DA13

Maryland Energy Administration – Capital

Capital Budget Summary

Grant and Loan *Capital Improvement Program*
($ in Millions)

Program	*2013 Approp.*	*2014 Approp.*	*2015 Request*	*2016 Estimate*	*2017 Estimate*	*2018 Estimate*	*2019 Estimate*
Jane E. Lawton Conservation Loan Program	$1.750	$1.750	$2.000	$2.000	$2.000	$2.000	$2.000
State Agency Loan Program	2.500	1.900	1.200	2.400	1.000	2.000	1.000
Total	**$4.250**	**$3.650**	**$3.200**	**$4.400**	**$3.000**	**$4.000**	**$3.000**

Fund Source	*2013 Approp.*	*2014 Approp.*	*2015 Request*	*2016 Estimate*	*2017 Estimate*	*2018 Estimate*	*2019 Estimate*
PAYGO GF	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
PAYGO SF	3.750	2.950	3.200	3.200	3.000	3.000	3.000
PAYGO FF	0.500	0.700	0.000	1.200	0.000	1.000	0.000
Total	**$4.250**	**$3.650**	**$3.200**	**$4.400**	**$3.000**	**$4.000**	**$3.000**

CIP: *Capital Improvement Program*

Note: The amounts listed for fiscal 2013 represent the level of the appropriation, not the level of actual loan activity. The fiscal 2014 appropriation does not include $7.2 million in general funds for programs which are no longer viewed as capital and now are funded with special funds in the operating budget. The general funds will be reverted.

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Summary of Updates

Jane E. Lawton Conservation Loan Program Improvements: Committee narrative in the 2013 *Joint Chairmen's Report* (JCR) requested that the Maryland Energy Administration (MEA) submit a report on the barriers to program participation and planned improvements to increase participation in the Jane E. Lawton Conservation Loan Program (JELLP). MEA indicates that it provides some limited technical assistance and provides legal assistance to help organizations overcome barriers to participation in the JELLP. MEA has also published a document that is designed to help organizations in overcoming barriers to the projects. In comparison to the program's history, MEA was able to achieve a high percentage of encumbrances relative to its appropriation in fiscal 2013, 87.7%.

Summary of Recommended PAYGO Actions

		Funds
1.	The Jane E. Lawton Conservation Loan Program – Capital Appropriation	$250,000 SF
	Reduce funding for the Jane E. Lawton Conservation Loan Program by $250,000 to level fund the program.	
2.	State Agency Loan Program – Capital Appropriation	
	Concur with Governor's allowance for the State Agency Loan Program.	
	Total Reductions	**$250,000**

Program Description

Program Description: MEA administers two revolving loan programs. Chapters 466 and 467 of 2008 created the JELLP, which consolidated two formerly separate programs (the Community Energy Loan Program and the Energy Efficiency and Economic Development Loan Program). The JELLP supports energy efficiency and conservation projects for nonprofits, local government agencies, and businesses through low-interest rate loans. The second loan program, the State Agency Loan Program (SALP), provides zero-interest loans with a 1% administrative fee to State agencies for energy conservation projects, primarily in partnership with energy performance contracts.

