

T&E COMMITTEE #3
April 22, 2009

Worksession

MEMORANDUM

April 20, 2009

TO: Transportation, Infrastructure, Energy & Environment Committee
FROM: *KL* Keith Levchenko, Senior Legislative Analyst
SUBJECT: **Worksession: FY10 Operating Budget: Non-Departmental Account (NDA)
– Climate Change Implementation**

Those expected for this worksession:

DEP Director Robert Hoyt
Stan Edwards, Chief of Environmental Policy and Compliance (DEP)
Gladys Balderrama, Manager, Administrative Services (DEP)
John Greiner, Office of Management and Budget
Harold Adams, Chief, Division of Real Estate Management Services-Dept of General Services

Staff from the Office of Human Resources and Office of Consumer Protection have also been invited to attend.

The Executive's recommendation for the Climate Change Implementation Non-Departmental Account is attached on ©1.

Background

The Climate Change Implementation NDA is intended to address requirements included in a number of climate protection-related bills approved last year including:

- Bill 29-07, Environmental Sustainability – Climate Protection – Motor Vehicles rates
- Bill 30-07, Buildings – Energy Efficiency
- Bill 32-07, Environmental Sustainability – Climate Protection Plan
- Bill 35-07, Consumer Protection – Energy and Environmental Advocacy

The County's greenhouse gas reduction goals were codified in Bill 32-07 as an 80% reduction in greenhouse gas emissions (from the FY05 baseline year) by 2050 with an interim goal of stopping the increase in emissions by 2010 and 10 percent reductions every 5 years

through 2050. The overall goal of an 80% reduction by 2050 is consistent with the State of Maryland's and the Metropolitan Washington Council of Government's goals, as well as the Cool Counties Initiative sponsored by the National Association of Counties, which includes participation from hundreds of jurisdictions across the country.

Based on the 2005 baseline (12.592 million metric tons of carbon dioxide equivalents (MMTCO_{2e}), the County must reduce more than 10 MMTCO_{2e} to meet this goal.

The NDA was approved with funding that was identified through increases approved in fuel/energy taxes that raised approximately \$11.1 million in additional revenue. Most of the new revenue generated was used to temper increases in property tax rates. However, a portion of the increased revenue was also used to fund elements of the Climate Change Implementation NDA (including \$1.0 million for climate change related initiatives and \$200,000 in increased funding for the Clean Energy Rewards Program).

Overview

For FY10, the Executive recommends total expenditures of \$724,260 for the NDA. This represents more than a 50 percent reduction from the FY09 approved amount of \$1.56 million.

**Table 1:
Climate Change Implementation NDA Expenditures**

Item	A	B	C	D	E
	Approved FY09	Estimate FY09	CE FY10	Change (CE-Approved)	
				\$	%
Clean Energy Rewards Program	561,000	561,000	518,000	(43,000)	-7.7%
Implementation of Sustainability Working Group Recommendations	-		50,000	50,000	
Tank Cleaning and Filter Costs to Ready Fleet for B-20 Fuel	47,800	9,800	24,000	(23,800)	-49.8%
Energy Audits and Energy Performance Contracting for County Buildings	666,050	666,050	-	(666,050)	-100.0%
Climate Protection Plan Consultant Assistance	104,170	104,170	-	(104,170)	-100.0%
Consumer Protection Consultant Assistance to work with MD/Fed Govt	50,000	25,000		(50,000)	-100.0%
Implementation of Telecommuting Action Plan					
- P/T OHR Specialist to Manage Telecommuters	34,480	34,480	34,760	280	0.8%
- Equipment	97,500	-	97,500	-	0
Totals	1,561,000	1,400,500	724,260	(836,740)	-53.6%

Most of the reduction is the result of the removal of one-time expenditures approved in FY09. These include consultant contracts for the energy audits of County buildings (the EMG report discussed by the T&E Committee during its Utilities discussion on April 16 was the first phase of this work), consultant assistance for the Sustainability Working Group (SWG), and consultant assistance within the Office of Consumer Protection. In the case of the energy audit work and the SWG consultant, these contracts are expected to be fully unencumbered in FY09 (i.e. costs will be charged to FY09) although work on these contracts will continue in FY10.

