



MARYLAND DEPARTMENT OF THE ENVIRONMENT

1800 Washington Boulevard • Baltimore MD 21230

410-537-3000 • 1-800-633-6101 • www.mde.maryland.gov

Lawrence J. Hogan, Jr.
Governor

Ben Grumbles
Secretary

Boyd K. Rutherford
Lieutenant Governor

May 7, 2015

Karl S. Aro, Executive Director
Maryland General Assembly
200 Legislative Services Building
90 State Circle
Annapolis MD 21401-1991

Dear Mr. Aro:

Pursuant to the Environment Article §2-107, enclosed are five (5) copies of the Maryland Department of the Environment's Fiscal Year 2014 Annual Report on the Maryland Clean Air Fund. We have forwarded copies of the report to Senate President Miller and Speaker of the House Busch.

If you should have any questions, please do not hesitate to contact me or have a member of your staff contact George S. Aburn, Jr., Director of the Air and Radiation Management Administration, at 410-537-3255.

Sincerely,

Mary Beth Tung, Ph.D, Esq.
Deputy Secretary





MARYLAND

Department of the Environment

MARYLAND CLEAN AIR FUND ANNUAL REPORT

FISCAL YEAR 2014

Prepared by:

Director's Office

Air and Radiation Management Administration

Prepared for:

The Maryland General Assembly
Annapolis, MD

Thomas V. Mike Miller, Jr., Senate President
Maryland General Assembly

Michael E. Busch, House Speaker
Maryland General Assembly

October 1, 2014



MARYLAND DEPARTMENT OF THE ENVIRONMENT
1800 Washington Boulevard | Baltimore, MD 21230 | www.mde.state.md.us/recycling
410-537-3314 | 800-633-6101 x3314 | TTY Users: 800-735-2258
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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 54% of Clean Air Fund receipts in FY 2013. This is a reduction of 13% from FY 2012 to FY 2013, owing mostly to a reduction in fees associated with emissions from Maryland's coal-fired power plants. Electricity generation at these plants has decreased in recent years due to a number of factors, so too have overall emissions, due to lower generation levels and tighter pollution control requirements.

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, R. Paul Smith, 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 turndown. 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 took place in 2013, which further reduced power plant emissions. Moving forward beyond 2014, future state and federal regulations will continue to slowly reduce emissions over time. The decline in emissions experienced so far has reduced the emission fee revenue stream by about one million dollars yearly. This decline is not expected to improve any until a few recently permitted gas-fired power plants come on line sometime around 2017. When this happens, overall emissions should increase relative to current levels, but not significantly, as gas-fired plants are low emitting and often only run during times of peak energy demand. Any potential increase in emissions, and therefore fee revenues, would be very short lived, as the revenue stream is expected to drop by approximately \$800,000 in early-to-mid 2017 when a planned switch to natural gas (from coal) at the Luke Paper Company takes place. This drop would overwhelm any minor increases in fee revenues associated with new gas-fired power plants coming on line. In order to maintain a revenue stream that can support program costs, added revenues will eventually 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 \$2,673,760 are included in the Maryland Clean Air Fund for FY 2014.

In FY 2014 the Maryland Clean Air Fund provided 46.9% of the funding for the State's air pollution control program. Over the past several years, the Fund supports less of the overall operation.

A new state law became effective on October 1, 2013 prohibiting asbestos training providers from administering Asbestos Accreditation tests to asbestos remediation workers; requiring instead that the tests be administered by a third party or the Department. The Asbestos Division of the Air and Radiation Management Administration has been administering the tests to date, with cash receipts collected that are deposited into the Clean Air Fund. There are efforts underway to contract out the testing. It is envisioned that this will be completed in early 2016, at which time revenues from this effort will decrease.

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 2014 were approximately \$7.1 million (see Table 1). Approximately 79% of Clean Air Fund direct expenditures in ARMA were for personnel costs. The remaining 21% 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 2014 from these sources. Total Clean Air Fund revenues in FY 2014 were about \$8.7 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 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Fees	6,804,486	6,715,154	6,357,544	5,332,503	5,743,043
Penalties	768,250	569,159	479,125	378,332	327,333
SEIF	2,192,245	1,234,840	1,333,327	2,211,129	2,673,760
Indirect Costs and Revenue Transfers	(1,020,594)	(980,637)	(971,056)	(999,741)	(952,554)
Total Revenues	8,744,387	7,538,516	7,198,940	6,922,223	7,791,582

