Economic Impact Statement

Office of Legislative Oversight

Bill 44-21 Montgomery County Green Bank – Funding – Fuel Energy Tax Revenue

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 44-21 would have a significant, positive impact on economic conditions in the County. This conclusion is based primarily on OLO's expectation that increasing funding for the Montgomery County Green Bank would induce substantial private sector investment in clean energy improvements for commercial and multifamily properties that otherwise would not occur in the absence of enacting the Bill.

BACKGROUND

Green Bank

In its 2017 Climate Action Resolution, the Council committed to reducing greenhouse gas emissions (GGEs) by 80% by 2027 and 100% by 2035.[1] Buildings in the County are a primary source of GGHs, with heating, cooling, and lighting buildings accounting for 41% of GGEs.[2] The County's Climate Action Plan set a target of electrifying or using carbon-free energy sources for all new and existing buildings by 2035.[3]

Consistent with this target, the Montgomery County Green Bank (hereinafter "Green Bank") aims to increase investment in energy efficiency and renewable energy technologies for County residential and commercial properties. To achieve this aim, the Green Bank seeks to attract private capital through de-risking strategies, outreach, and technical assistance, thereby helping to lower the cost of financing these technologies and grow the nascent clean energy market in the County.

Bill Description

Currently, the Green Bank does not have a dedicated source of revenue, which arguably limits its ability to attract private investment in clean energy technologies for County buildings. If enacted, Bill 44-21 would provide a dedicated source of revenue by mandating the Council to appropriate 10% of the revenue from the County's fuel-energy tax[4] to the Green Bank each year in the annual operating budget.[5] Doing so would dedicate millions of dollars of public funds for the Green

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[1] Montgomery County Council, Resolution No. 18-974, Emergency Climate Mobilization, Adopted on December 5, 2017.
[2] Montgomerycountymd.gov, About Montgomery County's Green Buildings, Office of Energy and Sustainability.
[3] Montgomery County Climate Action Plan, June 2017.
[4] "The fuel-energy tax is levied and imposed on every person transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel oil, or liquefied petroleum gas in the County." See Sec 52.14 of the Montgomery County Code.
[5] Montgomery County Council, Bill 44-21, Montgomery County Green Bank – Funding – Fuel Energy Tax Revenue, Introduced on November 16, 2021.

Bank on an annual basis. To illustrate, the Council budgeted $175,651,251 for energy tax revenue in FY22—10% of which is $17, 565,125.

Primary Economic Stakeholders

The economic impacts of enacting Bill 44-21 would occur largely through the Green Bank's goal of leveraging additional public funds to create >$1 of private sector investment for each $1 of public funds invested. The primary economic stakeholders in the County would be:

- **commercial and residential properties** in the County that receive private sector investment as a result of the Green Bank's projects and programs;
- **banks, Community Development Financial Institutions, and other lending institutions based in the County** that provide these investments; and
- **clean energy service providers and other contractors** based in the County that perform services related to clean energy improvements in affected buildings.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

To assess whether and to what extent enacting Bill 44-21 would affect economic conditions in the County, OLO performs a qualitative assessment of the Green Bank's ability to use additional public funds to attract private capital in clean energy improvements for buildings. The qualitative assessment is based on Green Bank reports and documents as well as interviews with:

- personnel from the Green Bank and Department of Environmental Protection; and
- representatives of private organizations that have partnered with the Green Bank on projects, namely representatives from a local bank, energy efficiency contractor, and Community Development Financial Institution (CDFI).

Due to data and time limitations, OLO focuses the analysis in subsequent sections on the extent to which enacting Bill 44-21 would induce private sector investment in clean energy technology that otherwise would not occur.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 44-21 are the following:

- total annual funds allocated to the Green Bank from the fuel energy tax;
- percentage of allocated funds used to leverage private sector investment;
- average mobilization ratio;

- percentage of local lenders, energy service providers, etc. involved in these investments; and
- percentage of investments used to import clean energy technology.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 44-21 would have positive impacts on private organizations in the County in terms of several of the Council's priority indicators.

