

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 38 (Delegate Manno)
 Economic Matters

Maryland Bottled Gas Buying Group

This bill establishes a Maryland Bottled Gas Buying Group as a not-for-profit body politic and corporate and instrumentality of the State to negotiate a low-cost supply of bottled gas to be used for residential fuel. The bill also establishes a Maryland Bottled Gas Buying Group Fund to be used to pay the Buying Group's expenses.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund expenditures increase by \$98,300 in FY 2010 for minimum start-up costs of the Buying Group. Future year general and special fund expenditures reflect annualization, salary increases, and inflation related only to start-up costs; such expenditures may be higher once a course of action for the Buying Group is established. Special fund revenues may increase significantly, depending on the future activities of the Buying Group and the extent to which it obtains authorized funds.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	\$0	-	-	-	-
GF Expenditure	\$98,300	\$0	\$0	\$0	\$0
GF/SF Exp.	\$0	\$127,100	\$132,600	\$138,400	\$144,400
Net Effect	(\$98,300)	(\$127,100)	(\$132,600)	(\$138,400)	(\$144,400)

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

Local Effect: Local governments are not directly affected by the bill, but may benefit from becoming a member of the Buying Group.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill defines bottled gas as gas that is used for residential fuel and is stored in a portable or fixed cylinder or tank.

The bill establishes the powers, composition, responsibilities, compensation, and function of a board of directors charged with supervising and controlling the Buying Group. Among other things, the board must appoint an executive director to serve as the chief administrative officer of the Buying Group and assume other responsibilities as necessary to operate the Buying Group, including hiring employees and contracting for services. The Buying Group is not subject to specified State procurement laws. In addition, the officers and employees of the Buying Group are not subject to laws governing the State Personnel Management System.

The Buying Group is required to:

- complete, and pay for, an annual audit by a certified public accountant;
- submit an annual report to the Governor and the General Assembly by October 1 that includes a complete financial statement; and
- provide an annual rebate to its members, equal to the total amount of funding the members submitted, less the Buying Group's expenses. The rebate is allocated among members in proportion to how much each contributed in that fiscal year.

A Maryland Bottled Gas Buying Group Fund administered by the Buying Group is established to be used for the Buying Group's expenses. The special fund is nonlapsing and consists of monies appropriated in the State budget, received from Buying Group members, earned from investments, and provided from other sources. The State Treasurer is responsible for holding and investing the funds.

The bill expresses the General Assembly's intent that the Buying Group become fiscally self-sustaining.

Board members may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulations.

Current Law/Background: A number of State-created public corporations and authorities similar in nature to the proposed Buying Group currently exist, including the Maryland Economic Development Corporation, the Technology Development Corporation, the Maryland Agricultural and Resource-Based Industry Development Corporation, the Maryland Stadium Authority, and the Maryland Health and Higher Education Facilities Authority, among others. The entities range in finances and purpose.

MEDCO, for example, which was created in 1984 and serves to attract new business and expand existing businesses in Maryland, had just over \$2 billion in both assets and liabilities at the end of fiscal 2008. MARBIDCO, which was created in 2004 to provide financing to agricultural and resource-based businesses, and first received State funding in fiscal 2007, had unrestricted net assets of approximately \$3.3 million at the end of fiscal 2008.

In California, the Association of Bay Area Government's (ABAG) created ABAG Publicly Owned Energy Resources to conduct pooled purchasing of natural gas and electricity on behalf of local governments and special districts which voluntarily join the pool. The 39 participating local governments currently use pooled purchasing to achieve more competitive natural gas pricing from suppliers who are interested in larger and more attractive combined loads.

Bottled gas, such as butane or propane that is stored under pressure in portable tanks is used throughout the State for residential heating purposes.

State Fiscal Effect: The extent of the financing and other activities of the Buying Group cannot be reliability estimated, but may be significant. General fund expenditures are expected to increase by at least \$98,262 in fiscal 2010, reflecting minimum start-up costs for the Buying Group. Future year expenditures and revenues depend on the course of action decided on for the Buying Group once it is established; the estimates provided in this analysis reflect annualization and inflation of only the minimum start-up costs.

Member Contributions

Member contributions to the fund could result in a significant increase in special fund revenues beginning in fiscal 2011, but any such increase cannot be reliably estimated at this time. This analysis assumes that the Buying Group will be established in fiscal 2010, but will not have sufficient time to generate special fund revenue until fiscal 2011.

Start-up Costs

General fund expenditures to establish a minimum staff and office for the Buying Group is estimated at \$98,262 in fiscal 2010, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring an executive director to establish the Buying Group and \$5,000 to conduct the required annual financial statement audit. It includes a salary, fringe benefits, board of director's expenses, one-time start-up costs, and ongoing operating expenses (including rent).

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Salary and Fringe Benefits	\$84,469
Equipment and Operating Expenses	<u>13,793</u>
Total FY 2010 State Expenditures	\$98,262

Future year expenditures reflect a full salary with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses. The estimated start-up costs do not include various other expenses the Buying Group may incur such as member rebates and contracting costs for financial advisors.

Since the bill does not specify a timeline within which the Buying Group must become fiscally self-sustaining, and until contributions are secured, this estimate assumes the Buying Group will require some combination of general and special fund revenues in fiscal 2011 through 2014.

Small Business Effect: Small businesses in the bottled gas market may benefit to the extent the Buying Group purchases their products. Also, small businesses may benefit from becoming a member of the Buying Group.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Office of People's Counsel, Maryland State Treasurer's Office, Department of Legislative Services

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ncs/hlb

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