MARYLAND'S AIR QUALITY OPERATING PERMIT PROGRAM

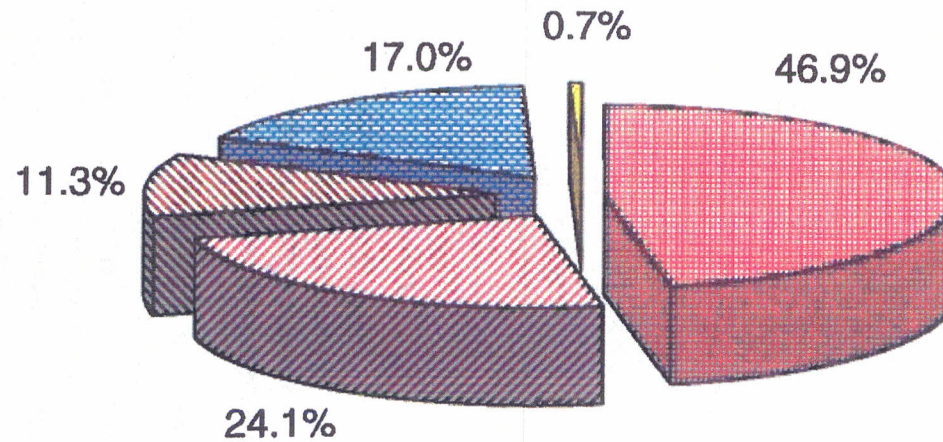
Maryland has had an air quality operating permit program since 1971. Operating permits establish monitoring, record keeping and reporting requirements unique to a given facility to ensure that it is operated in a compliant manner. Significant sources of air pollution or those that have the potential 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 2014, annual emission-based fees were collected for 481 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 30.58% of Clean Air Fund receipts in FY 2014.

