D13A13
Maryland Energy Administration

Operating Budget Data

($ in Thousands)

	FY 02 Actual	FY 03 Approp	FY 04 Allowance	FY 03 - 04 Change	FY 03 - 04 % Change
General Funds	$406	$478	$419	-$59	-12.4%
FY 2003 Cost Containment	0	-23	0	23	
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted General Funds	**$406**	**$455**	**$416**	**-$39**	**-8.6%**
Special Funds	873	998	1,030	32	3.2%
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted Special Funds	**$873**	**$997**	**$1,027**	**$29**	**2.9%**
Federal Funds	1,080	706	767	62	8.7%
Contingent & Back of Bill Reductions	0	0	-6	-6	
Adjusted Federal Funds	**$1,080**	**$705**	**$761**	**$56**	**8.0%**
Reimbursable Funds	84	87	99	13	14.5%
Adjusted Grand Total	**$2,443**	**$2,244**	**$2,303**	**$59**	**2.6%**

- The Maryland Energy Administration's (MEA) fiscal 2004 budget allowance provides a 2.6%, or $59,317 increase over fiscal 2003. While general funds were decreased by $38,913, or 8.6%, this decrease is offset by additional special, federal, and reimbursable funds.

Personnel Data

	FY 02 Actual	FY 03 Working	FY 04 Allowance	Change
Regular Positions	20.00	20.00	20.00	0.00
Contractual FTEs	1.00	2.00	1.00	-1.00
Total Personnel	**21.00**	**22.00**	**21.00**	**-1.00**
Vacancy Data: Regular Positions				
Budgeted Turnover: FY 04	0.70	3.50%		
Positions Vacant as of 12/31/02	1.00	5.00%		

- MEA's regular positions remain level at 20 in the fiscal 2004 allowance. However, one federally funded contractual position is lost due to a grant program ending.

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

For further information contact: Amanda M. Mock Phone: (410) 946-5530

Analysis in Brief

Issues

Implementation of Green Building Tax Credit Program: The Income Tax Credit for Green Buildings, authorized during the 2001 session, provides tax credits for the construction or rehabilitation of green buildings. The draft regulations have been reviewed and are expected to become effective March 3, 2003. **The Department of Legislative Services (DLS) recommends that MEA brief the committee on how it intends to implement this program in fiscal 2004, including the role other State agencies such as the Department of Natural Resources (DNR) may or could assume.**

***Overlapping Roles in the Promotion of Energy Efficiency within State-owned Facilities*:** Numerous State agencies administer programs that seek to improve energy efficiency within State government. **DLS recommends that MEA, the Department of General Services, the Maryland Department of Transportation, the Department of Budget and Management, DNR and other State agencies as needed develop a report that summarizes all State energy efficiency programs and associated funding and staffing levels; describes existing State energy efficiency policy and program coordination efforts; and makes recommendations for improving and streamlining energy efficiency efforts related to State-owned facilities as well as private structures.**

Recommended Actions

1. Add language requiring a report on streamlining State energy efficiency programs.

Updates

Report on the Feasibility of Ethanol Production in Maryland: On behalf of MEA, the Maryland Department of Agriculture, the Department of Business and Economic Development, and the Maryland Grain Producers Utilization Board, a report was completed by a private consulting firm (SJH & Company, Inc. in Massachusetts) on the feasibility of building an ethanol production facility in Maryland.

D13A13

Maryland Energy Administration

Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy related policies and activities among State and local agencies. MEA's enabling legislation is found in §§9-2001 et seq. of the State Government Article of the Maryland Code. MEA also manages federal energy conservation programs, coordinates the State's participation in interstate energy activities, advises the Governor on energy emergency issues, and maintains energy emergency preparedness.

MEA is tasked with numerous statutory duties, including coordinating with the Department of General Services to implement the most economical and efficient alternatives in the design, construction and renovation of State facilities. Other statutory duties include the management of the Community Energy Loan and solar schools programs, and the administration of the Energy Overcharge Restitution Fund. MEA is also responsible for creating and implementing contingency plans for mitigating the impact of any severe shortage of fuel resources, and running a petroleum set-aside program in the event of an energy emergency.

