

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE
Revised

House Bill 348

(Delegate Hubbard, *et al.*)

Health and Government Operations

Education, Health, and Environmental Affairs

**Procurement - Environmentally Preferable Products and Equipment - Report
 and Purchase**

This bill requires the Department of General Services (DGS) to conduct a study of the feasibility of a pilot program to institute test marketing of environmentally preferable products and equipment (EPPs) to State units and various economic impacts of the purchase of EPPs by State units. The Secretary of General Services is required to submit a report to the General Assembly before October 1, 2004.

The bill also requires the Secretary of General Services to review and evaluate the potential procurement and use by each State unit of hybrid electric vehicles. The Secretary must report to the Health and Government Operations and Education, Health, and Environmental Matters committees on or before December 31, 2003.

The bill takes effect June 1, 2003 and terminates December 31, 2004.

Fiscal Summary

State Effect: General fund expenditures would increase \$160,900 in FY 2004 due to the feasibility study of a pilot program and the report on the purchase of hybrid electric vehicles. Out-year expenditures reflect termination of reporting provisions on December 31, 2004.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	160,900	101,800	0	0	0
Net Effect	(\$160,900)	(\$101,800)	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: EPPs mean products, including supplies, and equipment manufactured and designed for utilization in accordance with a broad range of measures that prevent or minimize environmental degradation. Measures include: (1) resource conservation; (2) source reduction; (3) waste minimization; (4) recycling; (5) use of innovative technology; or (6) use of components that are free of toxic or degrading agents or contain the least amount of toxic or degrading agents necessary to meet applicable job specifications.

Reporting requirements in the bill include: (1) the feasibility of a pilot program to institute the test marketing of EPPs to State procurement units; (2) the amount of time necessary for initial costs to be repaid from savings achieved by EPPs, other long-term cost savings, productivity enhancements, and any other benefits achieved or losses realized; (3) the availability of alternate funding sources for the purchase of EPPs; (4) the short-term and long-term impacts on the State budget including full cost implications of environmental sustainability efforts; (5) anticipated environmental benefits; and (6) the short-term and long-term impacts on the overall economy and business climate of the State, including the development of private industry as a result of the increased demand and stable market for EPPs, such as annual revenues generated, jobs created, and revenues to be contributed to the State.

The Secretary of General Services is directed to seek pertinent information and recommendations from the business community regarding the likely impact of State procurement of EPPs, including: (1) any business that, as of July 1, 2003, has a contract with the State for the provision of products, equipment, or services; and (2) any business engaged in the manufacture, sale, distribution, or repair of EPPs within the State of Maryland, including small resource-based businesses and entrepreneurs.

Each State procurement unit is directed to: (1) provide timely information to the Secretary of General Services in regards to reporting requirements; (2) by January 1, 2005 establish short-term objectives and long-range goals to maximize the use of EPPs; and (3) initiate processes to review internal operations, identify environmental impacts, and make recommendations for the reduction of the environmental impact of its operations.

Current Law: The Secretary of General Services, the Secretary of Transportation, and the Chancellor of the University System of Maryland are required to establish a percentage price preference, not to exceed 5%, for the purchase of products made from recycled materials. Recycled materials include post-consumer material, industrial scrap material, compost, and obsolete inventories.

To encourage the maximum purchase of commodities utilizing recycled materials, DGS, in consultation with the Department of the Environment, the University of Maryland, the Maryland Environmental Service, the Department of Transportation (MDOT), the Department of Natural Resources, the Department of Health and Mental Hygiene, and as necessary with representatives of the recycling industry and environmental organizations, shall establish a list of acceptable products that contain recycled materials.

Under the federal Energy Policy Act (EPAct) of 1992, many fleets of vehicles, including the State's fleet, are subject to alternative fuel vehicle acquisition requirements. For example, for light-duty vehicles that are model year 2001 and later, 75% of the covered vehicle acquisitions must be for alternative fuel vehicles (AFVs). Several classes of vehicles are exempt, including police vehicles, EMT vehicles, and take-home vehicles. In addition, the regulations apply only to State vehicles in operation in given geographic areas, primarily metropolitan areas.

