Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1342 (Delegate Wood)
Commerce and Government Matters

State Procurement - Energy Performance Contracts - Duration

This bill extends the maximum duration of an energy performance contract from 12 years to 25 years.

Fiscal Summary

State Effect: Potential indeterminate decrease in expenditures; revenues would not be affected.

Local Effect: None.

Fiscal Analysis

Background: Chapter 490 of 1992 requires State agencies to reduce their energy use 15% by 1996 and 25% by 2001. With an energy performance contract, an outside vendor installs an energy efficiency system. The savings that result from lowering fuel and utilities expenditures are used to pay the contractor over a period of time. Once the project is paid off, these cost savings accrue to the State.

State Effect: To the extent that the longer term for a contract allows projects with longer term payoffs to be installed, cost savings on utility expenditures could be realized in the out-years. The traditional way of funding energy projects is to purchase the equipment through the capital budget. Using an energy performance contract would eliminate these up-front costs (though if the State paid for the initial installation costs then any utility cost savings could be redirected to other priorities immediately rather than at the end of the contract period).

A total of seven energy performance contracts have been approved to date, involving $19.3 million in energy efficiency improvements, with $2.4 million in guaranteed annual savings. One potential project that could be undertaken with a contract term in the 12 to 25 year range is a Chiller CFC Mitigation project; the fiscal 1997 capital budget request includes $7 million for Chiller CFC Mitigation. It is projected that for the next three fiscal years requests for this project could total $18 million. If all these mitigation components could be handled using energy performance contracts, in the out-years these capital requests would not be required. Instead, the costs of the project would be paid off over the length of the contract through the energy expenditure savings.

The Maryland Energy Administration advises that approximately 45% ($4.7 million) of the fiscal 1997 Facilities Renewal Capital Budget Request is for energy related projects that could be funded through longer term energy performance contracts in lieu of capital funding.

Information Source(s): Maryland Energy Administration, Department of Budget and Fiscal Planning, University of Maryland System, Maryland Department of Transportation, Department of Fiscal Services

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Analysis by: Kim E. Wells
Reviewed by: John Rixey
Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710