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FISCAL AND POLICY NOTE
Revised

Senate Bill 985 (Senator Frosh)
Finance Economic Matters

Maryland Clean Energy Center - Green Banks and Clean Bank Financing - Study

This bill requires the Maryland Clean Energy Center (MCEC), in collaboration with the Maryland Energy Administration (MEA), to conduct a study and make recommendations related to green banks and clean bank financing initiatives, including aspects of implementation and funding. In conducting the study, MCEC and MEA must consult with any person or entity that MCEC determines appropriate, including utilities, industry representatives, financial organizations, and the Coalition for Green Capital. MCEC, in collaboration with MEA, must submit an interim report by December 1, 2014, and a final report by December 1, 2015, on its findings and recommendations to the Senate Finance Committee and the House Economic Matters Committee.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Nonbudgeted expenditures for MCEC increase by up to $125,000 during FY 2015 and 2016 for contractual consulting services to assist MCEC in conducting the study and preparing the required reports. Additional staff resources for MCEC may also be required. Nonbudgeted revenues increase correspondingly. MCEC indicates that it intends to solicit grant funding from private sources for consulting costs and will attempt to cover staff and overhead costs within its existing operating budget. MEA can collaborate with MCEC to conduct the study and submit the required reports with existing resources. Under assumptions discussed below, general fund expenditures are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: In conducting the study, MCEC and MEA must:

- review the structure and organization of green banks and clean bank financing initiatives established in other states;
- examine the method of capitalization of established green banks and clean bank financing initiatives;
- examine the sources, type, and amount of private capital leveraged or invested in connection with the establishment of a green bank or clean bank financing initiative;
- review the financial services provided by existing green banks and clean bank financing initiatives;
- review the need to provide low-cost financing to clean energy, renewable energy, and energy-efficiency projects; consider whether to warehouse and securitize clean energy, renewable energy, and energy-efficiency financial instruments; and review any other gaps in the availability of financing for clean energy, renewable energy, and energy-efficiency projects in the State;
- review the impact of existing State financial programs on the renewable and energy conservation industries; and
- consider any other relevant information that MCEC or MEA determines appropriate.

Based on its analysis in conducting the study, MCEC, in collaboration with MEA, must make recommendations as to:

- the need for a green bank or clean bank financing initiative in the State;
- the scope of a proposed green bank or clean bank financing initiative, including target industries and financing capabilities;
- the possible sources of capital for a green bank or clean bank financing initiative;

- the best method for establishing a green bank or clean bank financing initiative in the State; and

- any other relevant aspect relating to green banks and clean bank financing initiatives that MCEC or MEA determines appropriate.

Current Law/Background:

Maryland Clean Energy Center

MCEC was established by Chapter 137 of 2008 to generally promote and assist the development of the clean energy industry in the State; promote the deployment of clean energy technology in the State; and collect, analyze, and disseminate industry data. MCEC is authorized to make grants to or provide equity investment financing for clean energy technology-based businesses. MCEC may accept grants, loans, and donations. Two energy financing programs that MCEC administers are the Maryland Home Energy Loan Program (MHELP) and the Maryland Clean Energy Capital Program (MCAP). MCEC indicates that it has leveraged more than $30.0 million in private-sector investment due to these programs to date.

MHELP is an unsecured loan program funded with money 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. MCEC indicates that since MHELP's launch in January 2011 more than $11.0 million in lending transactions have been approved for 1,270 homeowners.

MCAP is MCEC's institutional financing program. MCAP uses tax-exempt bonds to finance energy-related projects for local governments, universities, hospitals, and other nonprofits. Potential projects include retrofitting of heating and air conditioning equipment, lighting, windows, and water conservation. Solar, wind turbines, and geothermal projects are also allowed. However, any retrofits must generate enough savings to repay the bonds. MCEC's website indicates that this is an attractive financing solution for projects above $2.0 million, and that project size is largely limited by the bond market.

MCEC sources capital through a competitive bid process ensuring an attractive cost of capital to the end-user. As MCEC is the borrower, the debt generally does not count against the end-user's borrowing limitation or debt capacity, and a typical transaction is self-funding, in that realized energy savings repay the debt obligation to MCEC. MCEC indicates that more than $14.6 million in transactions have been completed through MCAP, using private capital.

Under current law, uncodified language states that it is the intent of the General Assembly that MCEC not rely on funding from appropriations made from the general fund, but that this may not be construed to limit MCEC's ability to seek and obtain funding from the Department of Business and Economic Development (DBED) and from other State units and programs for economic and community development, however funded, or from federal programs involving a requirement for matching State funds.