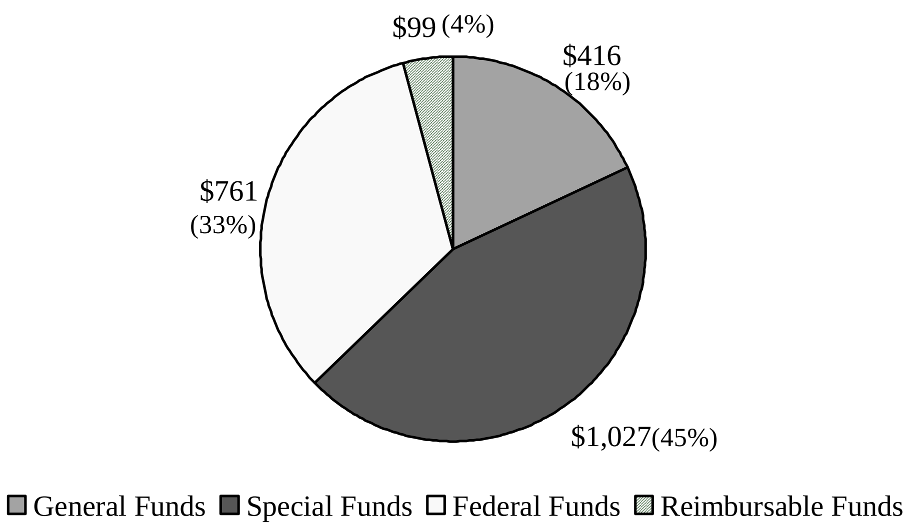
As illustrated in **Exhibit 1**, MEA receives over 75% of its operating revenues from special and federal funds. Approximately 65% of MEA's special fund revenues come from Energy Overcharge Restitution Funds. These funds are federal court settlement monies from oil and gas producers who have violated federal regulations. Other MEA special funds come from a utility surcharge on electric bills. MEA receives federal funding for implementing energy conservation programs and monitoring the State's heating fuel prices and supplies.

MEA's five primary goals are to:

- increase energy efficiency and reduce the cost of State government;
- help individuals, businesses, local governments, and nonprofit organizations to use renewable energy, clean energy technologies, and energy efficiency;
- encourage and support the use of alternative fuel vehicles (AFVs);
- protect the environment through the efficient use of energy and reduction of energy related emissions; and
- develop and implement policies for a reliable and affordable energy supply throughout Maryland.

Exhibit 1

Maryland Energy Administration
Fiscal 2004 Projected Revenue Sources
($ in Thousands)



Total = $2,303

Source: Maryland Energy Administration

Performance Analysis: Managing for Results

Former Governor Parris Glendening announced the "Sustaining Maryland's Future with Clean Power, Green Buildings, and Energy Efficiency" Executive Order (Executive Order 01.01.2001.02) in March 2001. Among other things, this Executive Order requires the State to reduce energy consumption by 10% by 2005 and 15% by 2010 relative to 2000 (baseline). In 2002, the State's energy intensity of operations dropped to 173,000 British Thermal Units per square foot per year, a 3.8% decrease from 2000. This measurement suggests that the State is on track for meeting the goals set by the Executive Order. Prior to this Executive Order, State law required that State agencies reduce energy consumption by 15% by 1996 and 25% by 2001. In last year's report to the General Assembly, MEA reported a 28% reduction in energy consumption from 1991, exceeding the requirements under State law.

Exhibit 2 presents data on a handful of performance measurements that reflect MEA's core programs.

Exhibit 2

Maryland Energy Administration
Performance Measurements Fiscal 2000-2004

	2000 Actual	2001 Actual	2002 Actual	2003 Estimated	2004 Estimated	Annual Change 2002-04
Estimated total energy savings in State facilities compared to a 2000 baseline (million British Thermal Units)	n/a	*	300,000	400,000	500,000	29%
Cumulative amount of energy saved through completed energy projects (million British Thermal Units)	4,407	33,532	126,178	248,000	392,000	76%
Gasoline/diesel gallon equivalents of alternative fuels used	*	*	422,434	550,000	600,000	19%
New alternative fuel fueling stations installed	0	1	3	2	2	-18%

*Establishing baseline
Source: Governor's Budget books, fiscal 2003 and 2004.

The data provided in this chart indicate the following trends:

- significant increases in energy savings in State facilities;
- expanded use of alternative fuels; and
- increasing availability of alternative fuel stations.