The major changes as well as other issues are discussed in the following section.

Discussion

Clean Energy Rewards Program

For FY09, the dollars associated with the rewards for this program were moved from DEP to this NDA. The administrative costs for this program remain in the DEP General Fund budget. The Executive Recommended FY09 budget includes \$3518,000 for clean energy rewards (a reduction of \$43,000 from the FY09 total. The FY10 amount represents DEP staff's estimate of what is needed to keep the program open in FY10 based on current program experience. As in past years, if interest in the program exceeds the budget, then the Executive and the Council will need to consider whether to close the program to new participants or approve supplemental funding during the year.

The estimate is down from FY09 levels partly as a result of changes in the program regulations approved last year which allowed for national clean energy purchases, as opposed to just regional clean energy purchases, and which reduced the kWh reward from one cent per kWh for residential and 1.5 cents per kWh for non-residential to an incentive of .5 cents per kilowatt hour for both categories. Participation rates had slumped somewhat during FY09, perhaps as a result of economic conditions. However, that trend has changed recently as standard offer service rates that take effect this summer are higher than clean energy rates.

In January 2008, DEP had to close the program to new participants in order to ensure existing resources would be sufficient to cover projected rewards. However, the program reopened during FY09 as a result of the additional funding approved. As of the end of the 2nd quarter of FY09, there were 3,763 residential, 194 commercial, and 10 on-site generators participating in the program. Additional information from DEP regarding the program (including the carbon reduction from clean energy purchases; 18,800 tons estimated in FY08) is attached on ©2-3.

Council Staff recommends approval of the Clean Energy Rewards budget for FY10 with the understanding that the Executive will keep the Council apprised of the status of the program and if there is a need for additional dollars to keep the program open to new participants that the Executive will inform the Council of this need in time for consideration of supplemental funding.

Sustainability Working Group

The Sustainability Working Group (SWG) was established as part of Bill 32-07 (Environmental Sustainability – Climate Protection Plan) adopted in April 2008. The group consists of 26 members (15 representing various County departments and agencies and 10 public members) with different backgrounds and expertise. DEP provides staff support to the SWG.

The SWG was charged with a number of tasks as noted in the Bill. Its key task was the development of a Climate Protection Plan which was formally transmitted to the County

Executive and the County Council on January 15, 2009. The T&E Committee was briefed on the Climate Protection Plan on February 2.

The NDA includes \$50,000 in FY10 as a placeholder for implementation of the Climate Protection Plan. This amount is in addition to the consultant support approved in FY09 that will be continuing in FY10.

According to DEP staff, the FY09 consultant dollars (\$104,170) will be used to develop an evaluation methodology that can be used to rank various climate protection measures (including the 58 recommendations in the January Plan as well as other measures that are subsequently identified). The Sustainability Working Group will also be developing and approving the next iteration of the County's Climate Protection Plan.

In the meantime, some of the Plan's recommendations are moving on separate tracks. For instance, legislation related to the recommendation to implement a low-cost residential loan program for energy efficiency improvements was adopted by the Council on April 14, 2009.

Also, the County recently convened a Green Economy Task Force/Green Economic Development Initiative assisted by DEP and Department of Economic Development staff and consultant support to pursue efforts to grow Montgomery County's "green economy." This effort will be linked to the ongoing work of the SWG.

