

Maryland Energy Administration – Capital Budget Testimony

MEA Year in Review - 2011 was a banner year for the Maryland Energy Administration (MEA) in its mission to bring affordable, reliable, clean energy to all Marylanders. Our smart investments generated real results as new clean energy projects were completed in every corner of Maryland. The projects helped Maryland businesses and families save energy, reduce their electric bills, create local jobs, and enhance Maryland's energy security.

A new interactive Smart Energy Investment map (www.energy.maryland.gov/map) is now available to show residents and businesses the clean energy projects in their neighborhood (and legislative district) completed thus far during the O'Malley Administration.

Some of the highlights from our recently published *MEA 2011 Year in Review*:

- MEA led successfully negotiations in the Exelon/Constellation merger, resulting in a settlement that, if approved by the Public Service Commission, will infuse over \$1 B in clean energy investment into Maryland and create more than 6,000 jobs.
- MEA leveraged more than \$36 M in private investment through Project Sunburst for solar energy systems on state and local government buildings.
- Programs run by MEA, the utilities and other state agencies will save Marylanders over \$2 B under EmPOWER Maryland energy efficiency incentives.
- MEA helped over 1,800 Maryland families save money through home energy makeovers.
- MEA efforts enabled exponential growth in Maryland's solar industry and supported tremendous growth in Maryland's wind industry.
- MEA sped up the adoption of electric vehicles by installing over 80 electric vehicle charging stations at strategic locations throughout the state.

State Agency Loan Program (SALP) - MEA issued a record number SALP loans in 2011. This program provides zero interest loans to State agencies for energy conservation projects. The majority of funds are linked with Energy Performance Contracts developed by state agencies in coordination with the Department of General Services and MEA. While MEA historically budgets around \$1.5 million annually, last year due to the addition of ARRA funding, we were able to issue over \$5.9 million in loans to state agencies for energy improvements that will save taxpayers over \$9.9 million over the life of the measures. Specifically, MEA provided the loans in FY 2011 to the following agencies:

SALP Loans FY11	Type	Amount	Savings life of measures	Status
State Highway Administration (Statewide)	Highway sign lights	\$ 2,900,000	\$3,849,347	Complete Feb 2012

UMCES- Chesapeake Bay Lab (St. Mary’s)	Fume Hoods Vent System	\$ 1,500,000	\$ 1,819,454	Complete
MD Aviation Admin- BWI (Anne Arundel)	Garage Light system	\$ 1,000,000	\$ 3,429,526	Complete
Maryland Stadium Authority (Baltimore City)	Energy Performance Contract	\$ 265,000	\$ 509,529	Complete
UMCES- Horn Point (Dorchester)	Energy Performance Contract	\$ 240,000	\$ 335,350	Complete

An example of the success of a SALP loan is found in the State Highway Administration loan. This project replaces approximately 2,100 highway sign lights fixtures with high efficient LED lights. Installation includes both new and retrofitted fixtures. The \$2.9 million loan will save 2.96 million kWh annually which equates to over \$3.8 million savings over the life of the project.

In FY 2012, we have already approved three SALP loans totaling \$2.3 million, specifically:

SALP Loans FY12	Type	Amount	Savings life of measures	Status
Md Port Admin (Baltimore City)	Gas Boiler System and Lights	\$ 1,562,075	\$ 3,229,546	Complete Feb 2012
University of MD (Prince George’s)	Classroom lights	\$ 600,000	\$ 1,345,344	Construction Begun
UMCES – Appalachian Lab (Allegany)	Energy Per Contract	\$167,000	\$ 295,360	Loan Approved Ready to begin construction

In response to MEA outreach, several other state agencies are considering loans, including the Maryland Military Department, SHA (Hanover Headquarters), and UMCES, Horn Point II. MEA is not only working closely with DGS on larger EPC projects but has expanded the outreach to small and medium sized agencies in order to implement energy efficiency projects that will help State agencies meet their obligation to achieve the 15% EmPOWER Maryland goal by 2015. MEA is also working with State Agencies to combine the rebates available from Maryland EmPOWER utility programs with SALP funds to provide a very cost effective set of projects. DGS has implemented statewide energy database along with a contest to push agencies to actively develop energy savings projects that also take advantage of SALP funds.

Lawton Loan Program - The Jane E. Lawton Loan Program helps finance energy efficiency projects that reduce the capital operating costs for businesses, nonprofits, and local government agencies through low-interest loans (currently 2.5%). As highlighted by the DLS analysis, this loan program experienced difficulty finding qualified and ready projects. The slow economic recovery is a significant factor as businesses have been reluctant to make investments in facilities when their short-term outlook and very

viability is uncertain. In addition, the widespread availability of federal grants to local governments through ARRA has made loan programs far less attractive.