In addition to promoting the efficient use of energy, MEA seeks to develop clean or "green" energy resources. Clean energy sources include wind, solar, biomass and fuel cell projects. In an effort to help develop the market for green power in Maryland, a green power purchase requirement was established for the State Government. The fiscal 2002 electricity procurement process required a minimum 6% of green power for State facilities. This was the highest green procurement percentage requirement of any state that year. **MEA should brief the committee on whether this goal was achieved and what the associated costs were. Furthermore, MEA should include a clean power performance measurement in its MFR plan.**

Fiscal 2003 Actions

Impact of Cost Containment

As part of fiscal 2003 cost containment, the administration has indicated plans to reduce MEA's general funds by 4.9%, or $23,426. To comply, MEA intends to reduce general fund supported rent expenses by $18,250 and communications (postage and telephone) funds by $5,176.

Fiscal 2003 cost containment reflects the reversion of $924 to support free transit ridership for State employees, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2003.

Governor's Proposed Budget

As shown in **Exhibit 3**, MEA's fiscal 2004 budget allowance provides a 2.6% or $59,317 increase over fiscal 2003. While general funds decrease by $38,913, or 8.6%, this decrease is offset by additional special, federal, and reimbursable funds. MEA's anticipated 8% increase in federal funds is largely attributable to additional State Energy Conservation program funds from the U.S. Department of Energy. Among other programs, MEA intends to use federal funds to purchase a new compressed natural gas vehicle. The 3% increase in special funds is due to additional funding from the Energy Overcharge Trust Fund, which is comprised of funds received from oil overcharge cases heard in federal court. Additional special funds will be dedicated to the Home Energy Rating program, which helps Marylanders' measure the energy efficiency of their homes.

Impact of Cost Containment

The fiscal 2004 allowance reflects the elimination of $11,364 for matching employee deferred compensation contributions up to $600, contingent upon enactment of a provision in the BRFA of 2003.

Exhibit 3

Governor's Proposed Budget
Maryland Energy Administration
($ in Thousands)

	FY 02 Actual	FY 03 Approp	FY 04 Allowance	FY 03 - 04 Change	FY 03 - 04 % Change
General Funds	$406	$478	$419	-$59	-12.4%
FY 2003 Cost Containment	0	-23	0	23	
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted General Funds	**$406**	**$455**	**$416**	**-$39**	**-8.6%**
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Federal Funds	1,080	706	767	62	8.7%
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Adjusted Federal Funds	**$1,080**	**$705**	**$761**	**$56**	**8.0%**
Reimbursable Funds	84	87	99	13	14.5%
Adjusted Grand Total	**$2,443**	**$2,244**	**$2,303**	**$59**	**2.6%**

Where It Goes:	
Personnel Expenses	
Employee and retiree health insurance	$34
Retirement contribution cost	5
Cost containment and turnover	-20
Other	-3
Other Changes	
Home Energy Rating System program contract	33
New federally-funded compressed natural gas vehicle	20
Federal grant for local government energy efficiency assistance program	18
Fuel and utilities	-5
Equipment	-2
Communication	-2
Other	-19
Total	**$59**

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

Issues

1. Implementation of the Green Building Tax Credit Program

Background

The Maryland Commercial Green Building Tax Credit Program, Chapter 620, Acts of 2001 was created to encourage the construction or rehabilitation of green buildings. This voluntary program is authorized to provide up to $25 million in credits – for the 2003-2011 tax year period – against the State income tax for certain costs associated with constructing or rehabilitating buildings and equipment that meet energy efficiency and environmental standards. This program will provide a personal or corporate income tax credit of 6 - 8% of the allowable cost for the construction of a green building. Additional credits of 20 - 30% will be available for buildings utilizing fuel cells, photovoltaic modules, or wind turbines for the on-site production of energy. This statute charges MEA with establishing program standards and administering the program.

In accordance with the law, MEA is required to adopt standards for a building to qualify as a green building that are consistent with criteria set forth by the Maryland Green Building Council, the United States Green Building Council, or other similar criteria which meet the requirements of applicable energy efficiency and environmental standards. The U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system has been chosen as a key evaluation tool for the purposes of the tax credit. Currently, the "LEED Silver" is the minimum standard that all new State construction and leased spaces must meet.

Status of Implementing the Tax Credit

Draft implementing regulations were published in the Maryland Register in September 2002 and republished in December 2002 to reflect additional comments. MEA advises that these regulations will become effective March 3, 2003. The regulations anticipate an $88,858 increase in the expenditure of MEA general funds – reflecting the costs of two new positions. In the legislation's fiscal note, the Department of Legislative Services (DLS) estimated that costs would increase by $133,200 for these two positions. The regulations state that these new personnel will inspect buildings, review applications, create application forms, track data, create a comprehensive database, and issue credits. The regulations also estimate the total revenue loss to the State will be approximately $1,000,000 in fiscal 2004.