Green Banks

The bill requires MCEC, in collaboration with MEA, to study and make recommendations related to green banks and clean bank financing initiatives. Several "green banks" have recently been established in other states. For example, in 2011 Connecticut established the Clean Energy Finance and Investment Authority (CEIFA), which was the successor organization to the Connecticut Clean Energy Fund established in 2000. Generally, CEIFA must (1) develop separate programs to finance and otherwise support clean energy investment in residential, municipal, small business, and larger commercial projects and other projects; (2) support financing or other expenditures that promote investment in clean energy sources in accordance with CEIFA's comprehensive plan; and (3) stimulate demand for clean energy and the deployment of clean energy sources within Connecticut that serve Connecticut end-use customers.

CEIFA's programs are funded by a variety of sources, including a surcharge on residential and commercial electric bills (capped at $.001/kilowatt-hour), Regional Greenhouse Gas Initiative (RGGI) auction allowance proceeds, federal funds and grants, and private capital in the form of contracts entered into with investors. The majority of funding for CEIFA has been the ratepayer surcharge. In fiscal 2013, CEIFA's total revenues were $43.3 million. Of that amount, $27.6 million was from the ratepayer surcharge, $10.0 million was from grant revenue, $4.8 million was from RGGI auction income, and the remaining $0.9 million was other income.

In fiscal 2013, CEIFA's expenditures totaled $26.6 million. Of that amount, $23.6 million was for grants and program expenditures, $1.8 million was for general and administrative expenditures (staff and related costs), and $1.2 million was for organizational expenses.

For context with the utility surcharge funding source for CEIFA, in 2012, the total surcharge for EmPOWER Maryland was $102.5 million, and it generally resulted in monthly bill impacts of between $2 and $3 for an average residential customer – more than double the residential impact from the surcharge that funds CEIFA (which is $1 per month under the same usage assumption).

State Renewable Energy Programs

In addition to MCEC, several other State programs promote renewable energy production and energy efficiency and conservation, including:

- *Renewable Energy Portfolio Standard:* The standard requires that renewable energy comprise a specified minimum percentage of Maryland's total electricity supply in each year.
- *Maryland Strategic Energy Investment Fund:* These revenues, generated from the proceeds from the sale of carbon dioxide allowances under RGGI, provide a majority of funding for State renewable energy and efficiency projects.
- *MEA Clean Energy 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.
- *EmPOWER Maryland:* The EmPOWER Maryland Energy Efficiency Act of 2008 requires electric companies to procure and provide customers with energy conservation and energy efficiency programs and services that are designed to achieve targeted electricity savings and demand reductions for specified years.

Existing State Economic Development Entities

While MCEC and MEA must study and make recommendations related to green banks and clean bank financing initiatives, other State programs and entities supporting other areas of economic development exist to provide financial assistance for businesses and projects. These include the Maryland Technology Development Corporation (TEDCO), the Maryland Economic Development Corporation, the Maryland Industrial Development Financing Authority, and the Maryland Economic Development Assistance Authority and Fund, among others. MCEC could also be considered in this list.

TEDCO was launched in 1998 to help commercialize the results of scientific research and development conducted by higher education institutions, federal laboratories, and private-sector organizations. TEDCO also aims to promote new research activity and investments that lead to business development in the State. TEDCO provides nonequity investments to early-stage technology businesses, funds development and patenting of new technologies at research universities, administers the Maryland Stem Cell Research Program, and administers the Maryland Innovation Initiative, among others.

The Governor's proposed fiscal 2015 budget includes a State general fund grant of $18.6 million for TEDCO. Of this amount, $10.4 million is dedicated to the Stem Cell Research Program, $5.0 million is for the Maryland Innovation Initiative, and the remaining $3.2 million in general funds is for TEDCO's technology development and transfer programs.

TEDCO does not report personnel data through the State budget system because its employees are not State employees; however, TEDCO reports that it has 14 State-funded positions and 5 part-time contractual positions that are funded with nonbudgeted funds.

State Fiscal Effect: As noted above, uncodified language in current law expresses legislative intent that MCEC *not* rely on funding from appropriations made from the general fund, but that this may not be construed to limit MCEC's ability to seek and obtain funding from DBED and other specified sources. Therefore, this estimate assumes that a general fund appropriation is *not* made to MCEC to conduct the study and prepare the required reports.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Clean Energy Center, Maryland Energy Administration, Public Service Commission, Department of Business and Economic Development, Office of People's Counsel, Connecticut Clean Energy Finance and Investment Authority, Calvert and St. Mary's counties, Department of Legislative Services

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