SB 960

Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 960 (Senator Feldman)

Budget and Taxation Appropriations

Maryland Clean Energy Center - Climate Technology Founder's Fund

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This bill establishes the Climate Technology Founder's Fund (CTFF) in the Maryland Clean Energy Center (MCEC) to provide early-stage funding for start-up companies focused on qualified projects in climate technologies. Funding recipients must provide 1:1 matching funds. The bill requires transfers from the Strategic Energy Investment Fund (SEIF) to CTFF from fiscal 2025 through 2028. The bill also repeals two existing distributions from SEIF to other State programs: one to the Small, Minority, and Women-Owned Businesses Account (SMWOBA) in the Department of Commerce and one to the Employment Advancement Right Now (EARN) program in the Maryland Department of Labor (MDL). The bill also authorizes the transfer of certain unused SEIF funds in SMWOBA to CTFF by the end of fiscal 2024. **The bill takes effect June 1, 2024.**

Fiscal Summary

State Effect: No effect in FY 2024. Special fund expenditures for SEIF increase by $1.2 million annually from FY 2025 through 2028, under the assumptions discussed below. Nonbudgeted revenues and expenditures for CTFF increase correspondingly as funds are received and used for authorized purposes. Nonbudgeted revenues and expenditures for CTFF further increase in future years as investment returns are received and used for authorized purposes. Special fund revenues and expenditures for the Maryland Energy Innovation Fund (MEIF) may increase beginning in FY 2025 (not shown), as discussed below. **This bill repeals two existing mandated distributions and establishes a new mandated distribution for FY 2025 through 2028.**

($ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
NonBud Rev.	$0	$1.2	$1.2	$1.2	$1.2
SF Expenditure	$0	$1.2	$1.2	$1.2	$1.2
NonBud Exp.	$0	$1.2	$1.2	$1.2	$1.2
Net Effect	$0.0	($1.2)	($1.2)	($1.2)	($1.2)

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

Local Effect: None. MCEC advises that local governments are not intended recipients of CTFF funding.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Climate Technology Founder's Fund

"Climate technology" includes solar energy, wind energy, energy storage devices, grid modernization, carbon capture utilization and storage, and any other technology defined by MCEC that reduces greenhouse gas emissions, mitigates the impacts of climate change, or provides a negative emission benefit in the electric, oil, or gas sector.

MCEC must administer CTFF and establish a Fund Oversight Committee, appointed by the MCEC board, to manage the fund. CTFF consists of (1) money appropriated in the State budget to the fund; (2) money made available to the fund through private contributions and federal grants or programs; (3) proceeds from the sale, disposition, lease, or rental of collateral related to financing made from the fund; (4) repayment of financing made from the fund; (5) returns from or recovery of any financing made from the fund; (6) proceeds from the sale of any financing made or assets acquired with proceeds from the fund; (7) money transferred from SEIF; (8) interest earnings; and (9) any other money from any other source accepted for the benefit of the fund.

CTFF may be used only to (1) evaluate and coordinate financing for qualified projects related to the fund's purpose; (2) provide financing to qualified projects; (3) secure private investment capital for financing of qualified projects; and (4) subject to a specified allocation, administer the fund and the activities of MCEC in carrying out the bill. Money in CTFF may be allocated as follows:

- up to $1.72 million for direct investments of the fund;
- up to $3.28 million for the MCEC and the Maryland Energy Innovation Accelerator tech support programs; and
- up to $2.0 million for Maryland Energy Innovation Institute (MEII) seed grants.

Generally, in determining the qualified projects to receive investment from the fund, MCEC must give preference to companies that are small, minority, women-owned, and veteran-owned businesses in the clean energy industry. There are also two specific requirements: (1) at least 40% of the funds awarded by MCEC must be used for equity investments in minority, women-owned, and veteran-owned businesses start-up companies; and (2) 40% of the funding from MCEC's overall appropriation that is allocated for MEII seed grants must be used to provide grants for start-up companies from minority serving institutions.