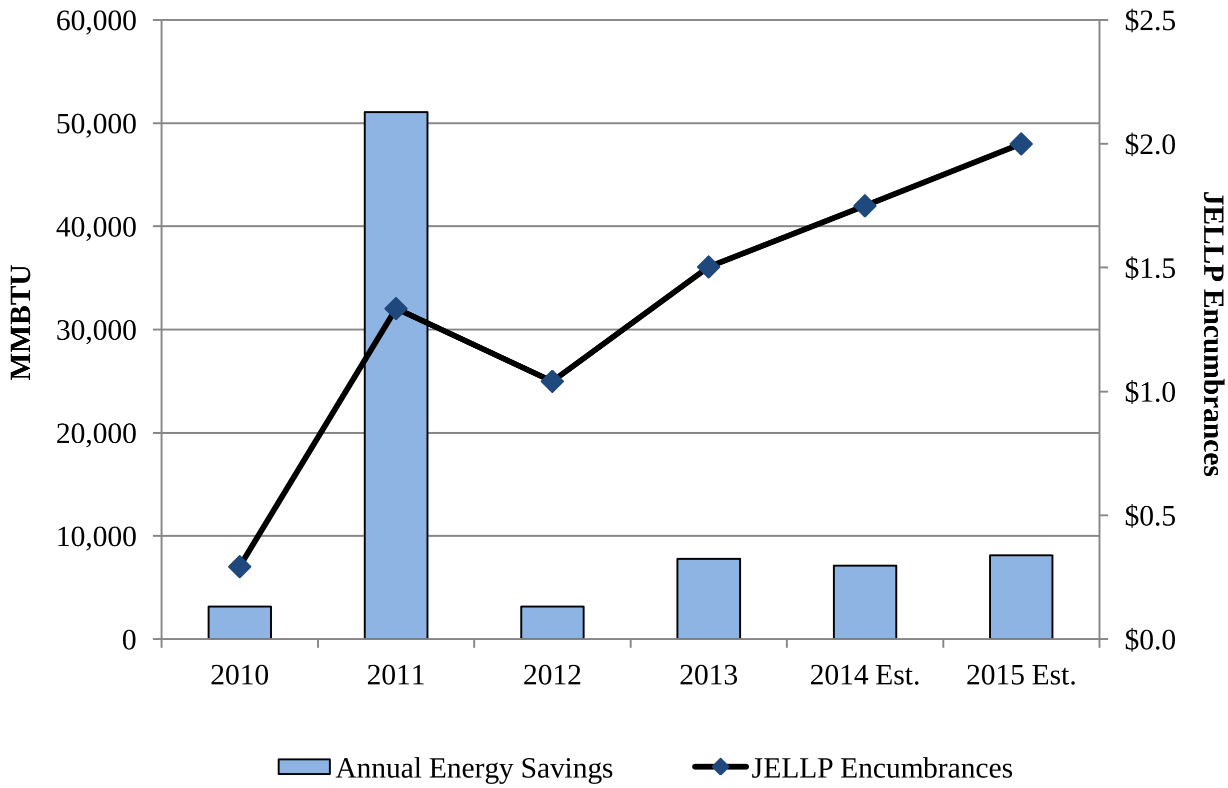
These programs were initially capitalized with funds from the Energy Overcharge Restitution Fund; the JELLP received these funds in 1989 and 1990 and the SALP in 1991 and 1997. The JELLP and the SALP also received an infusion of additional funds in fiscal 2009 from the Strategic Energy Investment Fund (SEIF), which primarily receives revenue from the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions. The SEIF was also available to the JELLP in fiscal 2010. The SALP also received additional capitalization in fiscal 2011 from the State Energy Program funds available from the American Recovery and Reinvestment Act of 2009 (ARRA), approximately $7.0 million.

Through fiscal 2013, the Department of Budget and Management (DBM) reports that the JELLP and its predecessor programs have made 75 loans totaling $20.8 million to 39 nonprofit organization, 29 local governments, and 7 businesses. These loans have generated savings totaling $52.7 million. DBM also reports that, through fiscal 2013, the SALP has made 83 loans totaling $30.6 million to State agencies. MEA reports that these loans have generated savings totaling $39.4 million.

Performance Measures and Outputs

MEA reports on measures related to encumbrances and annual energy savings in its Managing for Results (MFR) submission for the SALP and the JELLP. The trend of annual energy savings in these programs may not always follow the trend of the project because some energy projects may have unusually large savings. As shown in **Exhibit 1**, this trend has occurred in the JELLP. For example, in fiscal 2011, MEA reported that there were substantially higher than average savings per dollar financed. In fiscal 2012, the JELLP had a more substantial reduction in energy savings than the reduction in the level of encumbrances. Similarly, the energy savings increased more substantially than did the level of encumbrances in fiscal 2013.

Exhibit 1
Jane E. Lawton Conservation Loan Program Energy Savings vs. Encumbrances
Fiscal 2010-2015 Est.
($ in Millions)



