Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader - Revised

Senate Bill 739 (Senator Feldman)
Finance and Budget and Taxation

Economic Development - Advanced Clean Energy and Clean Energy Innovation Investments and Initiatives

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This bill requires the Maryland Clean Energy Center (MCEC) and the Maryland Energy Innovation Institute (MEII) to implement an accelerator program for Maryland-based technology companies engaged in clean energy innovation. The program must feature seed funding, training, and developmental support for the companies. MCEC and MEII must also coordinate and consult with certain State entities, as specified. MCEC's financing authority is clarified as it relates to State entities. The Strategic Energy Investment Fund (SEIF) must transfer at least $2.1 million annually to the Maryland Energy Innovation Fund (MEIF), which must be apportioned to MEII (at least $0.7 million) and MCEC (at least $1.4 million). Related terms are defined, and an annual reporting requirement is modified to include information related to the bill.

Fiscal Summary

State Effect: Special fund revenues for MEIF increase by at least $2.1 million annually beginning in FY 2021, under the assumptions discussed below. Special fund expenditures for MEIF increase correspondingly as funds are used for required and authorized purposes. Overall special fund expenditures for SEIF are not affected, but diverting funds for MEIF transfers decreases revenues available to be distributed (and then expended) under the established formula for allocating revenues from Regional Greenhouse Gas Initiative (RGGI) proceeds. **This bill establishes a mandated appropriation beginning in FY 2022.**

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Meaningful.

Analysis

Bill Summary: MCEC may enter into financing transactions with, on behalf of, or for the benefit of any State agency for the purposes of a project on State-owned or State-leased property. Financing may be in any form, including bonds, loans, grants, energy performance contracts, shared energy savings contracts, participation agreements, lease agreements, and reimbursement agreements, but may not pledge the faith and credit of the State.

Current Law/Background:

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 established SEIF primarily to contain revenue generated from the sale of carbon dioxide emission allowances under RGGI. The allocation of revenue has been altered several times in budget reconciliation legislation. The current allocation requires (1) at least 50% for energy assistance; (2) at least 20% for energy efficiency and conservation (at least one-half for low- and moderate-income programs); (3) at least 20% for renewable and clean energy, energy related education and outreach, resiliency, and climate change programs; and (4) up to 10%, but no more than $5.0 million for administrative expenses.

Historically, if SEIF funds from RGGI revenues are transferred to other funds instead of allocated to the programs listed above, then that transfer occurs prior to the distribution to the various programs, meaning that all the programs are affected to some extent by the transfer.

Maryland Clean Energy Center and Maryland Energy Innovation Accelerator

MCEC was established by Chapter 137 of 2008 as a body politic and corporate and an instrumentality of the State. The purpose of MCEC is to (1) promote economic development and jobs in the clean energy industry sector; (2) promote the deployment of clean energy technology; (3) serve as an incubator for the development of the clean energy industry; (4) collect, analyze, and disseminate industry data; and (5) provide outreach and technical support to further the clean energy industry. MCEC may make grants or provide equity investment financing to clean energy technology-based businesses and may borrow money and issue bonds consistent with its purpose. MCEC may also:

- acquire, develop, improve, manage, market, license, sublicense, maintain, lease as lessor or lessee, or operate a project in the State to carry out its purposes; and

- acquire, directly or indirectly, from a person or governmental unit, by purchase, gift, or devise any property, rights-of-way, franchises, easements, or other interests in land as necessary or convenient to improve or operate a project to carry out its purposes and on the terms and at the prices that it considers reasonable.

MCEC was established as a nonbudgeted entity with no dedicated revenue source. Operating revenue in fiscal 2019 (the most recent final information available), excluding the funding from MEIF, was approximately $300,000. Fiscal 2019 operating expenditures totaled $1.1 million; fiscal 2020 expenditures are estimated to total $1.3 million. MCEC advises that its programs generate a significant amount of private investment.

MCEC committed $80,000 in fiscal 2020 to launch the Maryland Energy Innovation Accelerator (MEIA). MEIA is designed to help bring new and innovative clean energy and climate benefitting products to market. MEIA surrounds inventors with professionals from a wide variety of disciplines who are committed to creating a new, impactful company – one that is attractive to investors. More information on MEIA can be found on its website.

Maryland Energy Innovation Initiative and Fund

Chapters 364 and 365 of 2017 established MEII in the A. James Clark School of Engineering at the University of Maryland, College Park Campus (UMCP) to (1) collaborate with academic institutions in the State to participate in clean energy programs and (2) develop and attract private investment in clean energy innovation. In addition to funding from MEIF, MEII also receives federal and private funding to support its activities. However, MEIF support is necessary to obtain these outside sources.

The Acts also established MEIF in UMCP to support the administrative costs of MCEC and MEII and mandated that $1.5 million be transferred from SEIF to MEIF each year from fiscal 2019 through 2022. MEII is authorized to use the fund to purchase advisory services and technical assistance and for administrative, legal, and actuarial expenses of MEII.

State Fiscal Effect: Overall special fund expenditures for SEIF are not affected, but diverting funds for the required MEIF transfers decreases the revenues available to be distributed (and then expended) under the established formula for allocating revenues from RGGI proceeds for energy assistance, energy efficiency, clean and renewable energy programs, and administrative expenses.

As discussed above, there is an existing mandated transfer of $1.5 million annually from fiscal 2019 through 2022 from SEIF to MEIF under current law. However, as the bill does not alter or otherwise reference that mandate, this analysis assumes that the required $2.1 million annual SEIF transfer in the bill is *in addition to those transfers*. If the existing mandated transfers count toward the amounts specified under the bill, SEIF transfers to MEIF are $1.5 million less in fiscal 2021 and 2022.

Accordingly, special fund revenues for MEIF increase by at least $2.1 million annually beginning in fiscal 2021 from SEIF transfers; the transfer in fiscal 2021 is discretionary, future year transfers are mandatory. As required under the bill, at least $0.7 million must be apportioned to MEII and at least $1.4 million must be apportioned to MCEC. Special fund expenditures for MEIF increase correspondingly as funds are used for authorized and required purposes.

MEII indicates that it intends to expend a portion of its funding to hire additional staff and to use remaining funds for seed and grant funding. MCEC intends to fund the accelerator program it established in fiscal 2020 and use remaining funds for operational costs and to support its existing financing programs.

MCEC advises that the financing authority in the bill related to State entities is largely clarifying in nature and that it may enter into such financing arrangements under current law. However, to the extent that the bill facilitates or authorizes such activity, State finances may be affected; the amount and timing of any effect cannot be reliably estimated at this time.

State agencies can likely collaborate and coordinate with MCEC and MEII as necessary under the bill with existing budgeted resources.

Small Business Effect: Small businesses pursuing energy innovation benefit from enhanced programs and resources provided by MEII, MCEC, and the funding provided for the accelerator program. Conversely, funds provided through the existing SEIF allocation formula may also benefit small businesses; those funds are no longer available.

Additional Comments: The Budget Reconciliation and Financing Act of 2020, as introduced, ends the required annual transfer of $1.5 million from SEIF to MEIF two years early by removing the mandated appropriation in fiscal 2021 and 2022.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1426 (Delegate Qi, *et al.*) - Economic Matters.

Information Source(s): Maryland Clean Energy Center; Department of Commerce; University System of Maryland; Department of Budget and Management; Maryland Department of the Environment; Department of General Services; Maryland Energy Administration; Maryland Technology Development Corporation; Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2020
rh/vlg Revised - Correction - March 3, 2020

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510