Background:

EPPs

The Commonwealth of Massachusetts instituted environmentally preferable purchasing regulations in fiscal 1993. State expenditures for procurement of EPPs have grown from \$2.8 million in fiscal 1992 to \$68.9 million in fiscal 2001. The state began the program as a means to create stable markets for recyclable materials collected by local jurisdictions and to provide leadership in the purchase and use of recycled and energy efficient products, equipment, and services.

EPPs purchased in Massachusetts include: recycled aluminum sheeting, antifreeze, corrugated boxes, packing supplies, building materials and supplies, carpeting, ceramic tiles, home composting bins, envelopes, flooring/matting, glass beads, industrial/commercial supplies, paper plates/bowls, lottery ticket packing supplies, lottery tickets, motor oil (re-refined), office furnishings and supplies, paper towels, toilet paper, facial tissue, paper, clothing, food service items, and plastic safety vests. Remanufactured items include toner cartridges, hospital supplies, and vehicle parts/accessories. The state highway agency has utilized EPPs such as reclaimed asphalt pavement (RAP); concrete with additives and density fill, controlled density fill/fly ash,

loam with compost, pavement millings mulch, pavement with RAP and reclaimed pavement, recycled mulch, rubberized asphalt and roadway materials.

EPP services include integrated pest management, hazardous materials collection services, used carpeting removal services, scrap tire disposal services, and alternative water treatment (pool ionization).

Remanufactured toner cartridges save Massachusetts \$250,000 annually. A study by the Massachusetts Operational Services Division estimated that savings from use of Energy Star compliant computer equipment could reach \$1.3 million annually.

Hybrid Electric Vehicles

A hybrid electric vehicle combines the internal combustion engine of a conventional vehicle with an electric motor and can achieve about twice the fuel economy of a conventional vehicle. An energy storage system, such as batteries, stores the power to run the electric motor. According to the Department of Energy (DOE), commercially available hybrid electric vehicles do not meet the requirements of an alternative fuel vehicle for the fleet acquisition requirements because they are not primarily powered by an electric motor.

Commercially available hybrid electric vehicles would only qualify as Type I vehicles for State procurement purchases. For State procurement purposes, a Type I vehicle is a standard four-door vehicle providing transportation for up to four people. During fiscal 2003, the Department of Budget and Management (DBM) has purchased 100 Type I vehicles at an average cost of \$10,118 per vehicle. The average cost of a hybrid electric vehicle is \$19,469 according to DBM. DBM does not anticipate the purchase of additional vehicles in fiscal 2003. Only one Type I vehicle purchased in fiscal 2003 has been hybrid electric.

State Expenditures: General fund administrative expenditures could increase by an estimated \$160,894 in fiscal 2004, which accounts for the bill's June 1, 2003 effective date.

DGS procures approximately \$250 million and 850 different types of commodities that would be subject to the provisions of this bill. DGS indicates that it has no historical data on the development of industries around government-mandated purchases. DGS advises that this study is outside the scope of its current responsibilities and would require additional resources for the time period of the study.

DGS has determined that seven contractual positions are needed to implement this bill. However, the Department of Legislative Services advises that five contractual employees could perform the reporting provisions. This estimate reflects the cost of hiring one contractual DGS procurement officer supervisor, one DGS procurement officer lead, two contractual agency procurement specialists I, and one contractual data entry clerk to conduct a study of the feasibility of a pilot program to institute test marketing of EPPs to State units, the amount of time necessary to recover costs from the use of EPPs, and the availability of alternative funding sources.

Contractual Salaries	\$137,491
Operating Expenses	<u>23,403</u>
Total FY 2004 Expenditures	\$160,894

Fiscal 2005 expenditures reflect: (1) 4.5% annual salary increases and 6.8% employee turnover; (2) 1% annual increases in ongoing operating expenses; and (3) the December 31, 2004 sunset date.

Additional Information

Prior Introductions: None.

Cross File: SB 541 (Senator Grosfeld) – Education, Health, and Environmental Affairs.

Information Source(s): Department of Human Resources, Morgan State University, University System of Maryland, Board of Public Works, Department of Budget and Management, Department of General Services, Department of Public Safety and Correctional Services, Department of Transportation, Massachusetts Operational Services Division, *Government Finance Review* (February 2002), United States Department of Energy, Department of Legislative Services

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