DA13
Maryland Energy Administration – Capital

Capital Budget Summary

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

Program	2015 Approp.	2016 Approp.	2017 Request	2018 Estimate	2019 Estimate	2020 Estimate	2021 Estimate
Jane E. Lawton Conservation Loan Program	$1.750	$1.750	$1.500	$1.500	$1.500	$1.500	$1.500
State Agency Loan Program	1.200	2.400	2.200	1.200	1.200	1.200	1.200
Total	**$2.950**	**$4.150**	**$3.700**	**$2.700**	**$2.700**	**$2.700**	**$2.700**

Fund Source	2015 Approp.	2016 Approp.	2017 Request	2018 Estimate	2019 Estimate	2020 Estimate	2021 Estimate
PAYGO SF	$2.950	$2.950	$2.700	$2.700	$2.700	$2.700	$2.700
PAYGO FF	0.000	1.200	1.000	0.000	0.000	0.000	0.000
Total	**$2.950**	**$4.150**	**$3.700**	**$2.700**	**$2.700**	**$2.700**	**$2.700**

FF: federal funds
PAYGO: pay-as-you-go
SF: special funds

Note: This chart reflects appropriated funding not the level of encumbrances.

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Summary of Issues

State Agency Loan Program Funding Changes: Approximately $7 million of State Energy Program funds available from the American Recovery and Reinvestment Act of 2009 (ARRA) were used for additional capitalization in the State Agency Loan Program (SALP) in fiscal 2011. Certain requirements of ARRA funds continue to follow the funds even as the loans are repaid and are recycled into new loans, making use of the funds difficult. The Maryland Energy Administration (MEA) is planning to refund certain outstanding loans made with ARRA funds and a portion of the balance with special funds from the Strategic Energy Investment Fund (SEIF) in fiscal 2017 with the ultimate goal of eliminating these federal funds from the SALP.

Summary of Recommended PAYGO Actions

1. Adopt committee narrative requesting information on implementation of credit enhancements in the Jane E. Lawton Conservation Loan Program.

2. Concur with Governor's allowance for the State Agency Loan Program.

Program Description

Program Description: MEA administers two revolving loan programs. Chapters 466 and 467 of 2008 created the Jane E. Lawton Conservation Loan Program (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 or credit enhancements. The average interest rate for loans is expected to be 2% in fiscal 2017. The second loan program, the SALP, provides zero-interest loans with a 1% administrative fee to State agencies for energy conservation projects, primarily in partnership with energy performance contracts.