A recipient of financial assistance must provide matching funds for the qualified project equal to the amount of financial assistance awarded from the fund by MCEC.

By October 1 each year, MCEC must report to the Governor and the General Assembly on the use of CTFF and outcomes of investments made from the fund.

Strategic Energy Investment Fund Transfers

The bill repeals two existing requirements that the Maryland Energy Administration (MEA) use SEIF to provide $15.0 million in total funding to SMWOBA and EARN:

- $7.0 million in total funding to SMWOBA from fiscal 2021 through 2028 (with $1.2 million provided in each of fiscal 2025 through 2028); and
- $8.0 million in funding to EARN beginning in fiscal 2021.

Instead, the bill requires that MEA use SEIF to provide $1.2 million annually from fiscal 2025 through 2028 to CTFF. The bill also authorizes the Governor to transfer up to $2.2 million of the funds *in SMWOBA* that are attributable to SEIF (the total specified from fiscal 2021 through 2024 under current law) to CTFF on or before June 30, 2024.

Current Law: MCEC was established by Chapter 137 of 2008 as a body politic and corporate and an instrumentality of the State. The purpose of MCEC is to (1) promote economic development and jobs in the clean energy industry sector; (2) promote the deployment of clean energy technology; (3) serve as an incubator for the development of the clean energy industry; (4) in collaboration with MEA, collect, analyze, and disseminate industry data; (5) provide outreach and technical support to further the clean energy industry; and (6) work as a green bank and in conjunction with local and private green banks. MCEC may make grants or provide equity investment financing to clean energy technology-based businesses and may borrow money and issue bonds consistent with its purpose.

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program and the implementing SEIF to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. Chapter 757 of 2019 requires MEA to provide a total of $7.0 million from SEIF for access to capital for small, minority, women, and veteran-owned businesses in the clean energy industry under SMWOBA in Commerce, subject to specified conditions. The funding must be allocated in annual increments from fiscal 2021 through 2028 as follows: $200,000 in fiscal 2021; $500,000 in both fiscal 2022 and 2023; $1.0 million in fiscal 2024; and $1.2 million annually in fiscal 2025 through 2028. Chapter 757 also required MEA to provide a total of $8.0 million from SEIF beginning in fiscal 2021 to invest in pre-apprenticeship, youth apprenticeship, and registered apprenticeship programs to establish career paths in the clean energy industry under the EARN program.

Maryland Energy Innovation Initiative and Fund

Chapters 364 and 365 of 2017 established MEII in the A. James Clark School of Engineering at the University of Maryland, College Park Campus (UMCP) to (1) collaborate with academic institutions in the State to participate in clean energy programs and (2) develop and attract private investment in clean energy innovation.

The Acts also established MEIF in UMCP to support the administrative costs of MCEC and MEII and required that $1.5 million be transferred from SEIF to MEIF each year from fiscal 2019 through 2022. MEII is authorized to use the fund to purchase advisory services and technical assistance and for administrative, legal, and actuarial expenses of MEII.

Chapters 13 and 24 of the 2021 special session required MEII and MCEC to implement an accelerator program for Maryland-based technology companies engaged in clean energy innovation and required that at least $2.1 million annually be transferred from SEIF to MEIF, which must be apportioned to MEII (at least $0.9 million) and MCEC (at least $1.2 million).

State Fiscal Effect: The fiscal impact of the bill is largely due to a new mandated distribution from SEIF to CTFF, instead of mandated distributions to SMWOBA and EARN, from fiscal 2025 through 2028. However, other considerations and assumptions also contribute to the estimated overall effect, as discussed below.