At this time, MEA lacks a new, dedicated position to implement this program. Also, the fiscal 2004 allowance did not include program implementation funds. As a result, the agency does not anticipate being able to move forward in a timely manner. While the hiring freeze kept MEA from hiring personnel to develop the program, a policy fellow loaned from the Department of Natural Resources (DNR) helped create the program standards and performed related outreach and education work. DNR's Environmental Design Program provides the business community, local governments, and interested citizens with information and on-site technical assistance they need to identify, implement, and evaluate actions to enhance and restore natural resources in and around developed environments.

DLS recommends that MEA brief the committee on how it intends to implement this program in fiscal 2004, including the role other State agencies such as DNR may or could assume. MEA should specifically comment on whether DNR would be a more appropriate administrator of this program, as DNR already has a program and staff working in the area. Furthermore, MEA should explain the energy efficiency and environmental standards that must be met to qualify for this program.

2. Overlapping Roles in the Promotion of Energy Efficiency within State-owned Facilities

Numerous State agencies administer programs that seek to improve energy efficiency within State government. It does not appear that these agencies coordinate their efforts, leading to a lack of policy consistency, potential duplication, and fragmented service.

Energy Efficiency and Green Buildings

MEA administers the State Agency Loan Program, which was created to provide zero-interest loans to State agencies to facilitate the implementation of energy conservation projects. MEA has also been charged with implementing and administering the Maryland Commercial Green Building Tax Credit Program, Chapter 620, Acts of 2001 which was created to encourage the construction or rehabilitation of green buildings. However, the Department of General Services (DGS) is also responsible for ensuring that State-owned buildings meet new energy-efficient green buildings criteria and implementing energy-efficient procurement guidelines. Furthermore, DNR currently provides the business community, local governments, and interested citizens with information and on-site technical assistance enhancing and restoring natural resources in and around developed environments. It is not clear why these programs cannot be combined, to provide a one-stop source of information for the private and public sector.

Statewide Vehicle Fleet Policy

The Department of Transportation (MDOT) and Department of Budget and Management (DBM) have sought to increase the purchase of alternative fuel vehicles by State agencies. MEA does not seem to have a role in fleet procurement policy, as the General Assembly had to call for DBM to develop policies to ensure appropriate usage and replacement of sport utility vehicles. If the State were to develop an overarching policy to require greater use of hybrid electric and compressed natural gas vehicles, all three agencies would have to coordinate their activities relating to procurement and the provision of fueling stations.

In conclusion, implementation and development of energy efficiency policy and programs is fragmented and the level of coordination among State agencies is unclear. It appears that it may be more efficient to concentrate energy efficiency services within a single State agency. **DLS recommends that MEA, DGS, MDOT, DBM, DNR and other State agencies as needed develop a report that summarizes all State**

energy efficiency programs and associated funding and staffing levels; describes existing State energy efficiency policy and program coordination efforts; and makes recommendations for improving and streamlining energy efficiency efforts related to State-owned facilities as well as private structures.

Recommended Actions

1. Add the following language:

<u>, provided that the Maryland Energy Administration, Department of General Services, Department of Transportation, Department of Natural Resources, other State agencies as appropriate, with the Department of Budget and Management as the coordinating entity, shall develop a report by December 1, 2003, that summarizes all State energy efficiency programs and associated funding and staffing levels; describes existing State energy efficiency policy and program coordination efforts; and makes recommendations for improving and streamlining energy efficiency efforts related to State-owned facilities as well as private structures.</u>

Explanation: Numerous State agencies administer programs that seek to improve energy efficiency within State government. Therefore, the Department of Legislative Services recommends that the Maryland Energy Administration (MEA), Department of General Services (DGS), Department of Transportation (MDOT), Department of Budget and Management (DBM), Department of Natural Resources (DNR) and other State agencies as appropriate develop a report that provides a summary of all State energy efficiency programs and associated funding and staffing levels; a description of existing State energy efficiency policy and program coordination efforts; and recommendations for improving and streamlining energy efficiency efforts related to State-owned facilities as well as private structures.