Council Staff is supportive of the consultant work budgeted in FY09 that will be carrying over into FY10 and supporting the SWG. However, the placeholder dollars (\$50,000) for FY10 do not have a defined scope of work. While these dollars could likely be put to good use by the SWG during FY10, given the County's fiscal situation, **Council Staff believes the \$50,000 should be put on the Council's reconciliation list rather than recommended for approval at this time until the Executive or the Council identifies a more specific use in the climate change area for these dollars.**

Telecommuting Action Plan

Bill 29-07, "Environmental Sustainability – Climate Protection – Motor Vehicles rate" included requirements to establish a telecommuting action plan with numerical targets for County employee participation. The exact language of the bill is below:

33-24. Telecommuting.

(a) Definitions. In this Section, the following words have the meanings indicated:

"Director" means the Director of the Department of Human Resources or the Director's designee.

"Sustainability Working Group" means the Group defined in Section 18A-13.

"Telecommute" means a work arrangement in which some or all of the work is performed at an alternative work site such as a home or office space near a home.

(b) Telecommuting Action Plan. The [[Director]] Sustainability Working Group must prepare a Telecommuting Action Plan that sets out a plan for increasing the number of County employees who telecommute.

(c) Contents. The Telecommuting Action Plan must:

- (1) set numerical goals for the number of County employees who telecommute;
- (2) identify the circumstances under which a County employee may telecommute; and
- (3) identify procedures that a County employee must follow to obtain permission to telecommute.

(d) Annual report. The ~~[[Director]]~~ Sustainability Working Group must report to the County Executive and County Council by ~~[[September 1]]~~ January 15 of each year on the actions taken in the preceding fiscal year to implement the Telecommuting Action Plan.

As part of the FY09 Budget, \$34,480 was included for a part-time position in the Office of Human Resources to manage this effort and \$97,500 for outfitting 25 employees with laptop computers, blackberry devices, and network hardware at a cost of \$3,900 per employee. The FY10 budget includes resources to continue the part-time position and to outfit another 25 employees. These costs were first forwarded to the Council during its deliberations on Bill 29-07.

Council Staff is skeptical of the need for the outfitting costs for several reasons:

1. No telecommuting action plan has been presented to the Council for discussion. It appears to be premature to invest substantial dollars without an understanding of the short and long-term program being put in place.
2. Many employees probably already own their own computer equipment and cell phones and would not need additional equipment purchased at the County's expense.
3. Since telecommuting provides a family-friendly benefit (and cost savings in terms of commuting-related costs to employees) it is not clear why the County should invest substantial dollars to subsidize an employee for this. Would the County also be responsible for upgrading this equipment later? What about the monthly charges for blackberry service?
4. It is not clear why a blackberry device is needed. Employees can use land-line phones, their own cell phones (perhaps with a reimbursement for business-related calls), and email services from their own computers.
5. Since this program is requested to be funded in the Climate Implementation NDA, then a tangible and cost-effective carbon reduction benefit should be realized. However, in this case, the expenditures requested provide for only a small number of employees to telecommute. If these employees only telecommute part-time (perhaps once per week or once every two weeks) the environmental benefit for the investment made is even further reduced. It is not clear that this is the best investment of dollars to reduce greenhouse gas emissions. The consultant work with the SWG (mentioned above) may provide some help here in terms of prioritizing greenhouse gas reduction efforts.

In Council Staff's experience, the primary impediment to even part-time telecommuting (other than jobs that preclude telecommuting altogether, such as bus drivers, uniformed public safety officers, etc..) is the lack of interest in such an arrangement by either an employee or an employee's manager, not lack of the necessary equipment.

Council Staff has forwarded these concerns to Office of Human Resources (OHR) staff for comment and requested that they be available to discuss these issues at the T&E worksession.

Absent compelling information from OHR staff, Council Staff recommends that no additional dollars for equipment be spent in FY09 or approved for FY10 until a telecommuting action plan is discussed by the Council and the issues associated with it (including those mentioned above) are addressed. If the OHR position has not been filled yet, then that position should remain vacant and the associated dollars not spent as well until this discussion can take place.