Nevertheless, MEA was able to help a number of organizations in FY2011, specifically:

Lawton Loans FY11	Type	Amount	Savings life of measures	Status
One N. Charles (Baltimore City)	Lighting and Retro commissioning	\$ 600,000	\$3,750,000	Complete
BWI Hilton (Anne Arundel)	Building Systems Upgrades	\$500,000	\$ 2,000,000	Closing Pending
Bais Yaakov School for Girls (Baltimore County)	HVAC Upgrade	\$184,000	\$ 1,850,000	Complete
2219 York Road (Baltimore County)	HVAC Upgrade	\$51,000	\$268,530	Complete

The One North Charles project in downtown Baltimore is a significant success story; one which MEA is targeting to emulate with others through our action plan going forward. The owner of One North Charles borrowed \$600,000 from the Lawton Loan Program to finance more than half of the costs of its energy efficiency improvements, including lighting controls, building automation systems, and a major upgrade to the HVAC system. Together with a significant rebate from BGE, the owner of One North Charles expects to save over \$300,000 in energy costs annually. The One North Charles project was the first major commercial building retro commissioning project to receive Lawton financing and without this financing, the project may not have occurred. MEA will build on the success of the One North Charles project with recently-awarded funding from the Department of Energy to encourage more investment in energy efficiency by translating energy savings into more traditional business cases.

In FY2012, one application from Island Hotel Properties in Ocean City (Worcester) is currently pending. MEA is also working with several other prospective applicants to finalize proposals for financing by the end of the fiscal year. It is likely that additional applications beyond those currently in process will be submitted for consideration.

As the economy slowly rebounds and ARRA funds are exhausted, MEA anticipates greater demand for Lawton loans.

MEA has adopted a multi-pronged approach to improve the program. First, MEA has already successfully streamlined the Lawton application process through standardized documentation and built an electronic library of sample documents and templates to share with a potential loan recipients. We are currently seeing the benefits of these improvements with our successful closing pf loans for applications received.

Second, MEA is redoubling its efforts to reach out to industrial associations, sector-focused groups, and corporations currently undertaking energy improvement projects. For example, MEA is working with

the Regional Manufacturing Institute and its clients to provide loans to medium sized manufacturing companies.

Finally, we are also initiating an intense coordination of our outreach efforts with Maryland utilities in light of their expanded commercial EmPOWER Maryland programs, just approved by the PSC in late December. By increasing utility incentives for energy efficiency and conservation measures of commercial retrofit projects, projects which require financing for the full project will increase.. MEA anticipates that the Lawton loan program will then be viewed will be a critical source of affordable financing that can be paired with utility rebates.

MEA’s Testimony- Responses to DLS Recommendations/ Issues

DLS Recommendation (Page 9): “Given the limited impact of the program changes to date, the Department of Legislative Services recommends reducing the appropriation by \$750,000 for the JELLP, until such a time as the agency can demonstrate it has sufficient loan activity to justify the additional authorization.”

MEA Response: Concur - with comment. While it is true that MEA has experienced a low volume of Lawton Loan applications relative to the appropriated budgets in recent years, the fact remains that MEA has been very successful in closing loans for the applications received thanks to the initiatives to improve the loan process that we started last year. As discussed above, MEA is currently working on improved marketing and outreach activities to drive interest in energy efficiency and conservation projects that may utilize low-interest Lawton Loans. Of MEA’s marketing and outreach efforts, closer coordination with Maryland utilities presents the most opportunities to offer Lawton Loan financing for commercial projects. Maryland utilities are very effective partners and marketers of the Lawton Loan Program because affordable, private-sector financing for commercial projects is scarce. In addition, Maryland utilities are increasing incentives for energy efficiency and conservation measures for commercial retrofit projects because project volume has been significantly lower than estimated when utility programs were first implemented. As utility commercial incentive programs mature, commercial projects will multiply, and MEA will be a critical source of affordable financing. We also expect applications to increase as the economy improves and as local governments exhaust their federal ARRA energy efficiency grants. MEA may return to the legislature to request additional loan funds in response to market conditions and demand.

DLS Analysis (Page 9): MEA should discuss its processes for monitoring loan repayments and the revolving loan fund balance to ensure that the revolving loan fund is not oversubscribed.

MEA Response: MEA maintains an active accounting of all SALP loans; those awarded are formally encumbered in the State’s accounting system, those in negotiation or under consideration are monitored through the agency’s Program Management Application. Loans are not awarded unless both a sufficient appropriation and cash balance exists. SALP invoice notifications are sent at the beginning of the fiscal year and receipts are monitored for compliance with repayment schedules.

DLS Analysis (Page 11): MEA should comment on planned improvements to its procedures to prevent similar situations from arising in the future.

MEA Response: As was detailed to the DLS analyst in earlier dialogue, the change in the FY2010 beginning balance was the result of corrections to earlier human reporting errors. The agency experienced a significant financial staffing turnover this past year. Thus, MEA began this Capital Budget cycle with a reconciliation of both SALP and LAWTON prior year beginning balances. In doing so, it was identified that the reported ending balance of SALP FY09 had been incorrectly reported. A corrective change was therefore made in the beginning balance for FY10 and all subsequent ending actual balances exactly tie out to the State’s accounting system.

DLS Analysis (Page 11): MEA should clarify its process for estimating future interest income to ensure that the estimates do not distort the anticipated fund balance so that the implications of the current spending can readily be observed.

MEA Response: With the above mentioned turnover of financial personnel at MEA, we have been enhancing all of our financial processes, including budget interest calculations which are as follows: MEA forecasts monthly Loan Fund cash balances based on an assessment of loan repayment schedules and estimates of loan closures. The interest rate used in the calculation is based on the most current actual rate in place at the time estimates are developed.