Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 1489 (Delegate Mizeur)
Environmental Matters

Housing - Energy-Efficient and Green Homes - Construction Financing

This bill establishes the Energy-Efficient and Green Homes Construction Loan Program within the Department of Housing and Community Development (DHCD) to provide low-interest loans for the construction of "low-energy" and "ultra-low-energy" homes. Persons must meet specified criteria to qualify for and receive a loan under the program. An Energy-Efficient and Green Homes Construction Fund is established as a special fund within DHCD to pay expenses of the program and make loans under the program. The fund receives a $100 million transfer from the Revenue Stabilization Account (Rainy Day Fund) in fiscal 2015. DHCD must adopt regulations to implement the bill.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Special fund revenues for DHCD increase by $100 million in FY 2015 due to the required transfer from the Rainy Day Fund. General fund expenditures to replenish the Rainy Day Fund increase by $100 million in total after FY 2015; however, the timing of the additional appropriations is unknown. DHCD special fund administrative expenditures increase by $508,300 in FY 2015 to administer and advertise the program. Future year expenditures reflect annualization and inflation. Special fund expenditures for DHCD to provide low-interest loans under the program increase significantly but cannot be reliably estimated at this time. The bill's penalty provisions are not anticipated to materially affect State finances.

Local Effect: The bill is not anticipated to materially affect local government finances or operations.

Small Business Effect: Meaningful for small businesses that construct homes eligible for financing under the bill.

Analysis

Bill Summary: "Low-energy home" means a home that, due to design, technologies, and construction products (1) has a Home Energy Rating System index of 40 or less and (2) is at least 60% more energy efficient than a home built to applicable building code standards in effect before July 1, 2013. "Ultra-low-energy home" means a home that, due to design, technologies, and construction products (1) has a Home Energy Rating System index of 25 or less and (2) is at least 75% more energy efficient than a home built to applicable building code standards in effect before July 1, 2013.

DHCD must administer the Energy-Efficient and Green Homes Construction Fund. The fund consists of (1) money appropriated in the State budget; (2) repayments or prepayments of principal and payments of interest on loans made under the program; (3) investment earnings of the fund; and (4) any other money from any other source. For fiscal 2015, $100 million must be transferred to the fund from the Rainy Day Fund. DHCD must use the fund to (1) pay expenses of the program and (2) make loans under the program. All investment earnings of the fund must be paid into the fund.

Subject to the availability of money in the fund, DHCD must provide construction loans under the program to persons constructing low- or ultra-low-energy homes at 4% and 2%, respectively. To qualify for a loan under the program to construct either a low- or ultra-low-energy home, a person must provide documentation that they have constructed at least three homes of that type and that meet additional specified certifications and ratings.

The bill specifies an application process and requires a person awarded a construction loan under the program to provide documentation that the home built with the loan proceeds is a low- or ultra-low-energy home, as applicable.

A person may not knowingly make or cause to be made a false statement or report in a document required to be submitted to DHCD under an agreement relating to a loan under the program. A loan applicant is similarly prohibited from knowingly making or causing to be made any false statement or report to influence DHCD's action on a program loan application or a program loan already made. A violator is guilty of a misdemeanor and is subject to a fine of up to $5,000.

Current Law/Background: DHCD offers a number of energy efficiency programs; however, none of them provide loans for the construction of new homes. Programs include:

- *Be SMART Home Program:* offers innovative financing to improve home energy efficiency through replacement and upgrading of appliances; heating, cooling, and ventilation systems; and whole house envelope improvements across the State, up to $15,000 in financing;

- *Be SMART Home Energy Efficiency Rebate Program:* offers up to $4,250 in incentives to Maryland homeowners to offset the cost of qualified energy efficiency improvements and products;

- *EmPower Low Income Energy Efficiency Program:* helps low-income households with installation of energy conservation materials in their homes at no charge, including insulation, hot water system improvements, and lighting retrofits; and

- *Weatherization Assistance Program:* helps eligible low-income households with the installation of energy conservation materials in their homes, including insulation, hot water system improvements, and furnace cleaning.

EmPower Maryland

Chapter 131 of 2008 (HB 374) established the State goal of achieving a 15% reduction in per capita electricity consumption and peak demand by the end of 2015. Beginning with the 2008 calendar year and each year thereafter, the Public Service Commission (PSC) must calculate the per capita electricity consumption and peak demand for the year. PSC, to the extent it determines that cost effective energy efficiency and conservation programs are available for each affected class, must require electric companies to procure and provide customers with a cost effective demand response program that is designed to achieve targeted electricity savings and demand reduction through 2015. Customers are assessed a monthly surcharge (the EmPower Maryland surcharge) by electric companies to recover the costs of the program.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 (SB 268/HB 368) created the Maryland Strategic Energy Investment Program, and the implementing Strategic Energy Investment Fund (SEIF), to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. The fund is administered by the Maryland Energy Administration (MEA). Currently, the fund’s primary source of revenue is proceeds from the sale of carbon dioxide (CO_2) allowances under the Regional Greenhouse Gas Initiative. Money received by SEIF from the CO_2 auctions is required by statute to be allocated across various energy programs, including those that support energy efficiency and conservation, electricity assistance for low-income individuals, and renewable and clean energy. The fund may also receive money as appropriated in the State budget and from payments paid under the State Renewable Energy Portfolio Standard for noncompliance, among others.