Information Request	**Authors**	**Due Date**
Report on streamlining State energy efficiency programs	MEA DGS MDOT DBM DNR	December 1, 2003

Updates

1. Report on the Feasibility of Ethanol Production in Maryland

On behalf of MEA, the Maryland Department of Agriculture, the Department of Business and Economic Development, and the Maryland Grain Producers Utilization Board, a report was completed by a private consulting firm (SJH & Company, Inc in Massachusetts) on the feasibility of building an ethanol production facility in Maryland. Maryland does not currently have any ethanol production capacity, although producers have apparently expressed interest. The report includes an overview of the ethanol industry, an analysis of factors that could affect the profitability of a small-grains based ethanol plant in Maryland, and a discussion of the positive impact an ethanol plant would have on Maryland's economy. Furthermore, several constraints as well as issues in need of additional research are discussed. The report concludes by making a number of recommendations for both private industry and public policy makers that "…will support the viable, long-term production of ethanol in Maryland." Several of the recommendations for developing supportive public policy are listed below:

- Ethanol production credits similar to programs in a number of other states (e.g., Missouri), which, compared to other incentive programs, provide the most significant support to venture viability.

- Ethanol excise tax credits for blenders.

- Income tax credits similar to the federal small producer tax credit.

- Bond programs that drive down the cost of capital by reducing the term rates for debt capital.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Energy Administration
($ in Thousands)

	General Fund	**Special Fund**	**Federal Fund**	**Reimb. Fund**	**Total**
Fiscal 2002					
Legislative Appropriation	$431	$1,056	$673	$84	$2,244
Deficiency Appropriation	0	0	0	0	$0
Budget Amendments	0	0	737	0	$737
Reversions and Cancellations	-25	-183	-329	0	-$537
Actual Expenditures	**$406**	**$873**	**$1,081**	**$84**	**$2,443**
Fiscal 2003					
Legislative Appropriation	$478	$998	$706	$87	$2,269
Budget Amendments	-23	-1	-1	0	-$25
Working Appropriation	**$455**	**$997**	**$705**	**$87**	**$2,244**

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

Fiscal 2002 Changes

The change in fiscal 2002 general funds was primarily due to a $17,000 reduction for cost containment.

The major change in fiscal 2002 for MEA was a $736,833 increase in federal funds. The U.S. Department of Energy provided the majority of these funds to develop energy efficient products, purchase compressed natural gas shuttle buses, develop an ethanol fuel infrastructure, implement the AFV rebate program, and develop Smart Growth integration mechanisms.

Fiscal 2003 Changes

MEA is required to reduce general fund operational expenses by $23,426 for cost containment in fiscal 2003. A description of these changes is provided earlier in the analysis.

Object/Fund Difference Report
Maryland Energy Administration

Object/Fund	FY 02 Actual	FY 03 Working Appropriation	FY 04 Allowance	FY 03 – FY 04 Amount Change	Percent Change
Positions					
01 Regular	20.00	20.00	20.00	0	0%
02 Contractual	1.00	2.00	1.00	-1.00	-50.0%
Total Positions	**21.00**	**22.00**	**21.00**	**-1.00**	**-4.5%**
Objects					
01 Salaries and Wages	$ 1,350,556	$ 1,359,922	$ 1,386,363	$ 26,441	1.9%
02 Technical & Spec Fees	65,189	31,421	67,962	36,541	116.3%
03 Communication	24,796	26,691	25,040	-1,651	-6.2%
04 Travel	33,599	32,453	33,599	1,146	3.5%
06 Fuel & Utilities	9,084	17,235	12,000	-5,235	-30.4%
07 Motor Vehicles	2,438	2,625	22,695	20,070	764.6%
08 Contractual Services	738,743	632,180	591,638	-40,542	-6.4%
09 Supplies & Materials	11,682	6,800	8,300	1,500	22.1%
10 Equip - Replacement	13,826	4,095	4,994	899	22.0%
11 Equip - Additional	4,288	1,700	0	-1,700	-100.0%
12 Grants, Subsidies, Contr	72,786	33,381	42,616	9,235	27.7%
13 Fixed Charges	115,820	119,445	119,498	53	0%
Total Objects	**$ 2,442,807**	**$ 2,267,948**	**$ 2,314,705**	**$ 46,757**	**2.1%**
Funds					
01 General Fund	$ 405,896	$ 478,074	$ 418,771	-$ 59,303	-12.4%
03 Special Fund	872,857	997,575	1,029,513	31,938	3.2%
05 Federal Fund	1,080,485	705,509	767,016	61,507	8.7%
09 Reimbursable Fund	83,569	86,790	99,405	12,615	14.5%
Total Funds	**$ 2,442,807**	**$ 2,267,948**	**$ 2,314,705**	**$ 46,757**	**2.1%**

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.