

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 485

(Senator Garagiola, *et al.*)

Budget and Taxation

Ways and Means

Solar Energy Grant Program

This bill creates a solar energy grant program administered by the Maryland Energy Administration. The grant program would receive an annual budget appropriation. In fiscal 2005 the program's funding is as provided in the State budget. Beginning in fiscal 2006, the bill states that it is the intent of the General Assembly that at least \$500,000 be included in the State budget each year. The purchases of property eligible for the program would be identical to those that are currently eligible for tax credits under the solar energy tax credit, which sunsets on July 1, 2004. The amount of the grant is equal to the lesser of: (1) \$3,000 or 20% of the total installed cost of photovoltaic property (maximum limit is increased to \$5,000 if installed on nonresidential property); and (2) \$2,000 or 20% of the total installed cost of solar water heating property. Grants can be made to individuals, businesses, and local governments.

The bill takes effect January 1, 2005.

Fiscal Summary

State Effect: General fund expenditures for grants and administrative expenses will increase to the extent that funding is provided to the program in the FY 2005 budget. Beginning in FY 2006, grants and administrative expenditures could increase by \$500,000 annually. Administrative expenses at the Maryland Energy Administration are estimated at \$34,352 in FY 2005. Supplemental Budget #2 for FY 2005 includes \$103,500 for the grant program.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	103,500	500,000	500,000	500,000	500,000
Net Effect	(\$103,500)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The solar tax credit program terminates December 31, 2004. The amount of the solar energy tax credit is equal to 15% of the installation cost of qualifying photovoltaic and solar water heating property. The maximum amount of credit may not exceed: (1) \$2,000 for photovoltaic property; (2) \$1,000 for solar water heating property; or (3) the tax liability for that tax year. Any unused amount of the credit may not be carried forward to any other tax year.

Photovoltaic property is defined as solar energy property that uses a solar process to generate electricity and meets applicable Maryland Energy Administration performance and quality standards. Solar energy property includes property that uses solar energy to generate electricity, heat or cool a structure or provide hot water, or provides solar process heat. Swimming pools, hot tubs, or other energy storage medium that has a function other than energy storage does not qualify as solar energy property.

Solar water heating property is defined as property that uses solar energy to provide hot water for use within the structure it is installed and meets applicable Maryland Energy Administration performance and quality standards.

The tax credit may not be claimed for property placed in service after December 31, 2004, and may only be applied to tax years beginning in 2000 and ending in 2004.

Background: The table below lists the estimated energy consumption, in trillion BTUs, for Maryland in 2000 by energy source.

<u>Coal</u>	<u>Natural Gas</u>	<u>Petroleum</u>	<u>Nuclear</u>	<u>Hydroelectric</u>	<u>Wood</u>	<u>Geothermal, Wind, Photovoltaic</u>
312.1	217.1	553.4	144.2	17.7	35.8	0.2

Source: U.S. Department of Energy

Exhibit 1 lists the amount of credits that have been claimed under the tax credit program since its inception in tax year 2000. The Comptroller's Office reports that almost all of the credits were claimed for solar energy property and all of the returns were filed against the personal income tax.

**Exhibit 1
Credit Claimed by Tax Year**

<u>Tax Year</u>	<u>Returns</u>	<u>Credits</u>
2000	6	\$3,845
2001	16	\$16,467
2002	106	\$94,230
Total	128	\$114,542

State Expenditures: The bill provides that the amount of grants awarded each fiscal year will be as provided in the State budget, and the effect on State expenditures cannot be reliably estimated. The bill states that it is the intent of the General Assembly to provide at least \$500,000 in funds annually to the program beginning in fiscal 2006, but this is not a mandated appropriation.

Administrative expenditures to implement the grant program could increase by an estimated \$34,352 in fiscal 2005, which accounts for the bill's January 1, 2005 effective date. This estimate reflects the cost of hiring one grant administrator. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	\$26,327
Operating Expenses	<u>8,025</u>
Total FY 2005 State Expenditures	\$34,352

Expenditures increase to approximately \$54,000 in fiscal 2006 and increase by approximately 6% thereafter. Future year expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. It is assumed that administrative expenditures for the program will be included in the total amount of any budget appropriation.

Additional Information

Prior Introductions: None.

Cross File: HB 714 (Delegate King, *et al.*) – Ways and Means.

Information Source(s): Comptroller's Office, U.S. Department of Energy (Energy Information Administration), Department of Legislative Services

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