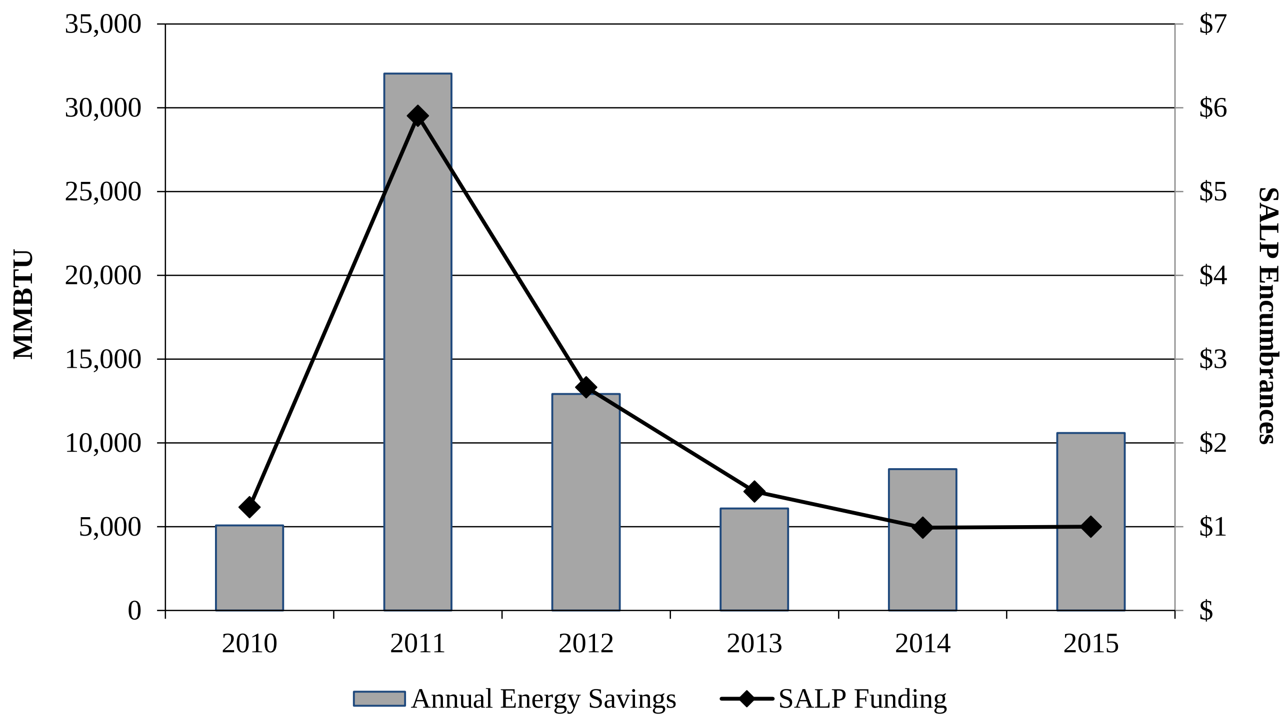
These programs were initially capitalized with funds from the Energy Overcharge Restitution Fund; the JELLP received these funds in 1989 and 1990 and the SALP in 1991 and 1997. The JELLP and the SALP also received an infusion of additional funds in fiscal 2009 from the SEIF, of $2.3 million and $800,000 respectively. The SEIF 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, a transfer of $1.0 million. However, a portion ($2.0 million) of this additional capitalization in the JELLP was removed in fiscal 2015 and transferred to the General Fund as a result of the Budget Reconciliation and Financing Act (BRFA) of 2015. The SALP also received additional capitalization in fiscal 2011 from the State Energy Program funds available from the ARRA, approximately $7.0 million.

Through fiscal 2015, the Department of Budget and Management (DBM) reports that JELLP and its predecessor programs have made 78 loans totaling $21.8 million to 28 local governments, 40 nonprofit organizations, and 10 private businesses. These loans have generated savings totaling $54.3 million. DBM reports that, through fiscal 2015, the SALP has made 88 loans totaling $32.8 million. These loans have generated savings of $34.4 million.

Performance Measures and Outputs

MEA reports on measures related to annual energy savings for loans made through the SALP and the JELLP in its annual Managing for Results submission. The trend of annual energy savings in these programs may not always follow the trend of the encumbrances because some energy projects may have unusually large savings. As shown in **Exhibit 1**, from fiscal 2010 through 2013, the annual energy savings in SALP tracked closely with the level of encumbrances. However, in fiscal 2014, the annual energy savings increased while the level of encumbrances decreased. In fiscal 2015, the annual energy savings increased while the level of encumbrances was essentially flat.

Exhibit 1
SALP Energy Savings versus Encumbrances
Fiscal 2010-2015
($ in Millions)



