

Department of Legislative Services
 Maryland General Assembly
 2011 Session

FISCAL AND POLICY NOTE

House Bill 829 (Delegate Mizeur, *et al.*)
 Economic Matters and Ways and Means

Renewable Energy for All Act

This bill establishes a Residential Biomass Heating System Grant Program within the Maryland Energy Administration (MEA) to provide grants to individuals for a portion of the costs of acquiring and installing eligible pellet and nonpellet biomass heating systems. MEA is also authorized to award additional trade-in grants under specified conditions. In order to fund the program, the bill specifies that the sales and use tax applies to a sale of specified firewood sold in packaged form and requires the Comptroller to direct the tax revenues from those sales to a newly established Residential Biomass Heating System Special Fund.

Fiscal Summary

State Effect: Special fund revenues and expenditures may increase by over \$1.5 million on an annual basis (and by \$1.1 million in FY 2012), reflecting revenues generated for, and expenditures from, the Residential Biomass Heating System Special Fund. General fund expenditures may increase by \$187,200 in FY 2012 for modifications to the State’s tax processing system. General fund and Transportation Trust Fund (TTF) revenues may decrease annually by an indeterminate amount (equivalent to some fraction of the special fund revenue increase) due to redirection of any sales and use tax revenue currently collected on packaged firewood sales.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	(-)	(-)	(-)	(-)	(-)
SF Revenue	\$1,125,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
GF Expenditure	\$187,200	\$0	\$0	\$0	\$0
SF Expenditure	\$1,125,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Net Effect	(\$187,200)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The Residential Biomass Heating System Special Fund, which is administered by MEA, consists of the sales and use tax revenue collected on the sale of packaged firewood; interest and investment earnings; and any other money from any other source. The fund may be used to provide grants under the program and pay the costs of the program.

MEA must administer the program, establish application procedures, and award grants. As part of the program, MEA is authorized to provide grant applicants with information on energy audit, energy assistance, and weatherization programs in the State.

The grant amount to acquire and install either an eligible pellet biomass heating system or an eligible nonpellet biomass heating system may not exceed the lesser of \$1,500 or 40% of the installed cost of the system for an individual with a gross annual household income of \$75,000 or less. For an individual with a gross annual household income of more than \$75,000, the grant amount may not exceed the lesser of \$1,500 or 30% of the installed cost of the biomass heating system.

A grant to acquire and install an eligible nonpellet biomass heating system, however, may be awarded only if the grant recipient's primary household heating fuel is electricity, heating oil, or propane. Grant recipients must use a certified installer.

The bill defines the terms "biomass heating system," "eligible pellet biomass heating system" and "eligible nonpellet biomass heating system." Among other things, the definitions require that such systems meet specified particulate emissions limits.

MEA is also authorized to award a trade-in grant to an individual who receives a grant under the program if the eligible system *replaces* a biomass heating system that is not certified by the U.S. Environmental Protection Agency. A trade-in grant may not exceed \$250 and is in addition to any other grant awarded under the program. For such grants, MEA must require the seller or installer of the system to certify that the grant recipient surrendered an uncertified system and verify that the surrendered system is demolished.

Current Law:

MEA Grant/Loan Programs

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.

Sales and Use Tax

The 6% sales and use tax is imposed on (1) the purchase of goods sold in the State; (2) the use, storage, or consumption in the State of tangible personal property purchased outside the State; and (3) certain services defined as taxable services in the Annotated Code of Maryland. Vendors who are engaged in business in the State are required to collect the tax from the purchaser.

The sales and use tax does not apply to (1) a sale of coal, firewood, heating oil, or propane gas or similar liquefied gas for use in residential property that contains not more than four units, cooperative housing, condominiums, or other similar residential living arrangements; or (2) a sale of wood, wood bark or residue, or refuse-derived fuel used for heating purposes.

After an allowance for refunds and administrative costs, the remaining sales and use tax revenue, aside from the sales and use tax collected on short-term vehicle rentals, is distributed between TTF and the general fund. Through fiscal 2013, 5.3% of the remaining sales and use tax revenue is paid into TTF and the remainder is paid into the general fund. In fiscal 2014, the percentage paid into TTF increases to 6.5%.

