DA13
Maryland Energy Administration – Capital

Capital Budget Summary

Grant and Loan Programs
($ in Millions)

	FY 2011 Approp.	*FY 2012 Approp.*	*FY 2013 Allowance*	*Percent Change*	*DLS Recommd.*
The Jane E. Lawton Loan Program	$2.188	$2.500	$2.500	**0.0%**	$1.750
State Agency Loan Program	8.062	4.062	2.500	**-38.4%**	2.500
Total	**$10.250**	**$6.560**	**$5.000**	**-23.8%**	**$4.250**

Note: The amounts listed for fiscal 2011 represent the appropriated levels, not the level of actual expenditures. Budget amendments are included in the appropriation level.

Summary of Issues

Few Loans Awarded and Projects Completed through the Jane E. Lawton Conservation Loan Program: In recent years, the Maryland Energy Administration (MEA) has had difficulty in generating loan applications and in executing loans through the Jane E. Lawton Conservation Loan Program. Due to these difficulties, the encumbrances have fallen well below the authorized spending level in each year. In fiscal 2010, after accounting for loan cancellations, MEA ultimately only encumbered $292,800. Although encumbrances increased in fiscal 2011 to $1.3 million, the loan activity was far below its authorized spending level ($2.19 million).

State Agency Loan Program Fund Balance Minimal in the *Capital Improvement Program*: The revolving loan fund balance for the State Agency Loan Program that would result from the 2012 *Capital Improvement Program* is minimal in fiscal 2013 and 2014, an estimated $34,715 and $9,747 respectively. Adjustments may be required to the spending plan if loan repayments do not materialize at the levels anticipated.

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Summary of Recommended PAYGO Actions

		Funds
1.	Reduce the Jane E. Lawton Conservation Loan Program authorization by $750,000.	$ 750,000
2.	Concur with Governor's allowance for the State Agency Loan Program.	

Program Description

Program Description: The Maryland Energy Administration (MEA) administers two revolving loan programs. Chapters 466 and 467 of 2008 created the Jane E. Lawton Conservation Loan Program (JELLP) consolidating two formerly separate programs (the Community Energy Loan Program and the Energy Efficiency and Economic Development Loan Program). The JELLP supports energy 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.