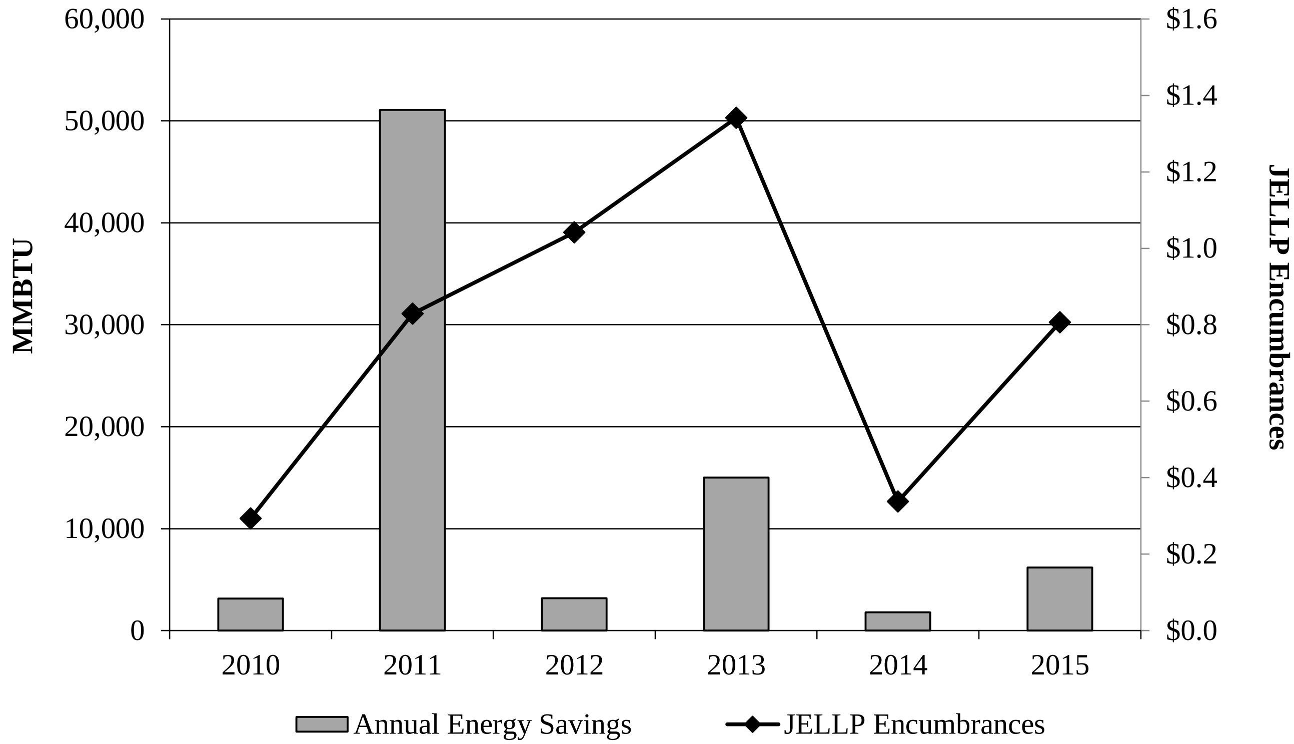
MMBTU: million British thermal units SALP: State Agency Loan Program

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. Some figures were revised from those reported in the 2015 session to reflect cancelled encumbrances.

Source: Maryland Energy Administration; Governor’s Budget Books; Department of Budget and Management

As shown in **Exhibit 2**, the direction of change in annual energy savings has been the same as the level of encumbrances in the JELLP, except in fiscal 2012. However, the change in energy savings is typically much larger than the change in encumbrances. For example, in fiscal 2011, encumbrances increased by 183.1% (from $292,800 to $828,957) while energy savings increased by 1,522.0% (from 3,149 to 51,077) compared to fiscal 2010 as a result of a project with particularly large savings.

Exhibit 2
JELLP Energy Savings versus Encumbrances
Fiscal 2010-2015
($ in Millions)



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

Note: Savings and encumbrances may not account for all cancelled encumbrances, potentially distorting both encumbrances and energy savings. To the extent possible, encumbrances reflect cancelled encumbrances. Some figures were revised from those reported in the 2015 session to reflect cancelled encumbrances.

Source: Maryland Energy Administration; Governor's Budget Books; Department of Budget and Management

Budget Overview

The MEA fiscal 2017 pay-as-you-go (PAYGO) allowance totals $3.7 million, a decrease of $450,000 compared to the fiscal 2016 working appropriation. This decrease occurs among both the SALP and the JELLP.