Background: According to the U.S. Energy Information Administration, biomass accounted for about 3.9% of the total energy consumed in the United States in 2008. Biomass energy consumed for *residential* purposes accounted for approximately 6.1% of the total amount of renewable energy consumed in 2008 and 13.3% of the total amount of renewable energy consumed for nonelectric use in 2008. Biomass (specifically, wood and wood pellet fuels) accounted for nearly 80% of the renewable energy consumed by the residential sector in 2008.

The Alliance for Green Heat (AGH), a nonprofit organization that promotes high-efficiency wood combustion as a low-carbon, sustainable, local, and affordable heating solution, estimates, based on U.S. Census information and national trends, that about 242,000 Maryland homes use wood or pellets for heat. Only about 10% of those homes, however, use wood as a primary or sole heat source. AGH indicates that residential biomass heating systems generally range in price from \$1,000 to \$4,000.

State Fiscal Effect:

Special Fund Revenues and Expenditures of the Grant Program

Special fund revenues and expenditures may increase by over \$1.5 million on an annual basis, reflecting (1) sales and use tax revenue generated from the sale of packaged firewood and directed to the Residential Biomass Heating System Special Fund; and (2) use of those funds for the costs of the grant program and grant awards.

Revenues

Actual data on sales of packaged firewood in the State is not available, but based on national data, AGH estimates that between 6.4 million and 8.5 million bundles of firewood are sold each year in the State. At a cost of \$4.00 to \$6.00 per bundle, the amount of packaged firewood sales may be between \$25.6 million and \$51 million. Imposing the current 6% sales and use tax on sales of packaged firewood at the low end of that range would generate \$1.5 million in annual revenue (and \$1.1 million in fiscal 2012 due to the bill's effective date).

Expenditures

MEA indicates that the grant program can be administered by existing staff at a relatively minimal cost of \$30,000 for consulting services in fiscal 2012 to support the design of the program and development of an online application system. In the event administrative costs are higher, the amount of funding available for grants made under the program would decrease in that year.

Based on separate estimates by MEA and AGH, there may be roughly between 1,000 and 2,000 purchases of residential biomass heating systems made each year in the State, potentially providing sufficient demand to utilize a significant portion, if not all of the grant funding available under the program, for the purchase of eligible low-emission systems. Presumably the grant program may also encourage persons to purchase residential biomass heating systems that otherwise would not. Thus, it is assumed that special fund expenditures are equal to special fund revenues each year. However, any unspent funding in a given year would be retained in the fund and be available the next year.

Potential General Fund and Transportation Trust Fund Revenue Decrease

General fund and TTF revenues may decrease by an indeterminate amount due to the direction of any sales and use tax revenue currently being collected on the sale of packaged firewood to the Residential Biomass Heating System Special Fund. Sales and use tax returns are filed by type of vendor, not by type of product sold, and information on the amount of sales tax currently collected by vendors on packaged firewood is therefore not available. Some evidence suggests, however, that certain vendors do collect sales and use tax on packaged firewood sales, presumably because firewood used for certain purposes does not fall under the existing sales and use tax exemptions. Any decrease in revenue cannot be reliably estimated, but would be equivalent to some fraction of the amount generated for the Residential Biomass Heating System Program.

Comptroller Costs

The Comptroller's Office advises that the current tax processing system cannot accommodate the distribution of sales tax revenue from sales of specific goods. Accordingly, general fund expenditures may increase by \$187,200 in fiscal 2012 to reflect the cost of a one-time system modification to allow for retailers to electronically file an information tax return quarterly. Although this modification is necessary to distribute revenue to the new fund, it is assumed that the Comptroller's costs are not eligible expenditures from the fund, as they are likely not considered to be "costs of the grant program."

Small Business Effect: Various small businesses could benefit from the bill to the extent the grant program increases the sales, installation, and use of residential biomass heating systems. Small business hearth and hardware stores that sell and/or install residential biomass heating systems and sell pellet fuel may be meaningfully impacted. Small business cordwood (wood sold in bulk) dealers could also benefit from increased demand if purchases of residential biomass heating systems increase in the State.

Small businesses that sell packaged firewood, however, may be negatively impacted by having to (1) file additional sales and use tax returns; and (2) modify their current systems to account for the collection of the sales and use tax on packaged firewood.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Energy Administration, Alliance for Green Heat, U.S. Energy Information Administration, Department of Legislative Services

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