



MARYLAND CLEAN AIR FUND ANNUAL REPORT – 2012 –

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Operational Services & Administration
Air and Radiation Management Administration

Prepared for:

Senate Education, Health, and Environmental Affairs Committee

House Environmental Matters Committee

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Maryland General Assembly MARYLAND DEPARTMENT OF THE
ENVIRONMENT

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REQUIREMENT

This report fulfills the requirements of:

- Section 2-107(c)(3) of the Environment Article of the Maryland Code, which states:

At the end of the fiscal year, the Department shall prepare an annual report on the Maryland Clean Air Fund that includes an accounting of all financial receipts and expenditures to and from the Fund and shall:

 - (i) Provide a copy of the report to the General Assembly, as provided under Section 2-1312 of the State Government Article; and
 - (ii) Upon request, make the report available to permit holders under this Title.
- Uncodified language in Section 3 of House Bill 1133 of the 1993 Session of the Maryland General Assembly, which requires an annual report on Clean Air Act program and fee implementation. This report is to:
 - (i) Detail the revenues raised by permit fees, and the expenditures of those funds, and
 - (ii) Provide information regarding the federal approval process, the effectiveness of the permitting program, and any other issue of importance to the operation of this permitting program.

SUMMARY OF REVENUES AND EXPENDITURES

The Maryland Clean Air Fund is a special revenue fund that was created by action of the 1988 General Assembly. The Fund began receiving receipts from fees and penalties on July 1, 1988. The Fund's revenues are to be used for activities under Title 2, Environment Article related to identifying, monitoring, and regulating air pollution in Maryland, including program development of these activities.

In 1993 the Maryland General Assembly adopted new fee requirements for emissions from certain, large air pollution sources in order to comply with the federal Clean Air Act. These new requirements included a revision to the permit fee schedule and a provision allowing for an automatic escalation in the emission fee schedule each year. The new requirements became effective on September 13, 1993. Emission-based fees constitute the largest source of revenues to the Clean Air Fund. Table 2 shows that operating permit fees generated 70% of Clean Air Fund receipts in FY 2012.

Since inception, the emission fee revenues increased for about a decade. These revenues, however, have declined in recent years due to a number of large facilities shutting down (RG Steel, Eastalco, FMC, Vista Chemical, etc.), the installation of significant pollution control equipment at the largest emission sources, and a general curtailment of operations across the board as a result of the economic down turn. The decline is projected to continue, as a few other large sources are either slated to shut down or will switch to lower-emitting fuels (natural gas). Also, the final stage in the implementation of the Maryland Healthy Air Act will take place in 2013, which will further reduce power plant emissions. Moving forward beyond 2013, future state and federal regulations will continue to slowly reduce emissions over time. Collectively, these emission reductions will cause a decline in emission fee revenues by as much as one million dollars starting in fiscal year 2014 and will carry on into subsequent years. In order to maintain a revenue stream that can support program costs, additional revenues will be needed.

A legislative modification to the Clean Air Fund in 2008 raised the amount of the Fund that can be carried over at the end of each fiscal year. The Fund cap was raised from \$750,000 to \$2,000,000. Another legislative change to the Fund provided that revenues generated from the sale of carbon dioxide allowances under the Regional Greenhouse Gas Initiative be deposited in a new Strategic Energy Investment Fund managed by the Maryland Energy Administration and that a portion of those revenues be transferred to the Clean Air Fund to support climate change-related programs undertaken by the Department of the Environment. Strategic Energy Investment Fund (SEIF) revenues of \$1,333,327 are included in the Maryland Clean Air Fund for FY 2012.

In FY 2012 the Maryland Clean Air Fund provided 38.2% of the funding for the State's air pollution control program. Over the past several years, the Fund has supported less of the overall operation.

Figure 1 shows that overall funding for the air program also came from the State general fund, grants from the U.S. Environmental Protection Agency and other sources, which included reimbursable funds from the Maryland Departments of Transportation and Natural Resources and special funds from the Oil Disaster Containment, Clean-Up and Contingency Fund.

Maryland Clean Air Fund direct expenditures in FY 2012 were approximately \$8 million (see Table 1). Most Clean Air Fund expenditures were in the Air and Radiation Management Administration (ARMA). A small portion of the Clean Air Fund expenditures was related to fund-related activities conducted by non-ARMA staff located within the Department's Coordinating Offices and the Attorney General's Office (see Figure 3).