- The bill establishes a mandated distribution of $1.2 million annually from SEIF to CTFF from fiscal 2025 through 2028.
- The bill repeals a mandated distribution of $1.2 million annually from SEIF to SMWOBA from fiscal 2025 through 2028.
- The bill repeals a mandated distribution totaling $8.0 million from SEIF to EARN, which began in fiscal 2021 but is otherwise open-ended.
- As SMWOBA has not received any SEIF funding under Chapter 757 and Commerce does not anticipate receiving any funding through the duration of the statutory transfers, special fund revenues and expenditures for Commerce are unaffected by the bill.

- While neither MDL nor MEA have been able to provide a full accounting of past EARN transfers, it appears that most funds have yet to be transferred, despite some amount being budgeted each year, and, thus, remain eligible for transfer in future years under current law. While it is possible that SEIF funds may otherwise be transferred to EARN under Chapter 757, this analysis assumes that special fund revenues and expenditures for MDL from fiscal 2025 through 2028 are unaffected by the bill.
- Since SEIF expenditures appear to have been largely unaffected by Chapter 757, this analysis assumes the bill increases SEIF expenditures to reflect the transfer of funds to CTFF.
- The bill authorizes the Governor to transfer *up to* $2.2 million of the funds *in SMWOBA* that are attributable to SEIF to CTFF before the end of fiscal 2024. However, SMWOBA has never received or used SEIF funding under Chapter 757. In practice, MEA and Commerce have agreed to provide SEIF funds to SMWOBA only if needed in a particular fiscal year. Even so, current law also requires unused SEIF funds to be transferred back to SEIF at the end of each fiscal year. Therefore, while the intent of the bill appears to be to reallocate previously unused SEIF funds associated with Chapter 757 from SMWOBA to CTFF, such funds are not in SMWOBA and, thus, are not available for transfer (and the bill does authorize a transfer directly from SEIF). As such, this analysis does not assume funds are transferred under this provision.
- The bill specifies uses of the transferred funds in CTFF as follows: (1) up to $1.72 million for direct investment of the fund; (2) up to $3.28 million for the MCEC and the Maryland Energy Innovation Accelerator tech support programs; and (3) up to $2.0 million for MEII seed grants. Annual allocations for these purposes are unknown. Direct investments by CTFF are expected to generate future nonbudgeted revenues, which may be used for authorized purposes. Funds allocated to accelerator tech support programs and seed grants do not generate additional revenues but may increase special fund revenues and expenditures for MEIF (reflecting any transfer of funds), depending on how the bill is implemented. CTFF may be used for administrative costs.

Accordingly, under the assumptions discussed above, special fund expenditures for SEIF increase by $1.2 million annually from fiscal 2025 through 2028. Nonbudgeted revenues for CTFF increase correspondingly. CTFF expenditures increase beginning in fiscal 2025 to provide financial assistance for qualified projects and other authorized purposes, including payment of MCEC administrative costs (MCEC employees are not State employees). While expenditures may occur over one or more fiscal years, this estimate assumes expenditures occur in the year funds are received. CTFF revenues and expenditures further increase in future years as investment returns (from a limited portion of the overall SEIF funding) are received and used to provide additional rounds of financial assistance. Special fund revenues and expenditures for MEIF increase by an unknown amount beginning in fiscal 2025 to the extent CTFF funding is transferred for tech support programs and/or seed grants.

While not assumed in the above estimate, the bill's repeal of the SEIF to EARN distribution may reduce special fund expenditures for SEIF and corresponding special fund revenues and expenditures for EARN in future years; as described above, affected amounts are unknown at this time.

Small Business Effect: The bill redirects funding that was not being used under SMWOBA to a new fund which may be used to benefit small businesses. Also, the bill eliminates the funding requirement for EARN. The overall effect on any particular small business is unknown but could be meaningful.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 900 and HB 911 of 2023.

Designated Cross File: HB 1220 (Delegate Vogel, *et al.*) - Appropriations.

Information Source(s): Maryland Clean Energy Center; Department of Commerce; Maryland Energy Administration; Department of Budget and Management; Maryland Department of Labor; Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2024
km/lgc Third Reader - March 25, 2024
Revised - Amendment(s) - March 25, 2024

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