SALP

The SALP fiscal 2017 allowance totals $2.2 million ($1.2 million of special and $1.0 million of federal funds) from the revolving loan fund. This level of funding is $200,000 lower than the fiscal 2016 working appropriation but $1.0 million higher than was expected in fiscal 2017 in the 2015 *Capital Improvement Program* (CIP). The decrease between fiscal 2016 and 2017 occurs among the federal fund portion of the program.

CIP Changes

The fiscal 2017 allowance for the SALP represents a change from the 2015 CIP. The 2015 CIP included only special funds ($1.2 million) in fiscal 2017 and both special and federal funds in fiscal 2018. The 2016 CIP moves federal funds planned for fiscal 2018 in the 2015 CIP to fiscal 2017. A Motor Vehicle Administration (MVA) project is expected to receive the federal funds appropriated in fiscal 2016 and requires additional funding. Moving the federal funds from fiscal 2018 to 2017 allows MEA to fully fund the project over two years.

The remaining changes in the 2016 CIP compared to the 2015 CIP result from a plan (discussed in Issue 1 of this analysis) to decapitalize the federal fund portion of the program. As a result of this change, the 2016 CIP removes federal funds planned for fiscal 2020 and adds $200,000 in special funds in the out-years to reflect the higher amount of special funds in the program.

Loan Activity and the CIP

In total, from fiscal 2009 through 2015, after accounting for cancellations, the loan activity of the SALP was 73.4% of the appropriation. Fiscal 2014 had the lowest level of loan activity (slightly less than $1.0 million) and loan activity relative to the appropriation in recent history (52.1%) during these years. The loan activity in fiscal 2015 totaled $1.0 million (for one loan) but due to the lower appropriation level in that year represented 83.3% of the appropriation.

MEA indicates that it has received requests in fiscal 2016 that in total exceed available funding ($2.7 million compared to $2.4 million). To allow the agency to accommodate funding for all the projects requested, if all of the requests are approved for loans, MEA has preliminarily planned to split funding for two projects over multiple years. A project, totaling $550,000, at the University of Maryland, College Park (UMCP) is expected to be funded over three years (fiscal 2016 through 2018). A project for MVA, totaling $1.75 million, is expected to be funded over two years (fiscal 2016 and

2017), as noted above. Of the $2.7 million in fiscal 2016 requests, only $200,000 for the first year of funding for the UMCP project has been encumbered as of this writing.

If the two projects are split funded, as is currently expected, a portion of the fiscal 2017 funding (31.8% or $700,000) would be accounted for prior to the start of the fiscal year. This would provide $1.5 million for use for any other projects in fiscal 2017. **Given that fiscal 2016 requests exceed the appropriation, and in all but two years since fiscal 2009 MEA has encumbered more than $1.2 million in the SALP, MEA should discuss whether the current CIP for fiscal 2018 to 2021 would provide sufficient funding to meet program needs.**

JELLP

The fiscal 2017 allowance includes $1.5 million for the JELLP from special funds from the revolving loan fund. The fiscal 2017 allowance is $250,000 lower than the fiscal 2016 working appropriation and $100,000 lower than was expected in fiscal 2017 in the 2015 CIP.

CIP

The 2016 CIP would level fund the JELLP through the planning period, a reduction of $100,000 in each year of the planning period compared to the 2015 CIP. The change in the CIP is to better reflect the encumbrance level of the program. Historically, the program has had difficulty encumbering funds at the level of appropriation. From fiscal 2009 through 2015, MEA has encumbered 38.9% of its appropriation after accounting for cancellations, with a high of 76.6% in fiscal 2013. The dollar value of encumbrances, after accounting for cancellations, has ranged from $292,800 in fiscal 2010 to $1.6 million in fiscal 2009. In four of the seven years, between fiscal 2009 and 2015, MEA has encumbered less than $1.0 million. The JELLP encumbrances in fiscal 2015 totaled $806,305, or 46.1% of the JELLP appropriation.