Approximately 75% of Clean Air Fund direct expenditures in ARMA were for personnel costs. The remaining 25% of the Clean Air Fund direct expenditures in ARMA were for operating expenditures that included services, supplies, equipment, etc. (see Table 2).

Clean Air Fund revenues are derived primarily from fees for permits and licenses issued by ARMA, from penalties for violations of air quality and asbestos laws and regulations, and the Strategic Energy Investment Fund. Table 2 shows revenues for FY 2012 from these sources. Total Clean Air Fund revenues in FY 2012 were about \$8.2 million.

Table 3 summarizes trends in Clean Air Fund revenues and expenditures over the most recent five-year period.

CLEAN AIR FUND REVENUES:

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Fees	4,850,299	5,176,721	6,804,486	6,715,154	6,357,544
Penalties	1,076,313	533,050	768,250	569,159	479,125
SEIF		1,000,000	2,192,245	1,234,840	1,333,327
Indirect Costs & Revenue Transfers	(565,603)	(670,991)	(1,020,594)	(980,637)	(971,056)
Total Revenues	5,361,009	6,038,780	8,744,387	7,538,516	7,198,940

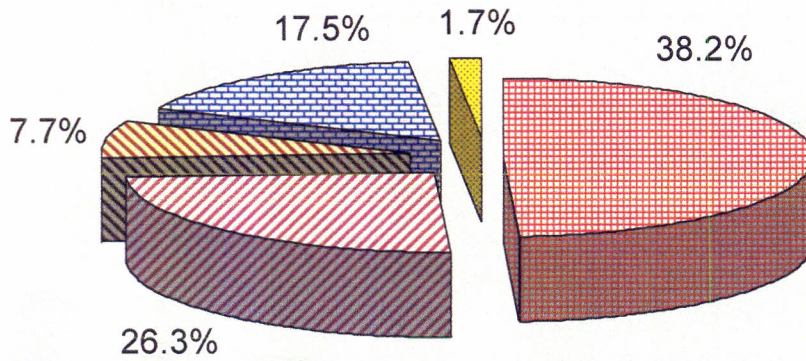
MARYLAND'S AIR QUALITY OPERATING PERMIT PROGRAM

Maryland has had an air quality operating permit program since 1971. Operating permits establish monitoring, record keeping and reporting requirements unique to a given facility to ensure that it is operated in a compliant manner. Significant sources of air pollution or those that have the potential to cause harm based on the nature of their emissions, such as cement plants, power plants, asphalt plants and paper and steel mills, are required to obtain a state operating permit. Since November 1989, emission-based fees have been collected from sources with operating permits, and these fees have been deposited into the Maryland Clean Air Fund. During FY 2012, annual emission-based fees were collected for 479 air quality permits to operate. Effective January 1, 2000, four major power plants, previously excluded from being classified as Title V sources under the Clean Air Act, were considered to be Title V sources, and fee payments received from these sources after this date are, therefore, viewed as Title V revenues. Table 2 shows that operating permit fees generated 70% of Clean Air Fund receipts in FY 2012.

Title V of the Clean Air Act, as amended in 1990, required states to establish federally-enforceable operating permit programs approved by the U.S. Environmental Protection Agency (EPA). The Department developed such a program to conform to the federal requirement and received final approval from the federal Environmental Protection Agency in January 2003.