Tank Cleaning and Filter Costs to Ready Fleet for B-20 Fuel

Bill 29-07, "Environmental Sustainability – Climate Protection – Motor Vehicles rate" also included requirements that County diesel-fueled vehicles utilize B-20 (20% Biodiesel, 80% petrodiesel). In order to convert to this level of Biodiesel blend, fuel tanks need to be cleaned. Vehicles receiving B-20 also need to have more frequent filter replacements the first year of utilization. Council Staff supports the costs included in the NDA for this effort. Council Staff suggests that the Department of General Services (DGS) -Fleet Management staff provide a brief update for the Committee on this effort and DGS' experience to date with B-5 biodiesel blends.

Summary of Council Staff Recommendations

Council Staff recommends approval of the Climate Change Implementation NDA but at a reduced level from the Executive recommendation: The \$50,000 for SWG recommendation implementation is recommended to be placed on the Reconciliation List and the \$97,500 for telecommuting is recommended to be cut. Further, if the OHR position is still vacant, Council Staff suggests eliminating the funds associated with that position as well (\$34,760).

Attachments

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from the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), Retiree Health Benefit Trust (RHBT), and the General Fund on behalf of the Montgomery County Deferred Compensation Plan (DCP) trust funds and are, therefore, not appropriated here. The Board of Investment Trustees manages the assets of the ERS and RHBT through its investment managers in accordance with the Board's asset allocation strategy and investment guidelines. The Board also administers the investment programs for the RSP and DCP. The Board consists of 13 trustees including the Directors of Human Resources, Finance, Management and Budget, and the Council Staff; one member recommended by each employee organization; one active employee not represented by an employee organization; one retired employee; two members of the public recommended by the County Council; and two members of the general public.

<i>FY10 Recommended Changes</i>	Expenditures	WYs
FY09 Approved	0	0.0
FY10 CE Recommended	0	0.0

Boards, Committees, and Commissions

There are approximately 75 boards, committees, and commissions, created by law or resolution, which serve the County for a variety of purposes. These funds provide for the reimbursement of certain expenses incurred by eligible members of boards, committees, or commissions while on official business and/or for expenses related to the establishment of any new boards, committees, or commissions.

<i>FY10 Recommended Changes</i>	Expenditures	WYs
FY09 Approved	20,000	0.0
Increase Cost: Dependent Care and Travel Reimbursement	7,000	0.0
FY10 CE Recommended	27,000	0.0

Charter Review Commission

Section 509 of the County Charter requires that a Charter Review Commission be appointed by the County Council every four years, within six months after the Council assumes office, for the purpose of studying the Charter. The Commission shall report at least once to the Council on the Commission's activities within one year after appointment. Commission reports shall be submitted no later than May 1 of every even-numbered year. The reports shall contain recommendations concerning proposed Charter amendments, if any. This NDA provides for the expenses of the Commission.

<i>FY10 Recommended Changes</i>	Expenditures	WYs
FY09 Approved	150	0.0
Increase Cost: Biennial Cycle Adjustment	1,350	0.0
FY10 CE Recommended	1,500	0.0

Climate Change Implementation

This NDA provides funding to implement the initiatives the Council adopted in Bills 29-07, Environmental Sustainability - Climate Protection - Motor Vehicles; 30-07, Buildings - Energy Efficiency; 32-07, Environmental Sustainability - Climate Protection Plan; and 35-07, Consumer Protection - Energy and Environmental Advocacy; and to fund the Clean Energy Rewards program established in County Code 18A-11.

