

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 476 (Delegate Taylor, *et al.*)
 Economic Matters

Community Energy and Economic Development Grant Program

This bill establishes a Community Energy and Economic Development Grant Program to provide grants to nonprofit organizations and local jurisdictions that operate community energy programs promoting energy efficiency, renewable energy, and increased market competition for electricity products. The bill also creates a Community Energy and Economic Development Grant Fund within the Maryland Energy Administration (MEA) and requires that \$2 million annually be deposited into the fund from the Environmental Trust Fund (ETF). For fiscal 2007, \$1 million must be transferred from the ETF to the new fund.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: Special fund (ETF) expenditures will increase by \$1 million in FY 2007, and by \$2 million beginning in FY 2008, due to the bill's mandated appropriation. Beginning in FY 2007, special fund (ETF) revenues could increase annually, but it is unclear by how much. In the out-years, the ETF will not be able to consistently support both the current programs under the fund and the \$2 million annual mandated appropriation, due to the limit under current law on the environmental surcharge that generates revenue for the ETF.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	-	-	-	-	-
SF Expenditure	1,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Net Effect	(\$1,000,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)

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

Local Effect: Local jurisdictions that choose to apply for and receive grants for a community energy program would experience an overall expenditure increase due to the requirement of at least a one-fourth matching contribution from the local jurisdiction. This assumes that the grant revenues received by the local jurisdiction would be offset by expenditures under the community energy program.

Small Business Effect: Potential minimal.

Analysis

Bill Summary: MEA will manage, supervise, and administer the program and must adopt regulations to ensure that grants are provided only to projects that carry out the purpose of the program. MEA also must attach specific terms to any grant it considers necessary to ensure the purpose of the program is fulfilled. In administering the program, MEA must recognize the importance to the State of assisting residents of moderate income, minority business enterprises, and farmers.

Grant Eligibility and Applications

The bill establishes various provisions regarding grant eligibility. The nonprofit organization or local jurisdiction must submit an application to MEA containing a description of the program; its projected cost; the amount of energy and corresponding costs, if any, proposed to be saved over a defined period of time; a description of the applicant's contribution; and any other information MEA considers necessary.

Grant Limit/Local Jurisdiction Matching Contribution/Reporting

A grant award may not exceed \$1 million for the duration of the grant. Any local jurisdiction receiving a grant must make a matching contribution equaling at least one-fourth the amount of the grant.

MEA may require a grant recipient to document the costs of the program, the amount of energy and corresponding costs saved, and any other information MEA considers necessary.

Funding

The bill establishes a Community Energy and Economic Development Grant Fund within MEA. The fund consists of money transferred from the ETF, investment earnings, and any money from any other source accepted for the benefit of the fund.

Expenditures from the fund must be made in accordance with the State budget. The Governor must include in the State budget a \$2 million appropriation for the fund, paid from the ETF, beginning in fiscal 2008. In fiscal 2007, uncodified bill language provides that \$1 million be transferred to the fund from the ETF.

The bill adds the Community Energy and Economic Development Grant Program to the Secretary of Natural Resources' budget preparation for the Power Plant Research Program (PPRP) (funded by the ETF), upon approval of which by the General Assembly, the Public Service Commission (PSC) sets the surcharge per kilowatt hour on electricity distribution, that accrues to the ETF.

Report to General Assembly

MEA must report to the General Assembly by January 1, 2009 on the implementation of the program.

Current Law: An environmental surcharge per kilowatt hour of electricity distributed in the State by an electric company is collected by the Comptroller and placed in the ETF. PSC sets the surcharge based on the PPRP budget, but it may not exceed 0.15 mill (one-thousandth of \$1) per kilowatt hour or \$1,000 per month for a single customer and has a sunset date of June 30, 2010. The surcharge is currently set at 0.1315 mill per kilowatt hour. PSC is required to authorize electric companies to add the full amount of the surcharge to retail customers' bills.

Background: MEA is an independent unit of State government created, in part, to promote the conservation and efficient use of energy and to evaluate and coordinate energy-related policies and activities among State and local agencies. MEA currently administers several financial assistance programs, including: (1) the Solar Energy Grant Program, which provides grants to individuals, local governments, and businesses for a portion of the costs of acquiring and installing photovoltaic property and solar water heating property; (2) the Community Energy Loan Program, which provides loans to nonprofit organizations or local jurisdictions for projects in buildings in order to promote energy conservation and improve energy efficiency; (3) the State Agency Loan Program, which provides loans to State agencies for energy conservation improvements; and (4) the recently established Energy Efficiency and Economic Development Loan Program, which was created to provide loans to businesses to promote energy conservation, energy efficiency, energy-related economic development, and stability in business, commercial, and industrial sectors.

Environmental Trust Fund

The Environmental Trust Fund primarily supports the Department of Natural Resources' (DNR) PPRP. The program conducts research on the impacts of electricity generation and distribution on the State's natural resources, evaluates long range plans for meeting the State's electricity demand, and works in concert with PSC and other agencies in reviewing applications to build or modify power plants and transmission lines and evaluate their potential impact on the State's natural resources. Money from the ETF is also used for administrative costs and other programs under DNR, as well as for studies conducted by MEA relating to the conservation and production of electric energy.

Exhibit 1 provides revenue and expenditure information for the ETF from fiscal 2002 to 2007.