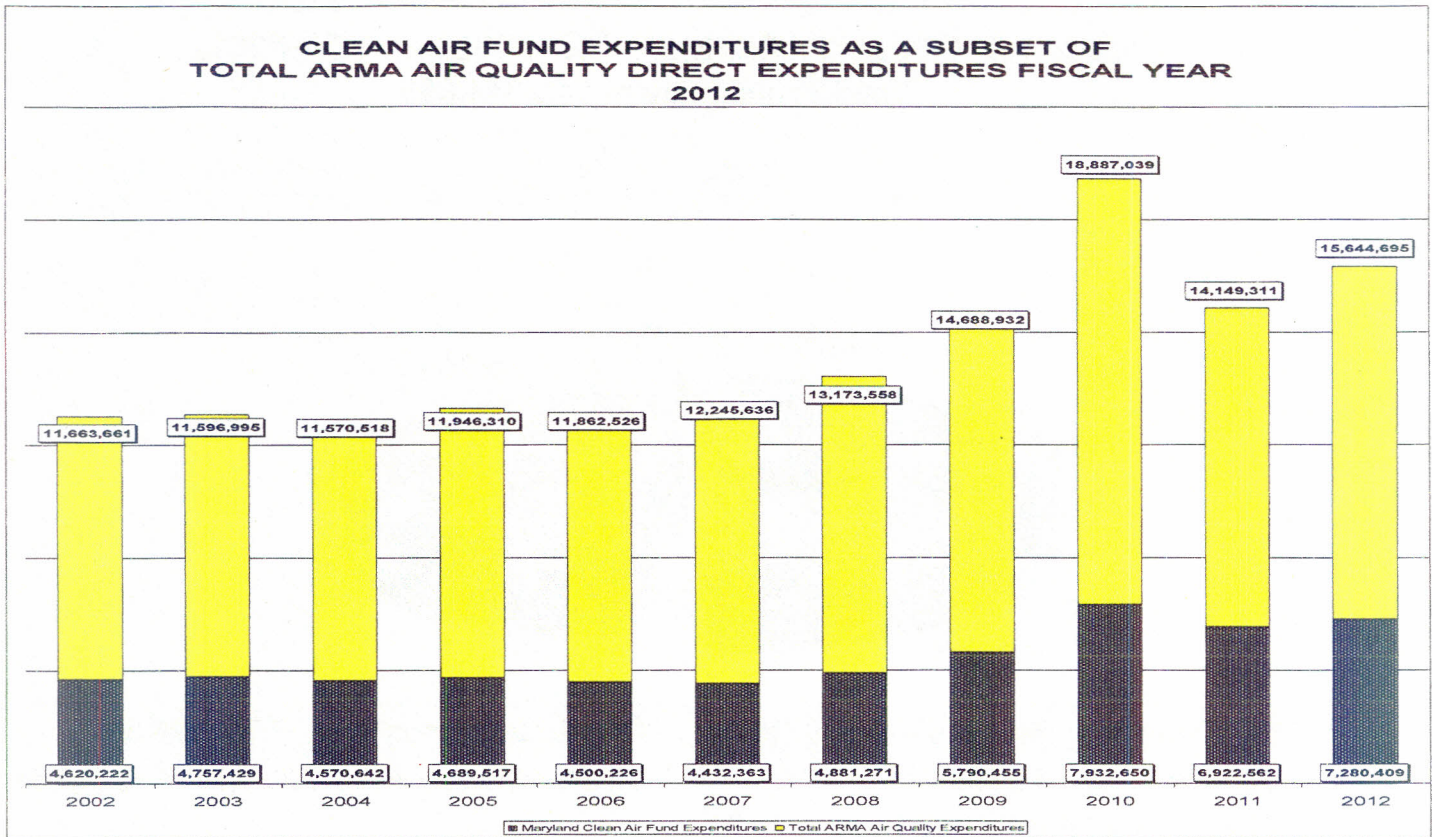
FIGURE 1

ARMA AIR QUALITY EXPENDITURES FISCAL YEAR 2012
Total Expenditures: \$15,644,695



■ MD Clean Air Fund \$8,024,009 (38.2%)	■ Federal Funds \$4,117,796 (26.3%)
■ General Funds \$1,204,428 (7.7%)	■ Reimbursable Funds \$2,738,740 (17.5%)
■ Other Special Funds \$273,400 (1.7%)	

FIGURE 2

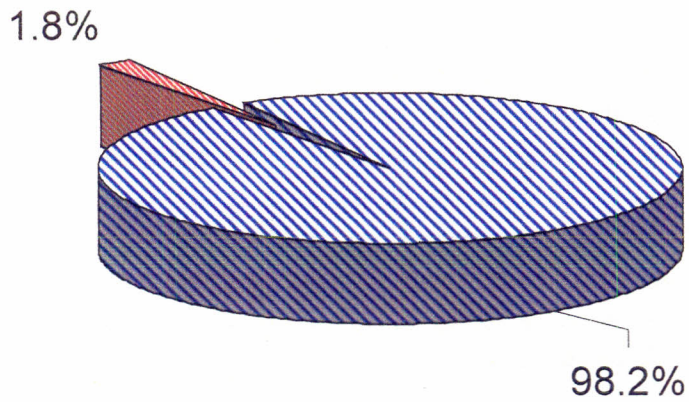


NOTE: The primary reduction in Clear Air Fund Expenditures from FY 2010 to FY 2011 is due to a decrease in RGGI revenues. In FY 2010, the RGGI allocation to the Clean Air Fund was \$2,192,245. In FY 2011, the RGGI allocation to the Clean Air Fund was \$1,234,840. The overall decline in total air quality expenditures in FY 2011 is due largely to the fact that ARRA federal funding in FY 2010 was not carried forward into FY 2011.