To date in fiscal 2016, MEA has received requests totaling $880,113 for three loans. Of these requests, $650,000 for one loan has been encumbered. If all the current requests result in loans, MEA would have encumbered 50.3% of the fiscal 2016 funding, which would be the second highest level since fiscal 2009, with a portion of the year remaining. Even with this relatively higher activity in fiscal 2016, the current CIP should provide more than sufficient funding for program needs.

Impact of Transfer to the General Fund

The BRFA of 2015 authorized a transfer of $3.0 million from the JELLP to the General Fund in fiscal 2015. The transfer was to occur from the SEIF used as additional capitalization for the program. Ultimately, $2.0 million was transferred to the General Fund rather than the $3.0 million authorized. Even after the transfer, the fiscal 2015 closing balance in the JELLP was $4.1 million, as shown in **Exhibit 3**.

Exhibit 3
JELLP Loan Fund Summary
Fiscal 2015-2021 Est.
($ in Thousands)

	2015 Actual	2016 Working	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.
Beginning Balance	**$5,916.0**	**$4,107.3**	**$3,293.7**	**$2,716.4**	**$2,644.6**	**$2,139.9**	**$1,788.7**
Revenue							
General Funds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Loan Repayment	812.3	887.3	873.2	1,378.1	944.8	1,097.8	1,160.4
Investment Interest	67.2	49.0	49.5	50.0	50.5	51.0	51.5
Transfer In (Out) Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing Fees Collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation of Encumbrances	198.8	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	**$1,078.3**	**$936.4**	**$922.8**	**$1,428.1**	**$995.3**	**$1,148.8**	**$1,211.9**
Total Available	**$6,994.3**	**$5,043.7**	**$4,216.4**	**$4,144.6**	**$3,639.9**	**$3,288.7**	**$3,000.6**
Expenditures and Encumbrances							
Loans	$806.3	$1,750.0	$1,500.0	$1,500.0	$1,500.0	$1,500.0	$1,500.0
Operating Expenses	80.7	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to General Fund	2,000.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditures and Encumbrances	**$2,887.0**	**$1,750.0**	**$1,500.0**	**$1,500.0**	**$1,500.0**	**$1,500.0**	**$1,500.0**
Ending Balance	**$4,107.3**	**$3,293.7**	**$2,716.4**	**$2,644.6**	**$2,139.9**	**$1,788.7**	**$1,500.6**

JELLP: Jane E. Lawton Conservation Program

Source: Maryland Energy Administration; Department of Budget and Management

Credit Enhancement Activities

Chapters 348 and 349 of 2014, among other changes, authorized an expanded use of program funds in the JELLP to add credit enhancements. MEA issued final regulations, which were effective September 29, 2014, for the credit enhancement portion of the program. However, MEA has not begun to offer credit enhancements as part of the JELLP. MEA expects to develop an implementation plan in fiscal 2016. **MEA should describe the timeline for the implementation of the credit enhancement portion of the program. The Department of Legislative Services recommends committee narrative requesting that MEA provide information on the implementation plan, timeline for implementation, and credit enhancement offerings.**

Issues

1. State Agency Loan Program Funding Changes

In fiscal 2010 and 2011, approximately $7.0 million of ARRA funds was transferred to the SALP for additional capitalization. These funds were used for loans in fiscal 2011 and 2012. The funds carried a number of requirements associated with ARRA including Davis Bacon wage requirements and certain environmental and historic review, as well as reporting requirements. These requirements continued to follow the funds as they were lent, repaid, and recycled into new loans upon repayment. Due to the associated requirements, the funds have been difficult to lend.