Exhibit 1 Environmental Trust Fund Fiscal 2002 – 2007 (\$ in Millions)

	2002	2003	2004	2005	2006	2007
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>
Beginning Balance	\$3.0	\$2.0	\$1.1	\$1.5	\$3.0	3.1
Misc. Adjustment*	0.0	-0.7	0.0	0.0	0.0	0.0
Annual Revenue	8.4	9.0	9.0	10.0	8.8**	8.9
Total Available	\$11.4	\$10.3	\$10.1	\$11.5	\$11.8	\$12.0
Expenditures						
Department of Natural Resources						
Power Plant Research Program	6.0	6.0	5.8	5.8	5.7	5.7
Admin. Costs/Other	3.1	2.9	2.5	2.6	2.7	3.6
Maryland Energy Administration	0.3	0.3	0.3	0.1	0.3	0.3
Total Expenditures	\$9.4	\$9.2	\$8.6	\$8.5	\$8.7	\$9.6
Balance Ending of Fiscal Year	\$2.0	\$1.1	\$1.5	\$3.0	\$3.1	\$2.4

*Adjustment to correct for overpayment made by PEPCO in error.

**Environmental surcharge was lowered to 0.1315 mill/kWh.

***Includes funds for the Office of the Secretary, Resource Assessment Service, and Watershed Services.

Note: Approximately \$250,000 in ETF revenue is transferred annually to the Maryland Energy Administration.

Source: Department of Natural Resources

State Fiscal Effect: The environmental surcharge is set by PSC in order to generate enough revenue, accruing to the ETF, to cover the expenses of the budget prepared by the Secretary of Natural Resources for the PPRP and other related programs. The bill requires the Secretary to take into account what is needed to support the Community Energy and Economic Development Grant Program in preparing the budget for the PPRP, which presumably would be the \$2 million (\$1 million in fiscal 2007) annually required to be redirected from the ETF to the new fund. Because of the 0.15 mill/kWh maximum imposed on the environmental surcharge under State law, PSC would not be able to set the environmental surcharge at a level that would generate enough revenue to meet the needs of a PPRP budget increased by \$2 million (discussed below). Beginning in fiscal 2008, if there is room under the 0.15 mill/kWh maximum to increase the surcharge beyond what is required to generate revenue sufficient to meet the PPRP budget (without the \$2 million increase), special fund (ETF) revenues could increase, but it is unclear by how much. If the Secretary submits a supplemental budget to account for the \$1 million transfer in fiscal 2007, there could also be an increase in special fund revenues in fiscal 2007. Special fund (ETF) expenditures would increase by \$1 million in fiscal 2007 and by \$2 million, due to the mandated appropriation to the new fund, beginning in fiscal 2008.

The environmental surcharge is currently set at 0.1315 mill/kWh and under current law it cannot go above 0.15 mill/kWh. PSC and DNR advise that in recent fiscal years, the surcharge has been at the maximum of 0.15 mill/kWh and was reduced in fiscal 2006 due to a decision by DNR to submit to PSC a reduced budget estimate (reducing the surcharge), and to supplement the surcharge revenues with a portion of the ETF fund balance to fund the PPRP budget.

DNR advises that the environmental surcharge will need to return to the maximum of 0.15 mill/kWh to sufficiently fund the PPRP in the future. Based on the estimated revenue accruing to the ETF in fiscal 2006 (\$8.8 million) and the appropriated expenditures for fiscal 2006 (\$8.7 million), it appears that the PPRP and other programs will be sufficiently funded by the environmental surcharge, set at 0.1315 mill/kWh, and the ETF will retain an accumulated balance of roughly \$3 million. This indicates there may be room for revenues in excess of the PPRP budget, in future years, to be brought into the ETF by raising the environmental surcharge to 0.15 mill/kWh. However, barring a sufficient increase in electricity usage in the State, returning the environmental surcharge to 0.15 mill/kWh would not result in a \$2 million increase in revenues, and the \$3 million ETF balance would eventually be depleted by the annual \$2 million redirection of funds.

In future years, to meet both the budget needs of the PPRP (and related programs) and the annual \$2 million mandated appropriation of this bill, either additional funding would be

needed (possibly through general fund expenditures, or through amending State law to raise the environmental surcharge limit) or the budget of the PPRP and other programs would need to be reduced.

Administrative Costs

MEA administrative expenditures would increase in fiscal 2007 by \$82,600 and annually thereafter accounting for 4.6% annual salary increases, 3% employee turnover, and 1% increases in ongoing operating expenses. This estimate reflects the cost of hiring one program manager dedicated to nonprofit and local government outreach. It includes expenses for mailing, educational material development and printing, vehicle operation, and office supplies. These costs would be included in annual expenditures from the Community Energy and Economic Development Grant Fund.

Additional Comments: An increase in the environmental surcharge from 0.1315 mill/kWh to 0.15 mill/kWh would represent roughly a 0.02% increase in the average retail electricity price in Maryland based on the average price of 7.83 cents/kWh for all sectors (residential, commercial, industrial, and transportation) in Maryland in 2005. *Source: Electric Power Monthly*, Energy Information Administration, U.S. Department of Energy (data through October 2005).

Additional Information

Prior Introductions: None.

Cross File: SB 175 (Senator Middleton, *et al.*) – Finance.

Information Source(s): Montgomery County, Prince George's County, Department of Natural Resources, Anne Arundel County, Maryland Energy Administration, Public Service Commission, Department of Legislative Services

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