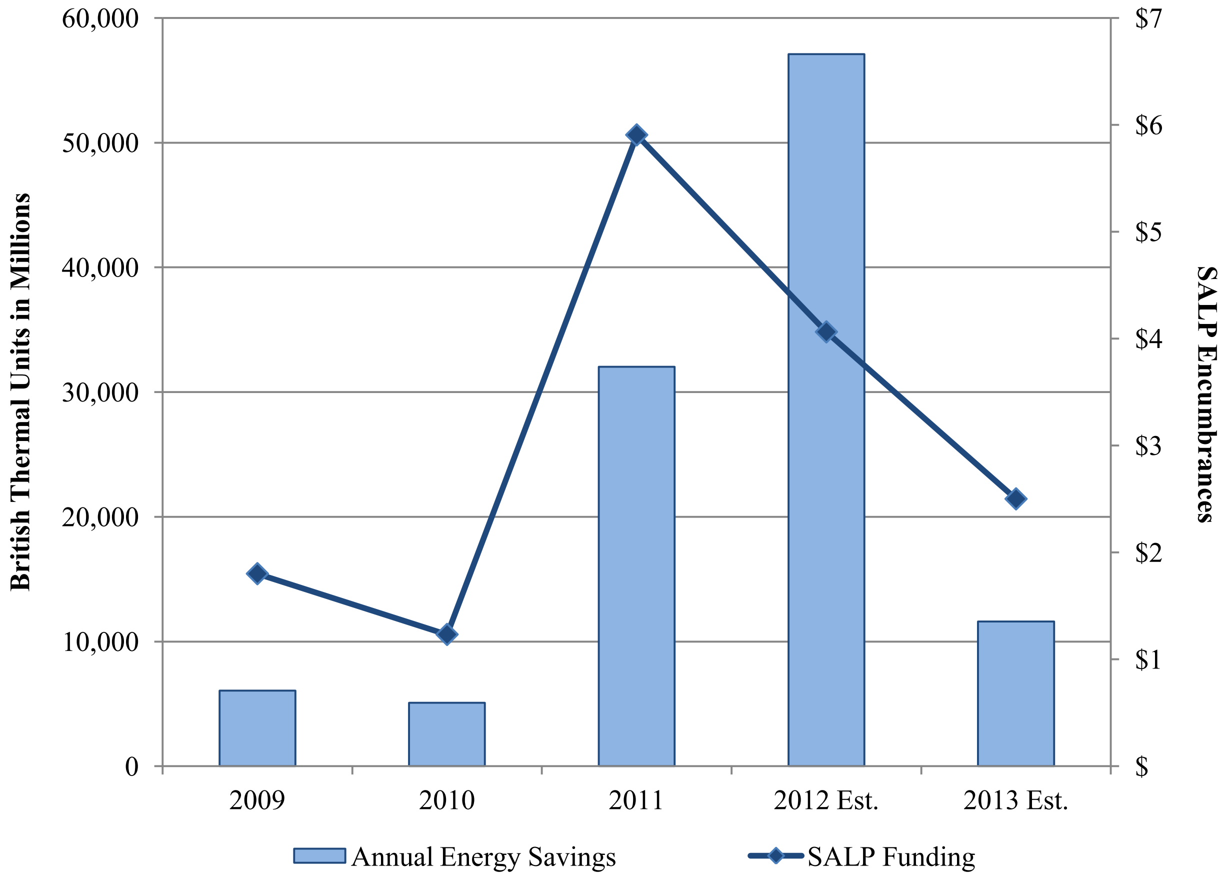
These programs were initially capitalized with funds from the Energy Overcharge Restitution Fund; the JELLP received these funds in 1989 and 1990 and the SALP in 1991 and 1997. The JELLP and the SALP also received an infusion of additional funds in fiscal 2009 from the Strategic Energy Investment Fund (SEIF), which primarily receives revenue from Regional Greenhouse Gas Initiative carbon dioxide emission allowance auctions. The SEIF was also available to the JELLP in fiscal 2010. The SALP has also received additional support from the State Energy Program funds available from the American Recovery and Reinvestment Act of 2009 (ARRA), a total of $7 million.

Through fiscal 2011, according to the Department of Budget and Management (DBM), the JELLP (and its predecessor programs) has provided 67 loans totaling $18.8 million to 29 local governments, 35 nonprofit organizations, and three businesses. These loans have produced an estimated $50.4 million in energy savings. According to DBM, through fiscal 2011, the SALP has provided 81 loans totaling $25.9 million. The SALP loans have produced estimated cumulative savings of $24.3 million.

Program Performance Measures and Outputs

As shown in **Exhibits 1** and **2**, annual energy savings do not always follow the trend of encumbrances in either the SALP or the JELLP. The variations typically result from higher than normal energy savings for particular projects. For example, MEA reports that one project in the SALP in fiscal 2012 is expected to produce larger than typical savings due to the replacement of an existing heating system with a more efficient system and the age of the system, which led to the system being less efficient than it would otherwise have been. As a result, in fiscal 2012, the annual energy savings are projected to be 78.2% higher than fiscal 2011 despite a 31.2% reduction in loan activity. The JELLP experienced a spike in savings, with several fiscal 2011 projects resulting in higher than normal annual energy savings. In both programs, MEA anticipates that, following these one-year energy savings anomalies, energy savings from projects will return to more historic levels.

