Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 202 (Senator Klausmeier, *et al.*)
Finance Economic Matters

Electric Universal Service Program - Weatherization Component - Transfer

This bill transfers the Electric Universal Service Program's (EUSP) low-income weatherization component from the Department of Human Resources (DHR) to the Department of Housing and Community Development (DHCD). It requires the Comptroller to annually disburse to DHCD $1 million of low-income weatherization funds that DHR currently receives.

On October 30, 2005, any unspent fiscal 2005 EUSP low-income weatherization funds must be transferred from DHR to DHCD to be used for low-income weatherization projects.

Fiscal Summary

State Effect: Special fund revenues and expenditures would decrease by $1 million in FY 2006 for DHR and increase by a similar amount for DHCD. The fiscal impact could be greater depending on the amount of unspent DHR weatherization funds. Future years reflect a stable amount of money transferred.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: This bill maintains DHR's Office of Home Energy Program's (OHEP) responsibility for administering EUSP's bill assistance and arrearage retirement components. DHR retains its authority to contract with other entities to assist in administering those two components, with input from a panel or roundtable of interested parties. The bill repeals the Public Service Commission's (PSC) oversight responsibility for EUSP's weatherization component. PSC retains oversight of EUSP's bill assistance and arrearage retirement components.

By December 1 of each year, DHCD must report on EUSP's low-income weatherization component to the General Assembly. The report must include: the amount of funds spent in the previous fiscal year; the participation level during the previous fiscal year, including the number of households served in each area of the State; and the types of projects provided to households during the previous fiscal year, including the average cost per unit. DHCD can satisfy this reporting requirement by asking PSC to include this information in its report to the General Assembly and by providing that information to PSC by a date set by PSC.

The bill repeals the requirement that PSC must report the amount of low-income weatherization funds needed for measures that reduce energy consumption by electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination by December 1 each year to the General Assembly.

Current Law: DHR must administer the universal service program through OHEP. DHR may contract with a for-profit or nonprofit Maryland corporation, with input from a panel or roundtable of interested parties, to assist in administering the program. PSC must oversee the program. The program's components must include bill assistance, at a minimum of 50% of the determined need; low-income weatherization; and the retirement of arrearages for electric customers who have not previously received assistance in retiring arrearages under the program, at a maximum of $1.5 million in any fiscal year.

PSC must report the amount of low-income weatherization funds needed for measures that reduce energy consumption by electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination by December 1 each year to the General Assembly. To help PSC prepare its report recommendations, OHEP must report to PSC on the cost of outreach and education materials provided by OHEP for the universal service program. PSC must include this information in its report.

All electric customers must contribute funds for the universal service program. The total funds collected for the universal service program must be $34 million annually: $24.4 million from the industrial and commercial classes; and $9.6 million from the residential classes. At the end of a given fiscal year, any unspent funds collected during that year must be made available for disbursement during the first three months of the next fiscal year to customers who qualify for assistance during the given fiscal year, apply for assistance from the fund before the end of the given fiscal year, and remain eligible for assistance when services are provided. PSC can give an additional three-month extension to disburse the unspent funds in a given fiscal year. Any unspent funds that remain unspent at the end of the allowable period must revert back to each customer class in proportion to their contributions.

DHCD's Community Development Administration is required to develop and implement a weatherization program to provide funds for insulation materials and insulation costs to eligible households.

Chapter 430 of 2004 (the Budget Reconciliation and Financing Act of 2004) directs DHCD, PSC, and DHR to submit a report to the General Assembly on the most appropriate method of merging the two low-income weatherization programs administered by DHCD and DHR.

Background: The joint report of DHCD, PSC, and DHR states that it is feasible and desirable to merge the programs and that DHCD should administer the merged low-income weatherization programs. By merging the two programs, the report contends that more low-income households will receive better service in a more cost-effective manner. DHCD's program has a statewide network of weatherization providers, which DHCD has overseen for more than 15 years. The report recommends transferring $1 million from EUSP to DHCD for low-income weatherization services.

A January 2004 legislative audit of EUSP found that many qualified households did not receive weatherization assistance. The audit reviewed EUSP expenditures during fiscal 2002 and 2003 and EUSP procedures for processing applications during fiscal 2003. According to the audit:

- weatherization funds were not being fully utilized – as of October 31, 2003, only $331,392 of the $3.5 million authorized for the program since July 2001 had been spent providing services to 704 households (29% of the estimated 2,452 potentially eligible households);
- one-third of contracting expenditures were contractor servicing fees, not weatherization improvements;
- OHEP had not established adequate procedures to ensure the weatherization contractor billings were valid;
- adequate procedures to detect and prevent overpayments had not been established – the audit found 27 duplicate payments, totaling $11,712, and four overpayments, totaling $28,708;
- proper internal controls had not been established – 96 employees throughout the State could enter and approve energy assistance applications online without the required independent approval; and

- OHEP had not conducted annual on-site monitoring reviews during fiscal 2002 or 2003 at 17 of the 20 local administering agencies to assess overall operations and verify administrative expenditures.

OHEP administers EUSP which helps the State's vulnerable populations and other traditionally underserved populations pay their electric bills, minimize crises, and reduce their electric costs. Benefits include bill payment assistance, arrearage retirement, and weatherization services. Services are provided on a first-come, first-served basis. EUSP's fiscal 2006 budget allowance is $33.2 million, which reflects the $1 million transfer to DHCD.

DHCD's Weatherization Assistance Program helps eligible low-income households reduce energy consumption and maintenance costs by installing energy conservation materials. To receive assistance, households must be at or below 150% of poverty and the residents must prove ownership. If it is a rental unit, the landlord must prove ownership and be willing to participate and invest in the program. DHCD distributes program funds to local entities, who then distribute the funds to eligible households. Statewide distribution is based on census information on the number of low-income individuals in each jurisdiction. DHCD's fiscal 2006 budget allowance reflects the transfer of the universal services benefit program and the accompanying $1 million.

State Fiscal Effect: DHR special fund revenues and expenditures would decrease by at least $1 million in fiscal 2006 and DHCD special fund revenues and expenditures would increase by the same amount as $1 million is transferred from EUSP to the Weatherization Assistance Program. The Governor's proposed fiscal 2006 budget already assumes this transfer and specifies that $1 million of the special fund appropriation for DHCD's Division of Development Finance – Special Loan Program is contingent on legislation transferring responsibility for the weatherization component of EUSP from DHR to DHCD. DHCD advises that the additional $1 million will allow the department to weatherize 275 additional households annually at an average cost per household of $3,600.

DHCD special fund revenues and expenditures could increase further depending on the amount of fiscal 2005 unspent EUSP weatherization funds. Assuming an additional three-month extension, on October 31, 2005, any unspent fiscal 2005 EUSP funds designated by PSC for low-income weatherization would be transferred from DHR to DHCD. Future years reflect the transfer of $1 million from DHR to DHCD.

Additional Information

Prior Introductions: None.

Cross File: HB 299 (Delegate McHale) – Economic Matters.

Information Source(s): *The Merging of Two Low-Income Weatherization Programs,* Joint Report of the Maryland Public Service Commission, Department of Housing and Community Development, and Department of Human Resources, November 1, 2004; *Department of Human Resources Electric Universal Service Program*, Department of Legislative Services Office of Legislative Audits, January 2004; Department of Human Resources; Department of Housing and Community Development; *Public Benefits for Children and Families*, Department of Legislative Services, November 2004

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