<i>FY10 Recommended Changes</i>	Expenditures	WYs
FY09 Approved	1,561,000	0.0
Add: Initial Implementation of Sustainability Working Group Recommendations	50,000	0.0
Increase Cost: Group Insurance Adjustment	280	0.0
Technical Adj: Annualization of FY09 Personnel Costs	0	0.5
Decrease Cost: Adjust Clean Energy Rewards Based on Projected Participation	-43,000	0.0
Decrease Cost: Elimination of One-Time Items Approved in FY09	-844,020	0.0
FY10 CE Recommended	724,260	0.5

Closing Cost Assistance

This NDA provides financing for real estate closing cost expenses to assist moderate- to middle-income home buyers. Eligible first-time home buyers can receive a seven-year loan under the program to help pay the settlement expense of a home purchase. The maximum amount of loans is the lesser of \$7,500 or five percent of the sale price of the single-family residence. The Housing Opportunities Commission (HOC) administers and operates the program. As part of an arrangement between HOC and the Federal National Mortgage Association (Fannie Mae), the County has established this account to help defray program operating costs



Responses to Questions from Keith Levchenko
Regarding the FY10 Budget for Clean Energy Rewards

1. Please provide a breakdown of the participants by type (commercial, residential, residential on solar, other?) in the Clean Energy Rewards program. How many additional participants can sign up under current funding levels?

Participants as of Q2 FY09

Residential: 3,763

Commercial: 194

On-site generators: 10

There is room in the program for approximately 2,600 residential or 350 commercial participants (assuming average annual electricity use of 12,000kWh for residents and 100,000kWh for commercial). Note: this estimate does not account for rewards paid for Q3 and assumes there is \$303,000 remaining in the FY09 budget.

2. The FY10 budget assumes a \$43k reduction in Clean Energy Rewards based on projected participation. Is this reduction based on estimated participation or was it done for fiscal reasons and will it possibly result in the program being closed during FY10 to potential new participants?

The data submitted to OMB in February assumed that in FY10 we would see quarterly participation increase by about 600 residential customers (or some combination of residential and commercial customers) and a reduction in reward values paid from 1 and 1.5 cents to half a cent for both residents and businesses. (The reward reduction occurs as old contracts are renewed and the new reward value takes affect.) This projection was made considering the current economic crisis and limited demand for premium energy products (clean energy).

However, since then, the price of clean energy has dropped, while the price for standard offer service from the utilities will increase to over 13 cents per kWh June 1, 2009. A price comparison is below.

	Pepco and BG&E (cents/kWh)	Competitive Suppliers, on average (cents/kWh)
Standard Service	13.1 – 13.3	10.8
50% wind	--	11.3
100% wind	--	11.9

Participating suppliers have increased marketing efforts and are promoting the opportunity for residents to save money and protect the environment. This price structure has increased demand for less expensive clean energy and we have seen an increase in residential participation over previous estimates. However, this situation could quickly change as the rate for competitive electricity is volatile and may increase again. In this case, suppliers' marketing efforts may decrease compared to current efforts. In addition, a change in the rates for standard service relative to competitive supplies, which may occur when the winter rates are issued, may also impact enrollment in the CER program.

At this time it is not clear when, or if, the program may have to close in FY10. More information will be available after data from Q3 and subsequent quarters is reviewed.

3. How many KWh of clean energy are being purchased via this program?

This table shows the total clean energy purchased and total estimated carbon reductions in each fiscal year.

	kWh Purchased (millions)	Estimated CO2 Reductions (tons)
FY07	4	2,560
FY08	29.1	18,800
FY09 (Q1 and Q2 only)	22.2	14,370
Total	55.3	35,730

4. How much of the \$561,000 FY09 total has been spent to date and how much do you expect to spend on rewards by the end of FY09?

Over \$257,000 has been spent in Q1 and Q2. DEP will be receiving Q3 data from suppliers shortly and will assess the program budget status.

However, based on preliminary discussions, suppliers are estimating that over \$117,000 will be paid in rewards this quarter, and over \$135,000 will be paid in Q4. This estimate brings rewards spending to \$509,000 for the year. Note that these numbers are likely to change as more participants enroll in the program and the Q3 data is closely reviewed.

DEP will keep the County Executive and the County Council apprised of the budget's status as information is received.