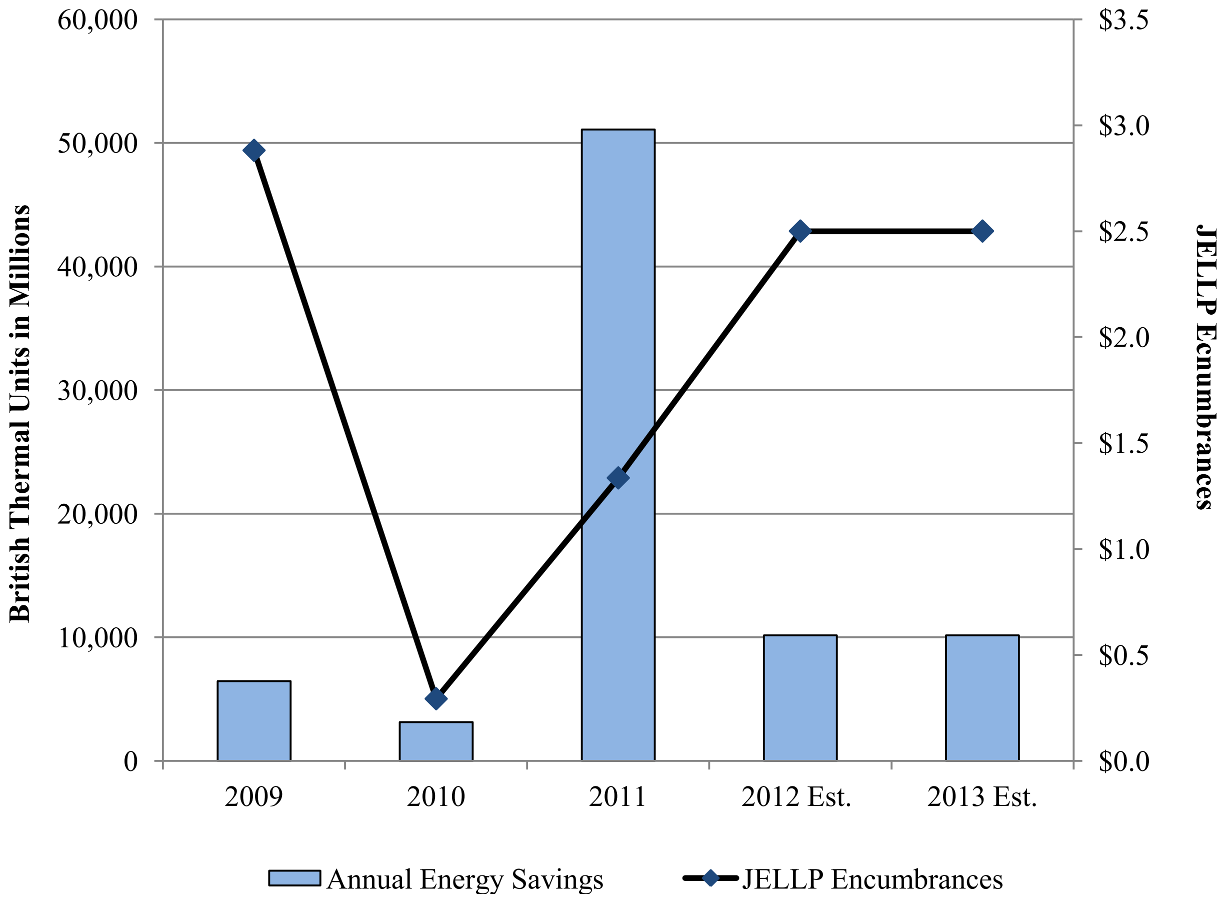
Exhibit 1
State Agency Loan Program Energy Savings vs. Encumbrances
Fiscal 2009-2013
($ in Millions)



SALP: State Agency Loan Program

Source: Maryland Energy Administration; Governor's Budget Books

Exhibit 2
Jane E. Lawton Loan Program Energy Savings vs. Encumbrances
Fiscal 2009-2013
($ in Millions)



JELLP: Jane E. Lawton Loan Program

Note: The fiscal 2010 encumbrances have been adjusted from the level reported in the fiscal 2013 Governor's budget books to more accurately reflect the level of encumbrances in that year as reported by the Maryland Energy Administration in the revolving loan fund summary.

Source: Maryland Energy Administration; Governor's Budget Books

Capital Improvement Program

Grant and Loan Capital Improvement Program
($ in Millions)

Description	*2011 Approp.*	*2012 Approp.*	*2013 Request*	*2014 Estimate*	*2015 Estimate*	*2016 Estimate*	*2017 Estimate*
PAYGO SF	$3.288	$5.000	$5.000	$5.000	$5.000	$5.000	$5.000
PAYGO FF	6.962	1.562	0.000	0.000	0.000	0.000	0.000
Total	**$10.250**	**$6.562**	**$5.000**	**$5.000**	**$5.000**	**$5.000**	**$5.000**

Grant and Loan Capital Improvement Program
($ in Millions)