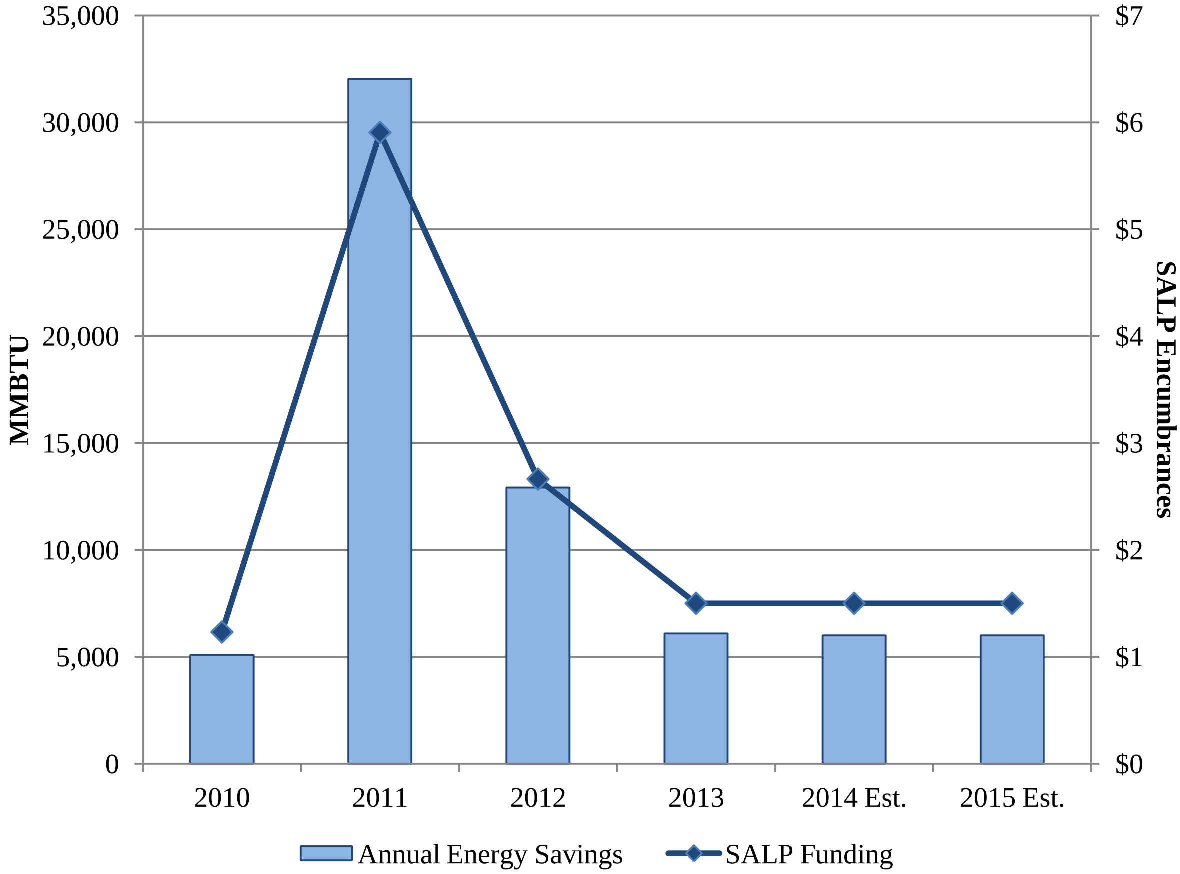
JELLP: Jane E. Lawton Conservation Loan Program
MMBTU: million British thermal units

Note: Savings and encumbrances do not account for all cancelled encumbrances, potentially distorting both encumbrances and energy savings.

Source: Maryland Energy Administration; Governor's Budget Books

By contrast, the energy savings in the SALP has trended consistently with the level of annual encumbrances in recent years, as shown in **Exhibit 2**. However, the anticipated performance in fiscal 2014 and 2015 does not account for the actual level of planned spending that year, as determined by the fiscal 2014 working appropriation and the fiscal 2015 allowance. The fiscal 2014 working appropriation is $400,000 higher while the fiscal 2015 allowance is $300,000 lower than the planned encumbrances shown in the MFR submission. **MEA should comment on how the differences in planned spending would be expected to impact the level of energy savings expected in those years.**

Exhibit 2
State Agency Loan Program Energy Savings vs. Encumbrances
Fiscal 2010-2015 Est.
($ in Millions)



MMBTU: million British thermal units
SALP: State Agency Loan Program

Note: Fiscal 2012 figures were revised from the 2013 session to reflect an agency review of the program. Fiscal 2013 encumbrances and savings do not account for loans paid in those years that were completed in previous years.

Source: Maryland Energy Administration; Governor's Budget Books

Budget Overview

MEA's fiscal 2015 pay-as-you-go (PAYGO) allowance totals $3.2 million, a decrease of $7.65 million compared to the fiscal 2014 working appropriation. However, the fiscal 2014 appropriation includes $7.2 million of general funds which are now being reprogrammed as special fund appropriations in the agency's operating budget.