OLO expects the Bill to increase private sector capital investment that otherwise would not occur in the County. To date, the Green Bank has used $12 million in capital to leverage $28 million in private investment.[6] According to sources with whom OLO consulted, the Green Bank has used its capital to have a meaningful *investment effect*—that is, inducing private investment in clean energy improvements in County buildings that otherwise would have not occurred.[7] The investment effect has involved the Green Bank:

- attracting private investment to clean energy improvements that otherwise would not have flowed to the County; and
- re-directing investment towards clean energy improvements that otherwise would have flowed to other areas within the County.

However, data limitations prevent OLO from estimating the extent to which the $28 million in private investment would not have occurred without Green Bank support and the percentage of investment attracted to the County versus internally re-directed.

Factors that would influence the magnitude of Bill 44-21's investment effect would include:

- total annual funding
- percentage of funds used as capital to leverage with private capital
- mobilization ratio (overall private investment/Green Bank investment)

To illustrate the potential magnitude of the investment effect, OLO uses the $17.6 million in FY22 energy tax revenue that would be allocated to the Green Bank if the Bill were enacted. According to Green Bank personnel, 70% of energy tax

[6] OLO correspondence with Green Bank leadership.
[7] As opposed to using its capital to support investments that would have occurred in the absence of Green Bank support.

revenues allocated to the Green Bank would be used as capital to leverage with private capital. For FY22, this would amount to approximately $1.2 million.

The Green Bank's overall mobilization ratio to date is $2.3 in private sector investment for each $1 of Green Bank investment. According to Green Bank leadership, its target ratio in the future is $3 to $1. As shown in **Table 1**, leveraging $1.2 million in Green Bank investment would result in approximately $2.9 million in private sector investment at the current ratio and $3.7 million at the target ratio.

Table 1. Estimated Leveraged Private Sector Investment for FY22

Green Bank Investment	Mobilization Ratio	Private Sector Investment
$1.2 million	Current: $2.3 to $1	$2.9 million
	Target: $3 to $1	$3.7 million

As previously stated, OLO limited the scope of this analysis to the likelihood and magnitude of Bill 44-21's investment effect due to data and time limitations. However, OLO notes here the potential for the Bill to affect private organizations in terms of the following priority indicators. First, County-based clean energy service providers that perform services related to clean energy improvements in affected buildings likely would experience business income gains. Second, by increasing Green Bank and private sector investment, commercial and residential property owners in the County would benefit from greater borrowing opportunities, perhaps with lower financing costs. Third, adopting clean energy technologies likely would reduce energy costs for buildings, thereby potentially reducing operating expenses. These investments also have the potential to increase the property values of affected commercial and residential values.[8] Finally, given the magnitude of the induced private sector investment, the Bill has the potential to improve the County's competitiveness in the clean energy market and have positive economic development impacts.

Residents

By increasing private sector investment in clean energy technology, Bill 44-21 has the potential to have secondary impacts on residents in terms of several of the Council's priority indicators. For instance, if greater investment in clean technology improvements affects operating expenses of residential buildings, tenants may experience lower utility costs. However, as previously stated, data and time limitations prevent OLO from investigating these and other potential impacts on residents in this analysis.

[8] See Li Zhang, Jing Wu, Hongyu Liu, "Turning green into gold: A review on the economics of green buildings," *Journal of Cleaner Production*, Vol. 172, 2018, pp. 2234-2245.

DISCUSSION ITEMS

Not applicable

WORKS CITED

Montgomery County Climate Action Plan. June 2017.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Montgomery County Code. Sec 52.14, Fuel-energy tax.

Montgomery County Council. Bill 44-21, Montgomery County Green Bank – Funding – Fuel Energy Tax Revenue. Introduced on November 16, 2021.

Montgomery County Council. Resolution No. 18-974. Emergency Climate Mobilization. Adopted on December 5, 2017.

Montgomerycountymd.gov. About Montgomery County's Green Buildings. Office of Energy and Sustainability.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.