Program	*2011 Approp.*	*2012 Approp.*	*2013 Request*	*2014 Estimate*	*2015 Estimate*	*2016 Estimate*	*2017 Estimate*
The Jane E. Lawton Loan Program	$2.188	$2.500	$2.500	$2.500	$2.500	$2.500	$2.500
State Agency Loan Program	8.062	4.062	2.500	2.500	2.500	2.500	2.500
Total	**$10.250**	**$6.562**	**$5.000**	**$5.000**	**$5.000**	**$5.000**	**$5.000**

Note: The amounts listed for fiscal 2011 represent the appropriated levels not the level of actual expenditures. Budget amendments are included in the appropriation level.

Budget Overview

MEA's total fiscal 2013 pay-as-you go budget allowance for the JELLP and the SALP is $5.0 million, $2.5 million for each program. The fiscal 2013 allowance for these programs, and all subsequent years in the *Capital Improvement Program* (CIP), provides no additional transfers into the respective funds and relies on the revolving loan fund balances to support the expenditures.

The fiscal 2013 allowance for the JELLP is consistent with the 2011 CIP. However, the fiscal 2013 allowance for SALP is $250,000 higher than the amount planned in the 2011 CIP. The fiscal 2013 allowance of $2.5 million for the JELLP level funds the program compared to the fiscal 2012 working appropriation but represents an increase of more than $1.0 million from recent years' actual encumbrance activity.

The fiscal 2013 allowance of $2.5 million for SALP represents a decrease of approximately $1.6 million from the fiscal 2012 working appropriation. Although the SALP was initially authorized at $2.5 million in fiscal 2012, a budget amendment brought forward $1.6 million in federal funds available from the ARRA appropriated in fiscal 2011 but unencumbered in that year. These funds were initially required to be expended by the end of April 2012; however, MEA has requested a grant extension through the end of calendar 2012 for the expenditures of these funds. These funds have been encumbered, and the project to be funded is expected to be completed in February 2012. Under this timeline, MEA should be able to expend all ARRA funding available to the SALP before the required deadline.

Through January 2012, $2.57 million of the fiscal 2012 SALP authorization had been encumbered or committed. The remaining authorization ($1.5 million) is expected to be used in conjunction with the Department of General Services for projects at various State agencies. The SALP may also be used in either fiscal 2012 or 2013 to support a portion of a much larger project with the State Highway Administration, but the timing and final decision on the project have not been determined.

Under the 2012 CIP, in each year through fiscal 2017, each program would receive an authorization of $2.5 million. This level of authorization is consistent with the 2011 CIP for the SALP and in the JELLP for 2014 and 2015 only. The difference between the 2011 and 2012 CIP for the JELLP would increase the fiscal 2016 authorization by $0.5 million, to provide $2.5 million.

Issues

1. Few Loans Awarded and Projects Completed through the Jane E. Lawton Conservation Loan Program

In the three completed fiscal years (fiscal 2009 to 2011) under which the JELLP has operated, the loan activity has been far below the appropriation level, as shown in **Exhibit 3**. In total, in these three years, the JELLP has encumbered only 40.3% ($4.5 million) of the $11.2 million funds available to support the program. **Appendix 1** provides additional detail on the encumbrance activity and fund balance of the JELLP. During the same time period, the SALP has encumbered 75.3% ($8.9 million) of appropriated funds ($11.9 million) that were available to support the program. Although some portion of the encumbrances of each program has been cancelled, the cancellations have occurred at a lower rate in the SALP.

Exhibit 3
Jane E. Lawton Loan Program Appropriation vs. Encumbrances
Fiscal 2009-2011

	2009	2010	2011	Total
Appropriation	$3,500,000	$5,500,000	$2,187,925	$11,187,925
Encumbrance Activity	2,880,655	292,800	1,335,000	4,508,455
Percent of Appropriation actually encumbered	82.3%	5.3%	61.0%	40.3%

Note: The fiscal 2009 appropriation consists of $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 consists of $2.75 million legislative appropriation and $2.75 million of federal funds available from the American Recovery and Reinvestment Act of 2009 (ARRA), ultimately never used in the program, brought in by budget amendment. The fiscal 2011 appropriation represents the legislative appropriation after the transfer of the ARRA funds by budget amendment as required by budget bill language. Encumbrance activity is as reported in the revolving loan fund summary.