Due to the difficulty of lending these funds, the fiscal 2017 capital budget includes a plan that would ease some of the administrative burden of taking on a SALP loan. Under this plan, in fiscal 2017, MEA will refund existing loans made with the ARRA funds and a portion of the existing balance with special funds from the SEIF, as shown in **Exhibit 4**. The SEIF is primarily composed of revenue from the RGGI carbon dioxide emission allowance auctions.

After this refunding, a total of $2.2 million of federal funds remain with the program – $1.2 million expected to be lent in fiscal 2016 and $1.0 million included in the fiscal 2017 appropriation. As previously discussed, all of the fiscal 2016 and a portion of the fiscal 2017 federal fund authorizations for the SALP are expected to be used for a loan to MVA. The SEIF does not currently have sufficient balance to refund this portion of the federal funds. MEA expects when a sufficient fund balance accumulates in the SEIF that the agency will refund the remaining $2.2 million portion. This future refunding is not included in the current loan fund summary.

Exhibit 4
SALP Loan Fund Summary
Fiscal 2015-2021 Est.
($ in Thousands)

	2015 Actual	2016 Working	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est
Beginning Special Fund Balance	**$648.2**	**$797.2**	**$733.5**	**$1,389.7**	**$1,701.1**	**$1,854.8**	**$2,171.2**
Beginning Federal Fund Balance	**$1,157.7**	**$1,601.7**	**$1,021.5**	**$0.0**	**$0.0**	**$198.0**	**$418.0**
Revenue:							
Special Fund Loan Repayment	$981.5	$1,101.6	$1,809.5	$1,442.4	$1,248.3	$1,420.7	$1,519.1
Federal Fund Loan Repayment	437.2	608.2	0.0	0.0	198.0	220.0	220.0
Special Fund Investment Interest	34.3	34.7	46.8	59.0	71.3	83.8	96.5
Federal Fund Investment Interest	6.7	11.6	0.0	0.0	0.0	0.0	0.0
Special Fund Transfer In	0.0	0.0	5,021.5	0.0	0.0	0.0	0.0
Federal Fund Transfer Out	0.0	0.0	-5,021.5	0.0	0.0	0.0	0.0
Closing Fees	0.0	0.0	0.0	10.0	34.0	12.0	12.0
Special Fund Cancellation of Encumbrances	167.0	0.0	0.0	0.0	0.0	0.0	0.0
Special Fund Revenue	1,182.8	1,136.2	1,856.2	1,511.4	1,353.6	1,516.5	1,627.7
Federal Fund Revenue	444.0	619.9		0.0	198.0	220.0	220.0
Special Funds Available	**$1,831.0**	**$1,933.5**	**$2,589.7**	**$2,901.1**	**$3,054.8**	**$3,371.2**	**$3,798.9**
Federal Funds Available	**$1,601.7**	**$2,221.5**	**$1,000.0**	**$0.0**	**$198.0**	**$418.0**	**$638.0**
Expenditures and Encumbrances:							
Special Fund Loans	$1,000.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0
Federal Fund Loans	0.0	1,200.0	1,000.0	0.0	0.0	0.0	0.0
Operating Expenses	33.7	0.0	0.0	0.0	0.0	0.0	0.0
Special Fund Ending Balance	**$797.2**	**$733.5**	**$1,389.7**	**$1,701.1**	**$1,854.8**	**$2,171.2**	**$2,598.9**
Federal Fund Ending Balance	**$1,601.7**	**$1,021.5**	**$0.0**	**$0.0**	**$198.0**	**$418.0**	**$638.0**

SALP: State Agency Loan Program

Source: Maryland Energy Administration; Department of Budget and Management

Legislation proposed by Governor Hogan (SB 389 and HB 459) would divert up to $10 million of RGGI proceeds annually to the Environmental Trust Fund. This diversion occurs before the allocation of RGGI proceeds through the statutory allocation, reducing revenue available to each allocation. To maintain program funding in fiscal 2017, if this legislation is enacted, the use of fund balance would be required. If this legislation is enacted, unless program spending is reduced, little fund balance is likely to accumulate without substantial increases in revenue. **MEA should comment on how this legislation would impact the agency's plans to refund the remainder of ARRA funding in the SALP from the SEIF.**

The $5 million of federal funds that are removed from the SALP under this plan are included in the operating budget of MEA in fiscal 2017. These funds are expected to be used for a program for State agency energy efficiency projects. The projects funded with this program would have to follow the ARRA requirements, but the requirements and reporting would have a set end date as the grant funds are not recycled as were the loan funds.

