENUE</b>	<b>0</b>	<b>565,051</b>	<b>633,849</b>
<b>TOTAL AVAILABLE</b>	<b>\$ 0</b>	<b>\$565,051</b>	<b>\$698,900</b>
<b>ENCUMBRANCES</b>			
Loans	0	500,000	500,000
Operating Expenses	0	0	0
<b>TOTAL ENCUMBRANCES</b>	<b>\$ 0</b>	<b>\$500,000</b>	<b>\$500,000</b>
<b>Ending Balance</b>	<b>\$ 0</b>	<b>\$65,051</b>	<b>\$198,900</b>

EORF: Energy Overcharge Restitution Fund

\* Loans encumbered reflects the entire appropriation but does not reflect the amount that has actually been expended.

**(\$ in Millions)**

<i><b>Description</b></i>	<i><b>2006 Approp.</b></i>	<i><b>2007 Approp.</b></i>	<i><b>2008 Request</b></i>	<i><b>2009 Estimate</b></i>	<i><b>2010 Estimate</b></i>	<i><b>2011 Estimate</b></i>	<i><b>2012 Estimate</b></i>
---------------------------	--------------------------------	--------------------------------	--------------------------------	---------------------------------	---------------------------------	---------------------------------	---------------------------------

<b>PAYGO SF</b>	<b>\$0.000</b>	<b>\$0.500</b>	<b>\$0.500</b>	<b>\$0.500</b>	<b>\$0.500</b>	<b>\$0.500</b>	<b>\$0.500</b>
-----------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------

## ***Recommended Actions***

---

	<b><u>Amount Reduction</u></b>
1. Delete funds for the Energy Efficiency and Economic Development Loan Program. The Green Building Tax Credit is available to help Maryland businesses offset the costs of energy efficient building construction. Furthermore, the department cannot substantiate the need for these funds based on a project pipeline. Therefore, the State should focus limited capital resources on promoting energy efficiency within government and community buildings to help reduce growing energy costs. To do this, the agency should consider dedicating these special funds to either the State Agency Loan Program or the Community Energy Loan Program via budget amendment.	\$ 500,000 SF
<b>Total Special Fund Reductions</b>	<b>\$ 500,000</b>

**D13A1302**  
**Maryland Energy Administration – PAYGO**

***Fiscal 2008 Proposed Projects***

---

MEA notes that fiscal 2008 projects are yet to be determined. **DLS recommends that MEA provide information about potential projects.**

***Fiscal 2007 Project Status***

---

<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Amount</u></b>	<b><u>Status</u></b>
The Black Olive Inn (geothermal project)	Baltimore City	\$500,000	In the process of reviewing the security documents in coordination with the Department of Business and Economic Development.



**Fiscal Summary**  
**Maryland Energy Administration – PAYGO**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % 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	1,000,000	1,000,000	1,000,000	0	0%
04 Energy Efficiency and Economic Development Loan Program	0	500,000	500,000	0	0%
<b>Total Expenditures</b>	<b>\$ 2,500,000</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 0</b>	<b>0%</b>
Special Fund	\$ 2,500,000	\$ 3,000,000	\$ 3,000,000	\$ 0	0%
<b>Total Appropriations</b>	<b>\$ 2,500,000</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 0</b>	<b>0%</b>

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.