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

MEA indicates in fiscal 2012 that it has made some effort to improve the level of loan activity in this program. Program changes include:

- increased outreach to utility companies in an attempt to build on existing utility/customer relationships;

- outreach and technical assistance to community development financial institutions to incorporate energy efficiency into neighborhood projects;
- using federal grant funds to offer business cases to applicants; and
- plans to procure legal support to streamline and improve the loan closing process.

In addition, MEA planned to begin accepting applications on May 1, 2011. In prior fiscal years, applications for loans were not accepted until after the fiscal year began. MEA planned to reserve a portion of the funding ($825,000) for nonprofit organizations and local governments who applied between May 1 and July 29, 2011. After that time, all funds were to be available on a first-come-first serve basis. MEA expected to be able to begin making commitments for loans beginning July 1, 2011, and begin closing on loans September 26, 2011.

However, through January 20, 2012, MEA had not encumbered any of the fiscal 2012 appropriation for the JELLP. One project, with an anticipated loan value of $558,680, is currently under consideration for a loan. MEA reports that a couple of other projects are in earlier phases of consideration. **Given the limited impact of the program changes to date, the Department of Legislative Services recommends reducing the appropriation by $750,000 for the JELLP, until such a time as the agency can demonstrate it has sufficient loan activity to justify the additional authorization.**

2. State Agency Loan Program Fund Balance Minimal in the *Capital Improvement Program*

The revolving loan fund summary for the SALP based on the 2012 CIP presents several issues of concern. Based on the current CIP, the SALP revolving loan fund is expected to have a balance of only $34,715 at the close of fiscal 2013 and $9,747 in fiscal 2014, as shown in **Exhibit 4**. The fund balance is expected to recover in the later years of the CIP (fiscal 2015 to 2017) as loan repayments increase.

MEA uses an encumbrance method of accounting for its fund balance. This means that once funds to support a loan are encumbered, these funds are removed from the fund balance, even though the funds have not been expended by the agency. Therefore, the fund balance will appear less than the actual cash balance. As a result, MEA may not actually experience a negative fund balance on a cash basis in the event that loan repayments are not received at the anticipated level.

Regardless of whether the agency actually experiences a negative cash fund balance, MEA's loan activity could be impacted if loan repayments are not received as expected. MEA may be required to reduce the number or value of loans made to ensure that the agency does not oversubscribe the revolving loan fund. **MEA should discuss its processes for monitoring loan repayments and the revolving loan fund balance to ensure that the revolving loan fund is not oversubscribed.**

Exhibit 4
State Agency Loan Program Revolving Loan Fund Summary
Fiscal 2010-2017

	2010 Actual	2011 Actual	2012 Current	2013 Estimated	2014 Estimated	2015 Estimated	2016 Estimated	2017 Estimated
Beginning Balance	**$485,530**	**$384,794**	**$1,231,689**	**$524,782**	**$34,715**	**$9,747**	**$282,520**	**$758,027**
Revenue								
General Funds	$0	$0	$0	$0	$0	$0	$0	$0
Loan Repayment	1,095,251	1,042,699	1,788,657	2,026,188	2,492,307	2,787,795	2,986,166	3,240,733
Investment Interest	56,648	185,409	32,423	13,745	12,725	14,978	19,341	26,241
Transfer In (Out) Other Funds	0	5,400,000	1,562,075	0	0	0	0	0
Closing Fees Collected	0	0	0	0	0	0	0	0
Cancellation of Encumbrances	0	150,000	0	0	0	0	0	0
Total Revenue	**$41,151,899**	**$6,778,108**	**$3,383,155**	**$2,039,933**	**$2,505,032**	**$2,802,773**	**$3,005,507**	**$3,266,974**
Total Available	**$1,637,428**	**$7,162,903**	**$4,614,844**	**$2,564,715**	**$2,539,747**	**$2,812,520**	**$3,288,027**	**$4,025,001**
Expenditures and Encumbrances								
Loans	$1,231,646	$5,905,000	$4,062,075	$2,500,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000
Operating Expenses	20,988	26,213	27,987	30,000	30,000	30,000	30,000	30,000
Total Expenditures and Encumbrances	**$1,252,634**	**$5,931,213**	**$4,090,062**	**$2,530,000**	**$2,530,000**	**$2,530,000**	**$2,530,000**	**$2,530,000**
Ending Balance	**$384,794**	**$1,231,689**	**$524,782**	**$34,715**	**$9,747**	**$282,520**	**$758,027**	**$1,495,001**