The fiscal 2015 allowance provides $2.0 million for the JELLP and $1.2 million for the SALP. Both programs are funded in fiscal 2015 from the respective revolving loan funds. The 2014 *Capital Improvement Program* (CIP) contains no planned transfers into either the JELLP or the SALP; therefore, the programs must be self-supporting through the planning period.

The 2014 CIP for the SALP includes planned federal fund appropriations in alternating years. In fiscal 2011, State Energy Program funds available from the ARRA, approximately $7.0 million, were transferred into the SALP. These funds were used for loans in fiscal 2011 ($5.4 million) and 2012 ($1.6 million). The ARRA requirements (such as Davis Bacon wage requirements and historical and environmental reviews) will continue to follow the ARRA funds as the loans are repaid and the loan repayments are recycled into new loans. In recognition of the need to follow the ARRA requirements for loans made with the recycled ARRA, MEA tracks separate special and federal loan fund balances for the SALP and has also planned federal fund appropriations.

Change in Fiscal 2014

The 2013 CIP included a one-time capital PAYGO program in MEA. The program funded at $7.2 million in general funds supported three new activities:

- a Commercial and Industrial Deep Energy Retrofit program ($4.5 million);
- a Maryland Emergency Generation Grant program ($1.7 million); and
- Electric Vehicle Charging Stations at the Maryland Area Regional Commuter and Metrorail Stations program ($1.0 million).

In February 2013, RGGI announced changes to its program that begin in calendar 2014 including a 45% reduction in the carbon dioxide emission allowance cap. The announced program changes had an immediate impact on the allowance price and number of allowances sold in RGGI auctions, even though the changes were not yet in effect. This increased the revenue available in the SEIF beyond what was anticipated in the fiscal 2013 or 2014 budgets. The higher than expected revenue largely accrued to the SEIF fund balance initially, but in fiscal 2014, with the additional SEIF revenue, a budget amendment was processed to allow MEA to expand existing programs.

The budget amendment transferred these activities to programs in the agency's operating budget. MEA indicates that it now views these programs as operating programs, and that similar programs have been funded as operating programs in the past. The budget amendment also converted the programs from general funds to the SEIF. MEA plans to revert the associated general funds and the funds are included as a targeted reversion in the Governor's fiscal 2015 budget plan.

Due to these changes, the program is no longer included in the CIP, and no capital funds are available for this program, even though two of these programs (the Commercial and Industrial Deep Energy Retrofit Program and the Emergency Generation Grant Program) are expected to continue in fiscal 2015.

2014 CIP Compared to 2013 CIP

The JELLP

The 2015 allowance provides for a $250,000 increase for the JELLP compared to fiscal 2014, for total funding of $2.0 million. MEA anticipates that additional funds will be required due to other agency programs focused on commercial and industrial customers and local governments that may draw those looking for additional assistance beyond the grant programs to the JELLP. The increase is also a change from the 2013 CIP, which called for $1.75 million annually for fiscal 2015 through 2018 for the JELLP. The JELLP was funded at $1.75 million in fiscal 2013 and 2014.

The JELLP has experienced difficulties in awarding loans and expending funds at a level equal to its appropriation in each year of the program's existence (since fiscal 2009). As shown in **Exhibit 3**, from fiscal 2009 through 2012, after accounting for project cancellations, the program had encumbered/expended no more than 41.7% of the available appropriation in any year. In fiscal 2010, JELLP ultimately encumbered/expended only 10.6% of the available appropriation. In fiscal 2013, MEA had its most successful year for the JELLP with 87.7% of the appropriated funds encumbered in that year. However, the Department of Legislative Services (DLS) would note that while the JELLP's encumbrances were at the program's highest level, the appropriation was at its lowest level, and it is unknown whether all projects will ultimately move forward (*i.e.*, not be cancelled later as projects in other years have) or whether the success in that year will be sustainable. As of January 8, 2014, MEA reports that only two of the five fiscal 2013 projects had completed closing on the loan. Also, as of that same date, no funds had been encumbered for fiscal 2014 projects, but one application was pending. **Given the history of difficulties in encumbering these funds, DLS recommends reducing the fiscal 2015 allowance to level fund the program.**

