Chair Marc Korman
Environment & Transportation Committee
250 Taylor House Office Building
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Annapolis, Maryland 21401

House Bill 49 – FWA Favorable with Amendments

Chairperson Korman, Vice Chair Boyce, and Members of the Committee,

Thank you for the opportunity to testify today regarding House Bill 49 and the State's Building Energy Performance Standards (BEPS). My name is Luke Lanciano, and I serve as the Director of Sustainability at The Tower Companies, a Maryland-based real estate firm established in 1947. Our company develops and operates millions of square feet of commercial and multifamily real estate in the region, with a core commitment to reducing our environmental impact and operating our buildings at the highest efficiency standards.

As a LEED Accredited Professional in Operations and Maintenance, a Certified Energy Manager through the Association of Energy Engineers, and a Fitwel Ambassador, I have dedicated my career to advancing sustainable building practices. Approximately 90% of the buildings in our portfolio are ENERGY STAR certified, and 95% are LEED certified. We have actively benchmarked our energy use for over a decade and have contributed as stakeholders in the BEPS programs developed in Washington, D.C., and Montgomery County. Furthermore, we are deeply engaged in ambitious climate initiatives, including the Department of Energy's Better Buildings Challenge and Better Climate Challenge, as well as the Urban Land Institute's Net Zero Imperative. Our commitments include a 50% reduction in emissions by 2028 from a 2018 baseline and achieving net-zero operational emissions by 2050.

While I support the objectives of House Bill 49, I believe several amendments would enhance its effectiveness:

1. **Exemption for Montgomery County**
   Montgomery County has developed a comprehensive BEPS program over several years. Exempting buildings in Montgomery County from the State's BEPS requirements would reduce compliance costs for the Maryland Department of the Environment and streamline compliance for affected buildings. The current framework creates overlapping, yet distinct, regulatory requirements, increasing complexity and potential costs for building owners.

2. **Establish Fines Consistent with GHG Emissions by Fuel Source**
   The State must establish internal expertise on building science and operations before instituting a fine structure based on Site Energy Use Intensity (EUI). The State's previous attempt to set Site EUI targets using a limited dataset of high-performing, self-selected buildings was appropriately rejected by the General Assembly. Fines should not be imposed until a robust, comprehensive dataset is developed and State officials have a thorough understanding of building operations, and those fines should be established based on the GHG emissions of those fuel sources, and the Social Cost of Carbon, rather than by establishing an arbitrary fine per unit of energy.

3. **Economic Realities of Fuel-Switching**
   Fuel-switching mandates must account for real-world economic impacts. Currently, electricity rates are significantly higher than natural gas, making the transition from high-efficiency gas boilers to electric heat pumps economically challenging, particularly for renters. During extreme cold periods, air-source heat pumps experience reduced efficiency, further exacerbating costs. There need to be clearly defined compliance pathways to help buildings adapt without displacing tenants or raising energy costs, and the State should implement caps for energy reductions to help existing buildings adapt over time without excessive penalties.

4. **Refinement of BEPS Metrics and Fine Structures**
   While net-direct emissions targeting appropriately addresses Scope 1 emissions, the Site EUI metric does not differentiate between renewable and non-renewable energy sources. The proposed fine structure should account for emissions reductions achieved through renewable energy procurement or onsite generation, helping to support the growth of solar across the state. A more equitable approach would tailor fines based on the Social Cost of Carbon for market-based emissions rather than imposing flat fees based on energy use.

5. **Addressing Barriers to Electrification Retrofits**
   Many buildings lack the infrastructure and engineering support needed to support full electrification, and current incentives do not adequately

address this transition's high costs. Electrification retrofits require expensive upgrades to electrical infrastructure, and absent load-reduction measures, natural gas remains the most cost-effective energy source for heating and hot water. The State should offer targeted incentives for electrification retrofits, as well as engineering resources, and state-funded case studies showing how operating buildings can best integrate new technologies to gradually decarbonize their buildings. A successful financing model to address some of the larger funding challenges could be modeled after Montgomery County's Energy Efficient Buildings Property Tax Credit, which provides tax abatements to offset high upfront costs for energy efficiency improvements. The Montgomery County Green Bank's Technical Assistance Program also offers a good model for needed engineering and auditing support to assist with planning decarbonization.

Conclusion

The energy transition required to zero out emissions from the building sector requires one of the largest peacetime mobilizations of resources in history. While House Bill 49 is an important step for the State, it must be carefully structured to avoid unintended economic burdens while still advancing decarbonization goals. By addressing the concerns outlined above, the State can create a more effective, achievable, and equitable path toward a sustainable building sector.

Thank you for your time and consideration. I welcome any questions you may have.