Energy Efficiency Upgrades

The up-front costs of installing renewable energy and energy efficiency measures can be a barrier against consumers adopting such measures. In a recent PSC Order (No. 84569) relating to utilities' implementation of programs under the State's EmPower Maryland program, the commission stated that "access to financing is critical for many consumers who must invest thousands of dollars to achieve significant energy savings in their homes and businesses." The commission also noted that "investments can often pay for themselves in a matter of years if financing rates are affordable." The commission found that the lack of convenient, accessible financing at favorable rates was a missing link in the utilities' programs and ordered a workgroup to be convened to analyze financing options and legislative or regulatory solutions.

The workgroup submitted its proposal to the commission in January 2013. The proposal would integrate the Maryland Home Energy Loan Program (MHELP) into electric company residential programs. MHELP is an off-bill, unsecured loan program administered by the Maryland Clean Energy Center with funds made available through MEA from the American Recovery and Reinvestment Act of 2009. The program provides affordable and accessible financing to Maryland residents for qualifying energy efficiency improvements.

State Fiscal Effect: Despite the bill's July, 1, 2013 effective date, the bill does not specify a specific funding source for the program until fiscal 2015. Therefore, this analysis assumes that there is no effect on State revenues or expenditures in fiscal 2014. Special fund revenues for DHCD increase by $100 million in fiscal 2015 due to the transfer from the Rainy Day Fund that is required under the bill.

Rainy Day Fund

The Governor's proposed fiscal 2014 budget increases the balance in the Rainy Day Fund to 6.0% of estimated fiscal 2014 general fund revenues. The Department of Budget and Management advises that this additional funding is provided as a cushion against the impact of federal sequestration.

Absent any other transfers to the Rainy Day Fund, the $100 million transfer required by this bill in fiscal 2015 reduces the Rainy Day Fund balance to 5.37% of estimated fiscal 2015 general fund revenues, rather than 6.0% as estimated in the Governor's fiscal 2015 forecast.

General fund expenditures to replenish the Rainy Day Fund increase by $100 million in total after fiscal 2015; however, the timing of the additional appropriations is unknown at this time. Repayment to the fund requires annual appropriations of $100 million if the balance falls below 3.0%, and $50 million if the balance is below 7.5%. Assuming the the Rainy Day Fund minimum required transfer of $50 million annually, the transfer required under the bill effectively delays reaching a balance of 7.5%, and requires $100 million in additional general funds to be appropriated to the Rainy Day Fund after fiscal 2015.

DHCD Administrative Expenditures

DHCD special fund administrative expenditures increase by $508,298 in fiscal 2015, which assumes an October 1, 2014 implementation date. This estimate reflects the cost of hiring two loan/insurance underwriters to complete the underwriting tasks for the loans; two loan processors to complete loan documentation tasks; two construction inspectors to ensure compliance with applicable efficiency construction standards; one fund manager to oversee the financial performance of the fund investment and the portfolio of active loans; and one administrative assistant. It includes salaries, fringe benefits, one-time start-up costs, ongoing operating expenses, and contractual marketing expenses.

Positions	8
Salaries and Fringe Benefits	$441,543
Contractual Marketing Expense	25,000
Other Operating Expenses	41,755
Total FY 2015 DHCD Admin. Expenditures	**$508,298**

Future year administrative expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Loan Activity

DHCD special fund expenditures increase significantly beginning in fiscal 2015 to provide low-interest loans under the program, but the increase cannot be reliably estimated at this time. The Department of Legislative Services assumes that DHCD will extend loans in a manner consistent with maintaining a sufficient fund balance to continue the program. To the extent this does not occur, additional general funds may be required to further capitalize the program. *For illustrative purposes only*, if DHCD issues five loans per month at an average of $300,000 per loan, special fund expenditures increase by $18 million annually. DHCD advises that it anticipates the first loans closing at the end of fiscal 2015. Special fund revenues increase from interest earnings and loan repayments, but cannot be reliably estimated at this time.

Additional Information

Prior Introductions: None.

Cross File: SB 935 (Senator Young) - Budget and Taxation and Finance.

Information Source(s): Department of Budget and Management, Department of Housing and Community Development, Maryland Energy Administration, Department of Legislative Services

Fiscal Note History: First Reader - March 15, 2013
ncs/lgc

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