Operating Budget Impact Statement

Consolidated Administrative Expenses – All Programs

	FY 2015 Actual	**FY 2016 Estimated**	**FY 2017 Estimated**
Sources			
Special Funds			$60,000
Jane E. Lawton Loan Program	$74,428	$105,000	0
State Agency Loan Program	31,981	30,000	0
Subtotal – Special Funds	***$106,409***	***$135,000***	***$60,000***
Total Funds	**$106,409**	**$135,000**	**$60,000**
Uses:			
Direct Expense	$65,709	$60,000	$60,000
Indirect Expenses (legal, marketing, asset management)	40,700	75,000	0
Total Direct and Indirect Expenses	**$106,409**	**$135,000**	**$60,000**

Beginning with the fiscal 2017 allowance, MEA has stopped funding administrative expenses associated with the JELLP and the SALP from the revolving loan funds of the programs. Instead, MEA will be funding these administrative expenses through the agency's primary fund sources (the SEIF and annual State Energy Program allocation). MEA indicates that this change was made because the MEA staff that oversee these programs also work on other related grant programs, funded with the other sources. Although these are listed under special funds, MEA has not identified the specific sources of funding for the administrative expenses for fiscal 2017.

The indirect expenses for the programs have generally been for the JELLP only. MEA provided in fiscal 2015, and plans to provide in fiscal 2016, legal resources to assist in the loan closing processing and filing of documents related to collateral and other technical support for these loans. MEA has removed the nonsalary expenses from its current funding plan for the JELLP in the fiscal 2017 allowance because MEA has hired an attorney that can assist with these activities. The remaining expenses in both programs are for salary costs. In fiscal 2017, these expenses are $30,000 for each program.

PAYGO Recommended Actions

1. Adopt the following narrative:

   Credit Enhancements in the Jane E. Lawton Conservation Loan Program: Chapters 348 and 349 of 2014, among other changes, expand the eligible uses of funds in the Jane E. Lawton Conservation Loan Program (JELLP) to include credit enhancements. Although the Maryland Energy Administration (MEA) issued final regulations to implement the program in calendar 2014, no credit enhancements have been offered. MEA is expected to develop an implementation plan for this aspect of the program in fiscal 2016. The committees request that MEA provide an update on the implementation plan, timeline, and credit enhancement offerings in the JELLP.

Information Request	**Author**	**Due Date**
Report on credit enhancements in the JELLP	MEA	October 15, 2016

2. Concur with Governor's allowance providing $2.2 million in the State Agency Loan Program.

Proposed Use of Available Funds

State Agency Loan Program – includes projects which have submitted an expression of interest, are under review for funding, or the loan has been closed

- University of Maryland, College Park – Jeong H. Kim Engineering Building
- Motor Vehicle Administration – Glen Burnie Complex, and multiple service centers
- Department of Natural Resources – Manning Fish Hatchery
- Maryland Environmental Service – on behalf of Department of Public Safety and Correctional Services Maryland Correctional Institution

Jane E. Lawton Conservation Loan Program – includes projects under review or for which the loan has been closed

- C-Care
- Zentech
- Maryland Thermoform

Fiscal 2017 Projects

State Agency Loan Program – projects which are expected to be funded in multiple years

- University of Maryland, College Park – Jeong H. Kim Engineering Building
- Motor Vehicle Administration – Glen Burnie Complex, and multiple service centers