Source: Maryland Energy Administration

Accounting Concerns

Another concern is that the SALP revolving loan fund summary shows revisions in prior year actual data. The fiscal 2010 opening fund balance was revised from $222,835 to $485,530. MEA indicates that this change reflects an adjustment to the fiscal 2009 closing balance which was incorrectly reported. **MEA should comment on planned improvements to its procedures to prevent similar situations from arising in the future.**

In addition, the mechanism for estimating interest in the two programs does not appear to be consistent or have a direct relationship to the revolving loan fund balance. Despite changes in the revolving loan fund balance for the JELLP since the 2011 session, the interest calculation in the revolving loan fund summary has not been altered, although it would seem that the larger fund balance now expected would generate a higher level of interest.

Although the interest calculation for the SALP has been updated from the 2011 session, the calculation does not appear to account for the actual fund balance. For example, as shown in Exhibit 4, in fiscal 2014, the estimated interest is actually larger than the closing fund balance in that year and more than a third of the prior year fund balance. **MEA should clarify its process for estimating future interest income to ensure that the estimates do not distort the anticipated fund balance so that the implications of the current spending can readily be observed.**

PAYGO Recommended Actions

		Funds	
1.	Reduce the Jane E. Lawton Conservation Loan Program authorization. The Maryland Energy Administration's recent encumbrance history does not indicate that the agency will be able to encumber $2.5 million. If the agency is able to develop a project list to encumber more than $1.75 million, a deficiency appropriation or budget amendment could allow for additional spending authority.	$ 750,000	SF
2.	Concur with Governor's allowance for the State Agency Loan Program.		

Revolving Loan Summary
Jane E Lawton Loan Program
Fiscal 2009-2017

	2009 Actual	2010 Actual	2011 Actual	2012 Current	2013 Estimated	2014 Estimated	2015 Estimated	2016 Estimated	2017 Estimated
Beginning Balance	**-$147,524**	**$1,440,397**	**$4,640,665**	**$4,531,308**	**$3,501,587**	**$2,762,750**	**$2,587,911**	**$2,216,602**	**$1,657,704**
Revenue									
General Funds	$0	$0	$0	$0	$0	$0	$0	$0	$0
Loan Repayment	833,147	1,010,597	1,148,711	1,363,094	1,621,700	2,227,299	2,024,620	1,857,708	1,811,879
Investment Interest	131,331	125,480	125,330	167,728	200,006	158,405	164,614	143,937	145,950
Transfer In (Out) Other Funds	3,561,382	1,000,000	0	0	0	0	0	0	0
Closing Fees Collected	750	0	0	0	0	0	0	0	0
Cancellation of Encumbrances	0	1,403,232	0	0	0	0	0	0	0
Total Revenue	**$4,526,610**	**$3,539,309**	**$1,274,041**	**$1,530,822**	**$1,821,706**	**$2,385,704**	**$2,189,234**	**$2,001,645**	**$1,957,829**
Total Available	**$4,379,086**	**$4,979,706**	**$5,914,706**	**$6,062,130**	**$5,323,293**	**$5,148,454**	**$4,777,145**	**$4,218,247**	**$3,615,533**
Expenditures and Encumbrances									
Loans	2,880,655	$292,800	$1,335,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000
Operating Expenses	58,034	46,241	$48,398	60,543	60,543	60,543	60,543	60,543	60,543
Total Expenditures and Encumbrances	**$2,938,689**	**$339,041**	**$1,383,398**	**$2,560,543**	**$2,560,543**	**$2,560,543**	**$2,560,543**	**$2,560,543**	**$2,560,543**
Ending Balance	**$1,440,397**	**$4,640,665**	**$4,531,308**	**$3,501,587**	**$2,762,750**	**$2,587,911**	**$2,216,602**	**$1,657,704**	**$1,054,990**