Exhibit 3
Jane E. Lawton Conservation Loan Program
Encumbrances vs. Appropriation
Fiscal 2009-2013

	2009	2010	2011	2012	2013	Total
Appropriation	$3,500,000	$2,750,000	$2,187,925	$2,500,000	$1,750,000	$15,437,925
Encumbrance Activity	1,428,850	292,800	835,000	1,041,392	1,534,050	5,132,092
Appropriation Actually Encumbered	40.8%	10.6%	38.2%	41.7%	87.7%	33.2%

Note: The fiscal 2009 appropriation consists of a $1.2 million legislative appropriation and $2.3 million brought in by budget amendment as a result of the revenue available from the first two Regional Greenhouse Gas Initiative carbon dioxide emission allowance auctions. The fiscal 2010 appropriation has been revised since the 2013 session to consist only of the $2.75 million legislative appropriation. Federal funds ($2.75 million) available from the American Recovery and Reinvestment Act of 2009 (ARRA) brought in by budget amendment were ultimately never used in the program and have been removed from the calculation. The fiscal 2011 appropriation represents the legislative appropriation after the transfer of ARRA funds by budget amendment as required by budget bill language. Encumbrance activity is as reported in the revolving loan fund summary and other budget documents and accounts for encumbrances cancelled later.

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

The SALP

The fiscal 2015 allowance provides $1.2 million for the SALP, a decrease of $700,000 compared to the fiscal 2014 working appropriation. The decrease results from the elimination of the federal fund appropriation in fiscal 2015. As discussed earlier, MEA tracks the federal fund portion of the revolving loan fund separately due to the need to continue to follow the ARRA requirements as the loan repayments are recycled into new loans. Due to the difficulties associated with meeting these requirements, MEA feels it is more appropriate to use the federal funds on larger loans. This requires not spending federal funds in all years to allow the federal fund balance to accumulate to higher levels before using the funds again.

This plan has resulted in a change in the 2014 CIP compared to the 2013 CIP. The 2013 CIP included planned federal fund spending in each year, with the available federal funds increasing each year from $850,000 in fiscal 2015 to $1.21 million in fiscal 2018. The additional federal funds allowed the total anticipated spending to increase in each year from $2.0 million in fiscal 2015 to $2.5 million in fiscal 2018. The 2014 CIP only plans federal fund spending in fiscal 2016 and 2018 (an alternate year basis). This provides an uneven flow of planned spending and a reduction in the total planned spending in the SALP between fiscal 2015 and 2018 by $2.6 million, as shown in **Exhibit 4**.

Exhibit 4
State Agency Loan Program *Capital Improvement Program* Comparison
Fiscal 2015-2019
($ in Millions)

	2015	2016	2017	2018	2019	Total Planned Spending 2015-2018
2013 CIP	$2.0	$2.3	$2.5	$2.5		$9.2
2014 CIP	$1.2	$2.4	$1.0	$2.0	$1.0	$6.6
Change in Planned Spending	**-$0.8**	**$0.2**	**-$1.5**	**-$0.5**		**-$2.6**

CIP: *Capital Improvement Program*

Source: Governor's Budget Books

The planned spending in the SALP in fiscal 2015 of $1.2 million is less than has been encumbered/expended in nearly all recent years, even after accounting for project cancellations. It appears, therefore, that a budget amendment will be required to provide additional spending authority. MEA is currently projecting a special fund balance of $405,006 at the close of fiscal 2015. **MEA should comment on whether the fiscal 2015 allowance will be sufficient to meet the demand for the SALP loans in that year and if the loan balance would be sufficient to provide additional spending authority in that year. MEA should also comment on the impact of delays in projects that might result from the lower planned spending.**

Through January 6, 2014, MEA had not encumbered/expended any funds for loans in fiscal 2014. MEA traditionally partners the SALP with energy performance contracts. Fewer of those have been requested recently. A current focus for the agency is to target small- and medium-sized State buildings for energy efficiency upgrades. MEA has a federal grant to undertake activities, including assistance with energy audits and trainings for facility managers for energy efficiency in State buildings, including small- and medium-sized buildings. The fiscal 2015 allowance includes the final year of funding from this grant. **MEA should comment on whether or how this grant is being used to encourage participation in the SALP in fiscal 2014 or 2015 and any other agency plans for increasing the use of the SALP by small- and medium-sized State buildings.**

Updates

1. The Jane E. Lawton Conservation Loan Program Improvements

During the 2013 session, the budget committees were concerned about the underutilization of the JELLP and, as a result, the 2013 JCR included committee narrative requesting that MEA report on:

- the types of projects and organizations that qualify for funding;
- the criteria used for awarding loans;
- the barriers to program participation;
- the steps the agency plans to take to improve participation in the program;
- the planned outreach; and
- the timeline for anticipated improvements in participation in the program.

