Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 875 (Senators Klausmeier and Feldman)
Finance Economic Matters

Jane E. Lawton Conservation Loan Program

This bill modifies the Jane E. Lawton Conservation Loan Program by, among other things, (1) repealing provisions relating to renewable energy projects; (2) expanding the definition of "eligible business"; and (3) allowing for the Jane E. Lawton Conservation Fund to be used for credit enhancements of financing offered by a bank or financial institution for a project.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Although the bill may increase spending under the program in any given year, it is not anticipated to have a budgetary impact, as discussed below. Special fund revenues may increase due to (1) collection of additional fees and (2) additional loan repayments in future years resulting from any increased spending.

Local Effect: Local governments continue to be eligible for funding under the program as loan recipients and are not expected to be affected by the bill's changes.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Provisions relating to renewable energy projects, including an authorization for funding to be deposited in a local revolving loan fund used to provide capital for renewable energy projects, are repealed so that the loan program is focused only on energy efficiency projects. The Maryland Energy Administration (MEA) is authorized to use the Jane E. Lawton Conservation Fund to enhance the credit of a financing offered by a bank or other financial institution for a project. A credit enhancement must (1) carry out the purposes of the program in a manner MEA considers appropriate; (2) facilitate financing of at least one project of a local jurisdiction, nonprofit organization, or eligible business; and (3) be offered only to a bank or other financial institution in good standing with the State Department of Assessments and Taxation (SDAT) that is incorporated in the State or registered to do business in the State. MEA may assess a reasonable fee to a participating bank or financial institution and must adopt regulations to carry out the credit enhancement provisions.

The definition of "eligible business," with respect to the program in general, is modified to refer to a commercial enterprise or business that is in good standing with SDAT and to include businesses registered to do business in the State in addition to those incorporated in the State. A requirement that a borrower document that the anticipated energy cost savings over a defined period after the completion of a project are greater than the cost of the project is modified to require that the documentation be in accordance with a methodology acceptable to MEA and based on the savings and costs of the borrower. A requirement that a portion of the money in the fund be annually reserved for loans to nonprofit organizations is clarified to require that the money be reserved for a period determined by MEA of at least 90 days before being made available to other borrowers. The bill also specifies that a project must be located in Maryland.

Current Law/Background: The Jane E. Lawton Conservation Loan Program, administered by MEA, was established under Chapters 466 and 467 of 2008, as a consolidation of two formerly separate programs: the Community Energy Loan Program and the Energy Efficiency and Economic Development Loan Program. Chapter 169 of 2009 amended the Lawton Loan Program to, among other things, make renewable energy projects undertaken by local jurisdictions and nonprofit organizations eligible for loans under the program.

The program is administered by MEA and has the purpose of providing financial assistance in the form of low-interest loans to nonprofit organizations, local jurisdictions, and eligible businesses for (1) improvements or modifications that enhance the energy efficiency and reduce the operating expenses of a structure or (2) installation of infrastructure for renewable energy generation by local jurisdictions and nonprofit organizations. The program is funded through the Jane E. Lawton Conservation Fund.

MEA indicates that the bill primarily (1) makes the Lawton Loan Program statute consistent with the way that MEA currently manages the program; (2) increases the number of businesses that can qualify under the program by making any business registered in the State eligible; and (3) allows for funds to be used for credit enhancements such as loan loss reserves or guarantees, where the funds serve to reduce the risk for a private lender to make loans for energy efficiency projects. It does not appear that provisions repealed under the bill that allow for a loan under the program to be deposited in a local revolving loan fund used to provide capital for renewable energy projects or for excess electricity generated from a local renewable energy project to be offered for trade through markets operated by PJM Interconnection, LLC, have been used to date.

In the 2013 *Joint Chairmen's Report*, noting that in the four years that the Lawton Loan Program had been operational, only 26.3% of funds available to the program had been encumbered/expended, the budget committees requested that MEA report on specified issues relating to underutilization of the program, including barriers to participation. MEA's report, which was submitted in September 2013, noted various organizational and financial barriers that potential applicants face, including the fact that the responsibility lies with the applicant to develop the project in order to apply for financing from MEA.

State Expenditures: Increasing the number of businesses that are eligible for financing under the Lawton Loan Program and authorizing an additional use of the funds (for credit enhancements), in and of itself, does not require an increased appropriation for the program. However, the changes to the program may allow for additional utilization of appropriated funding. As shown in **Exhibit 1**, there was greater utilization of appropriated funds in fiscal 2013, but in other years, significant portions of the appropriations for the program have been unused.

Exhibit 1
Jane E. Lawton Conservation Loan Program
Encumbrances vs. Appropriations
Fiscal 2009-2013
($ in Millions)

	2009	2010	2011	2012	2013	Total
Appropriation	$3.5	$2.8	$2.2	$2.5	$1.8	$15.4
Encumbrance Activity	1.4	0.3	0.8	1.0	1.5	5.1
% Encumbered	40.8%	10.6%	38.2%	41.7%	87.7%	33.2%

Sources: Maryland Energy Administration; Department of Legislative Services; Governor's Budget Books

State Revenues: Any increased utilization of program appropriations results in increased revenues to the fund in future years as a result of loan repayments. Special fund revenues may also increase minimally if the expanded definition of "eligible business" results in additional loan application fees paid. The amount of any revenues from the fee MEA is authorized to assess to a participating bank or financial institution in relation to credit enhancements cannot be reliably estimated at this time.

Small Business Effect: The bill's modification of the definition of "eligible business" to include any business registered in the State may benefit small businesses that become eligible for loans under the program. Small businesses that offer energy efficiency products and services may benefit to the extent the bill's changes result in increased utilization of the program's appropriations and additional projects being undertaken.

Additional Information

Prior Introductions: None.

Cross File: HB 1165 (Delegate Kramer, *et al.*) – Economic Matters.

Information Source(s): Maryland Energy Administration, Governor's Budget Books, Charles and Frederick counties, Department of Legislative Services

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