FIGURE 3

CLEAN AIR FUND DIRECT EXPENDITURES FY 2012

Total Expenditures: \$7,414,695



■ ARMA \$7,280,409 ■ Non-ARMA \$134,286

NOTE: The ending total for the FY 2011 Clean Air Fund Expenditures is a combination of the ARMA (\$7,280,409) and Non-ARMA (\$134,286) expenditures.

TABLE 1

**MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND CLEAN AIR FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

REVENUES

Fund Balances June 30, 2011	2,144,960	
		\$ 2,144,960
Strategic Energy Investment Fund	1,333,327	
Fees	6,357,544	
Penalties	479,125	
	\$ 8,169,996	
Indirect costs	(886,056)	
Revenue Transfer	-85,000	
Total FY 2012 Reduction to Revenues	\$ (971,056)	
Total FY 2012 Revenues		\$ 7,198,940
NET Grand Total of FY 2012 Revenue		\$ 9,343,900
EXPENDITURES - Actuals and Accruals		
FY 2012 Direct Expenditures ARMA	7,280,409	
FY 2012 Direct Expenditures MDE Non-ARMA	134,286	
FY 2012 Encumbrances	743,600	
Total FY 2012 Expenditures		\$ 8,158,295
Fund Balance June 30, 2012 (excess of revenues over expenditures)		\$ 1,185,605

TABLE 2

**MARYLAND DEPARTMENT OF THE ENVIRONMENT
MARYLAND CLEAN AIR FUND REPORT
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

		Percent of Revenues/Direct Expenditures
REVENUES		
Fund Balance as of June 30, 2011	\$2,144,960	
		<u>\$ 2,144,960</u>
Strategic Energy Investment Fund	1,333,327	16.32%
Construction Permits issued	348,100	4.26%
State Operating Permits - annual fees	659,427	8.07%
Title V Operating Permits - annual fees	5,141,808	62.94%
Asbestos Licenses issued	83,250	1.02%
Asbestos Training Applications reviewed	19,975	0.24%
Air Penalties	479,125	5.86%
Asbestos Penalties	44,384	0.54%
Certification of Public Convenience & Necessity	60,600	0.74%
Total FY 2012 Revenues	<u>60,600</u>	100%
Indirect costs and Revenue Transfers	<u>971,056</u>	
Total Revenues (reduced by indirect costs & Rev Trans)		<u><u>\$ 9,343,900</u></u>
EXPENDITURES - Actuals and Accruals		
Direct Expenditures ARMA		
Salaries and Fringe	5,442,614	75%
Operating Costs	<u>1,837,795</u>	25%
Total Direct Expenditures ARMA		<u>\$ 7,280,409</u>
FY 2012 Encumbrances	<u>743,600</u>	
Total Direct Expenditures ARMA		<u>\$ 8,024,009</u>
Direct Expenditures MDE Non-ARMA	<u>134,286</u>	
Total CAF Expenditures		<u><u>\$ 8,158,295</u></u>
Fund Balance As Of 6/30/12		<u><u>\$ 1,185,605</u></u>

TABLE 3

<p align="center">MARYLAND DEPARTMENT OF THE ENVIRONMENT AIR AND RADIATION MANAGEMENT ADMINISTRATION MARYLAND CLEAN AIR FUND SUMMARY OF REVENUE AND EXPENDITURE TRENDS MOST RECENT FIVE YEAR PERIOD</p>					
REVENUES	FY2008	FY2009	FY2010	FY2011	FY2012
Fees	4,850,299	5,176,921	6,804,486	6,715,154	6,357,544
Penalties	1,076,313	533,050	768,250	569,159	479,125
RGGI Allowance		1,000,000	2,192,245	1,234,840	1,333,327
Subtotal	5,926,612	6,709,971	9,764,981	8,519,153	8,169,996
Indirect Costs & Rev Transfers	(565,603)	(670,991)	(1,020,594)	(980,637)	(971,056)
Total Revenues	5,361,009	6,038,980	8,744,387	7,538,516	7,198,940
EXPENDITURES- Actuals and Accruals					
Direct ARMA	4,881,271	5,790,455	7,932,650	6,922,562	7,280,409
Direct MDE Non-ARMA	28,480	20,061	87,120	87,201	134,286
Total Expenditures	4,909,751	5,810,516	8,019,770	7,009,763	7,414,695