HB 1567

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1567 (Delegate Hecht, *et al.*)

Economic Matters Budget and Taxation and Finance

Clean Energy Loan Programs

This bill authorizes a county or municipality to enact an ordinance or resolution establishing a Clean Energy Loan Program to provide loans to residential and commercial property owners for the financing of energy efficiency and renewable energy projects. Commercially owned renewable energy projects may not exceed 100 kilowatts of generating capacity. A property owner must repay a loan through a surcharge on the owner's property tax bill. The bill authorizes a county or municipality to issue bonds to finance loans made through the program.

Fiscal Summary

State Effect: The bill does not materially affect State operations or finances.

Local Effect: Counties and municipalities that exercise this authority may realize an increase in revenues from bonds issued and a corresponding increase in expenditures in the form of loans to residential and commercial property owners. Additional administrative expenditures may be required to establish and implement a Clean Energy Loan Program, which may be recovered through property tax bill surcharges on property owners participating in the program.

Small Business Effect: Potential meaningful benefit for small businesses that seek to install energy efficiency or renewable energy projects. The bill also benefits small businesses that sell or install such equipment.

Analysis

Bill Summary: A local ordinance or resolution establishing a Clean Energy Loan Program must provide for eligibility requirements for participation in the program and loan terms. Eligibility requirements must give due regard to a property owner's ability to repay the loan in a substantially similar manner as required for mortgage loans. The surcharge imposed on a property owner's tax bill may not exceed the amount necessary to recover local costs associated with issuing bonds to finance the loan and costs associated with administering the program. A person who acquires property subject to a Clean Energy Loan Program assumes the obligation.

A county or municipality that establishes a Clean Energy Loan Program may issue bonds to provide financing for loans made through the program. A local government must adopt an ordinance or resolution specifying the terms and conditions of the bond issuance, in accordance with the local government's procedures for authorization to sell bonds. Bonds may be issued through competitive or negotiated sale and may utilize fixed or variable interest rates.

Bonds issued under a Clean Energy Loan Program may not have a term to maturity greater than 40 years and may have provisions for a sinking fund or other annual redemption beginning no later than three years after the date of issue. Income derived from a bond, and the profit realized on the sale or exchange of a bond, is exempt from State and local taxes.

Current Law: The Maryland Energy Administration (MEA) is currently charged under State law with administering a number of programs aimed at encouraging energy efficiency and renewable energy projects in the State. Programs include:

- the Jane E. Lawton Conservation Loan Program – providing low-interest loans to nonprofit organizations, local jurisdictions, and eligible businesses for projects, in order to promote energy conservation, reduce consumption of fossil fuels, improve energy efficiency, and enhance energy-related economic development and stability in business, commercial, and industrial sectors;

- the Maryland Strategic Energy Investment Program – established to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy;

- the Solar Energy Grant Program – providing grants to individuals, local governments, and businesses for a portion of the costs of acquiring and installing photovoltaic (electricity generating) and solar water heating property; and

- the Geothermal Heat Pump Grant Program – providing grants to individuals for a portion of the cost of acquiring and installing a geothermal heat pump.

The fiscal 2010 State budget includes $106.3 million for the Maryland Strategic Energy Investment Fund (SEIF) from the auction of carbon dioxide allowances through Maryland's involvement in the Regional Greenhouse Gas Initiative. The Jane E. Lawton Conservation Loan Program and the Solar Energy and Geothermal Heat Pump grant programs are funded with money from SEIF under the budget.

Counties and municipalities are authorized to borrow money and incur debt for the general protection and preservation of the public safety, peace, health, and welfare of the State. The authority to issue debt for each county varies depending on the county form of government. Counties that operate under the commission form of government are limited only to the powers granted by the General Assembly, which do not currently include the purposes provided in the bill. **Exhibit 1** shows the form of governance for each county.

Exhibit 1
Form of County Government

Charter	Commission	Code
Anne Arundel	Calvert	Allegany
Baltimore	Carroll	Caroline
Dorchester	Cecil	Charles
Harford	Frederick	Kent
Howard	Garrett	Queen Anne's
Montgomery	St. Mary's	Worcester
Prince George's	Somerset	
Talbot	Washington	
Wicomico		

Source: Department of Legislative Services

Background: In August 2008, the City of Annapolis announced the establishment of the Annapolis Energy Zone Program (Annapolis EZ Program). The program is a public-private partnership to help residents finance energy efficiency improvements and renewable energy projects. The program allows city property owners who privately finance such improvements to voluntarily have the payments on these loans placed on the property owner's tax bills. The city is partnering with MEA, Annapolis and Anne Arundel County Chamber of Commerce Foundation and CommerceFirst Bank to start the program.

Programs in Other States

The Berkeley Financing Initiative for Renewable and Solar Technology (FIRST) Program is currently in its pilot phase and operates with a similar purpose as provided in the bill. Berkeley FIRST assists property owners to finance renewable energy improvements. Residential and commercial property owners who choose to participate in the program receive funds to cover the capital costs of purchasing and installing a solar electric or thermal system. The funding is provided either through the proceeds of a public bond or a private loan with below-market interest rates. Participants agree to repay the loan with assessments through their property tax bill that remain as an obligation on the property after sale. It is expected that the savings on participants' energy bills each month will partially or fully offset the additional costs of repayment reflected on the property tax bill. The program is currently in a pilot phase and 38 solar installation projects have had funding committed by the City of Berkeley. The city uses a third-party administrator to manage the program. During the pilot phase the city will determine whether another round of funding will be made available.

Local Fiscal Effect: Counties and municipalities that create a Clean Energy Loan Program will likely incur startup costs to develop the program, monitor surcharge obligations, issue bonds on behalf of residential and commercial energy projects, and for ongoing administration of the program. It is assumed that much if not all of the costs, including ongoing administrative costs, will be included in the surcharge billed to program participants, minimizing the impact on expenditures to the local government.

Small Business Effect: Creation of a county or municipal Clean Energy Loan Program will provide a meaningful benefit to small businesses that seek to install energy efficiency or renewable energy projects. The bill allows such property owners to install these improvements without paying the full up-front cost and may provide financing more favorable than can otherwise be obtained. Savings provided by favorable financing may result in a shorter payoff or break-even period for the improvement, increasing the incentive for small businesses to invest in energy efficiency and renewable energy projects.

The bill also provides a meaningful benefit to small businesses that sell or install energy efficiency or renewable energy products. Lowering the cost of the installation through favorable financing terms benefits both the consumer and the merchant.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Carroll County, Harford County, Montgomery County, City of Bowie, Department of Legislative Services

Fiscal Note History:	First Reader - March 26, 2009
mcp/rhh	Revised - House Third Reader - April 8, 2009
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