MEA submitted its response to this request in September 2013.

Eligible Projects

MEA noted that the JELLP is available to local governments, nonprofit organizations, and Maryland businesses. These are the same groups previously targeted by the predecessor programs, the Community Energy Loan Program, which served local governments and nonprofit organizations, and the Energy Efficiency and Economic Development Loan Program, which served Maryland businesses. Funds provided by MEA cannot be used for structures that are used primarily for religious or fraternal purposes. One exception is that funds may be used at a private religious school if the structures are used for educational activities rather than worship or other religious activities.

MEA Review of Projects

MEA explained that it reviews projects at two levels before committing to projects. The reviews are designed to validate the energy savings and ensure that the estimated annual savings of the project would be larger than the loan repayment. MEA also reviews the financial statements of the applicant and, if necessary, requests collateral.

Barriers to Program Participation

MEA stated that the primary barriers to program use are:

- project development;
- debt ceilings, poor credit;
- asset ownership structure;
- ability to evaluate returns, estimating benefits, and the value of benefit to future buyers;
- limited cash for up front expenditures;
- competing priorities for dollars and staff resources;
- economic uncertainty;
- investment horizons and other investment decisions;
- split incentives between tenants and landlords or restrictive mortgages or lease covenants;
- technical skills and available data to analyze usage or understanding building systems;
- availability of energy auditors or contractors; and
- seasonal nature of some businesses that limits available project timeframes.

Program Improvements

To assist organizations in overcoming these barriers, MEA has the ability to provide some limited technical support in areas such as validating energy savings for proposed projects and legal resources for loan closing and security document filing. MEA has used grant funding to publish a document referred to as *Getting to 'Yes' for Energy Efficiency*, which is designed to assist in understanding organizational and financial barriers to projects. MEA is also in the process of developing a series of case studies of successful projects which will be published online and included in the agency's newsletter. MEA also tries uses general energy efficiency awareness to encourage projects.

MEA believes that its efforts have proven to be successful given the high percentage of the appropriated funds that were encumbered in fiscal 2013, 87.7% as shown in Exhibit 3.

Consolidated Administrative Expenses – All Programs

	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated
Sources:			
Jane E. Lawton Conservation Loan Program	$93,225	$105,532	$104,496
State Agency Loan Program	$30,354	$30,022	$29,895
Subtotal – Special Funds	***$123,579***	***$135,022***	***$134,391***
Total Funds	**$123,579**	**$135,554**	**$134,491**
Uses:			
Direct Expenses	$67,189	$61,130	$59,828
Indirect Expenses (legal, marketing, asset management)	$56,390	$74,424	$74,563
Total Direct and Indirect Expenses	**$123,579**	**$135,554**	**$134,391**

Note: Fiscal 2014 estimate is slightly higher than the fiscal 2014 working appropriation ($532). The fiscal 2015 estimate is slightly lower than the fiscal 2015 allowance ($609).

MEA has spent and plans to spend more funds to support the JELLP than the SALP. For the JELLP, in addition to staffing resources for program management, MEA has provided legal resources to assist in the loan closing process and filing of documents related to collateral and other technical support. For the SALP, the administrative expenditures are for staffing and related expenses for program management only.

PAYGO Recommended Actions

		Amount Reduction	
1.	Reduce funding for the Jane E. Lawton Conservation Loan Program (JELLP) by $250,000. This action level funds the JELLP from fiscal 2014 at $1.75 million. The Maryland Energy Administration (MEA) has had difficulties encumbering and expending funds in this program at a level equal to its appropriation. After accounting for project cancellations, the JELLP has not had $1.75 million of encumbrances/expenditures in any year of the program's existence. If MEA is able to develop a project list sufficient to encumber more funding than is available with this action, MEA may process a budget amendment to provide additional spending authority.	$250,000	SF
2.	Concur with Governor's allowance for the State Agency Loan Program.		
	Total Special Fund Reductions	**$250,000**	