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 2014

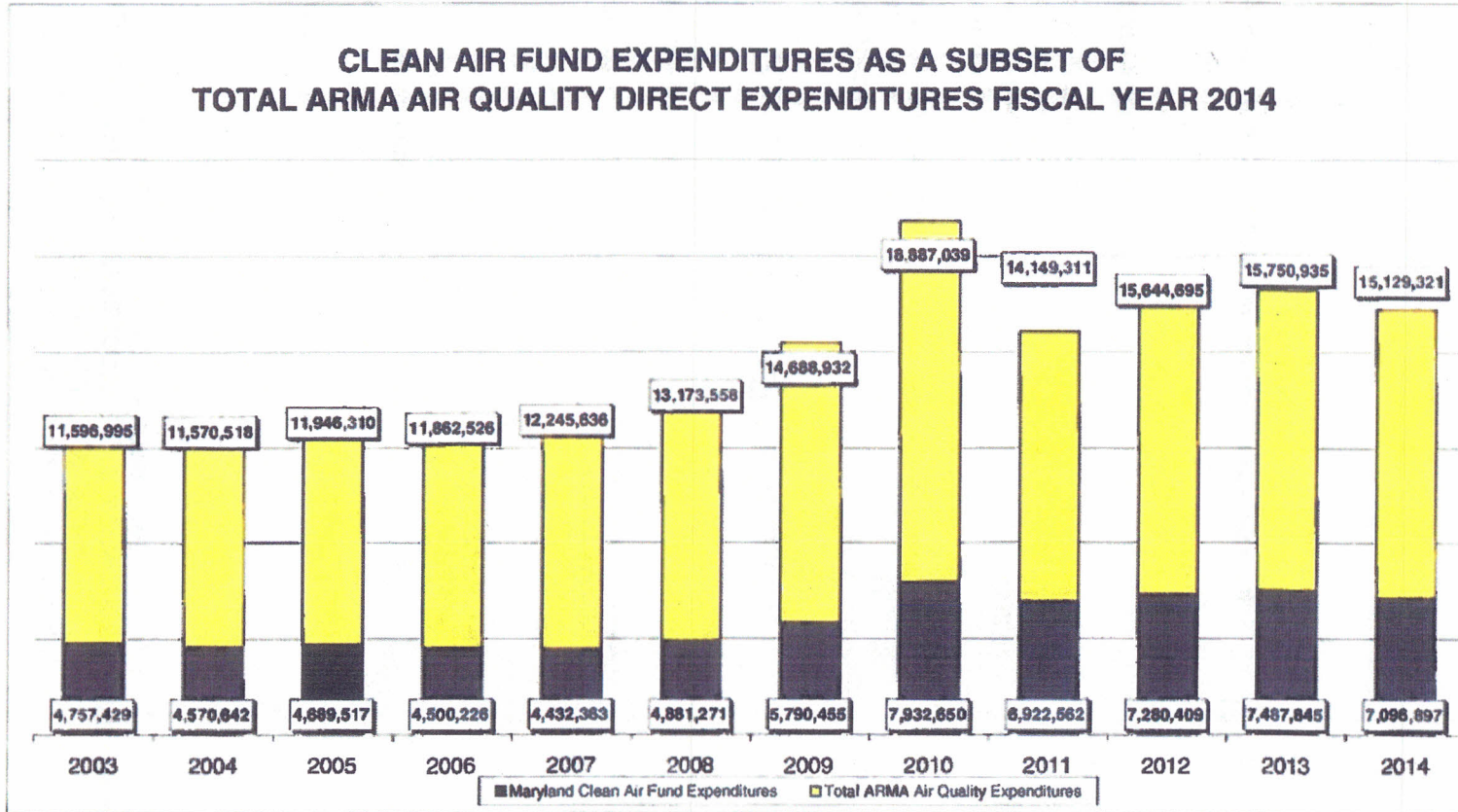
Total Expenditures: \$15,129,321



■ MD Clean Air Fund \$7,096,897 (46.9%)	■ Federal Funds \$3,647,673 (24.1%)
■ General Funds \$1,712,196 (11.3%)	■ Reimbursable Funds \$2,572,555 (17.0%)
■ Other Special Funds \$100,000 (0.7%)	

FIGURE 2

**CLEAN AIR FUND EXPENDITURES AS A SUBSET OF
TOTAL ARMA AIR QUALITY DIRECT EXPENDITURES FISCAL YEAR 2014**



The primary reduction in Clean Air Fund Expenditures from FY 2010 to FY 2011 is with SEIF activity. In FY 2010, the SEIF allowance was \$2,192,245. In FY 2011, the SEIF allowance was \$1,234,840 reducing the amount of revenue available. Overall expenditure decrease in FY 2011 is affected by the award of AARA federal funding in FY 2010 not carried forward into FY 2011.

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, 2014

REVENUES

Fund Balances June 30, 2013		\$1,401,796
FY 2014 Revenues		
Strategic Energy Investment Fund	\$2,673,760	
Fees	\$5,743,043	
Penalties	\$327,333	
Subtotal	<u>\$8,744,136</u>	\$8,744,136
Indirect costs	(\$952,554)	(\$952,554)
Total FY 2014 Revenues	<u><u>\$7,791,582</u></u>	
Total FY 2014 Revenues and Beginning Balance		<u><u>\$9,193,378</u></u>

EXPENDITURES - Actuals, Accruals and Encumbrances

AY 2014		
Direct Expenditures	\$6,220,161	
Encumbrances	\$876,736	
Total AY 2014 Expenditures	<u>\$7,096,897</u>	\$7,096,897
PRIOR YEAR ACTIVITY (AY)		
Prior Year Expenditures	\$682,402	
Prior Year Encumbrances	\$17,624	
Total Prior Year Activity	<u>\$700,026</u>	\$700,098
TOTAL FY 2014 EXPENDITURES		<u><u>\$7,796,923</u></u>
Fund Balance June 30, 2014 (excess of revenues over expenditures)		<u><u>\$1,396,455</u></u>

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, 2014

			Percent of Revenues/Direct Expenditures
REVENUES			
Fund Balance as of June 30, 2013		\$1,401,796	
FY 2014 Revenues			
Asbestos License Fees	84,150		0.96%
Construction Permit Fees	586,700		6.71%
State Operating Permit Fees	727,236		8.32%
Asbestos Training Applications Fees	108,985		1.25%
Air Penalties	293,583		3.36%
Asbestos Penalties	33,750		0.39%
Title V Operating Permit Fees	2,673,760		30.58%
Strategic Energy Investment Fund	<u>4,235,973</u>		48.44%
Subtotal	8,744,137	\$ 8,744,137	100%
Indirect Costs and Revenue Transfers		<u>(\$952,554)</u>	
Total FY 2014 Revenues With Carryforward		\$ 9,193,379	
EXPENDITURES - Actuals, Accruals and Encumbrances			
Direct Expenditures			
Salaries and Fringe	5,000,316		79%
Operating Costs	<u>1,219,845</u>		21%
Total Direct Expenditures ARMA	<u>\$6,220,161</u>	\$6,220,161	
FY 2014 Encumbrances - ARMA	\$876,736		
Prior Year Encumbrances - ARMA	<u>\$17,624</u>		
Total Encumbrances - ARMA	<u>\$894,360</u>	\$894,360	
Direct Expenditures MDE Prior Years		<u>\$682,402</u>	
Total CAF Expenditures		\$7,796,923	
Fund Balance as of 6/30/14		\$ 1,396,456	

TABLE 3

**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**

REVENUES	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Fees	6,804,486	6,715,154	6,357,544	5,332,503	5,743,043
Penalties	768,250	569,159	479,125	378,332	327,333
SEIF	2,192,245	1,234,840	1,333,327	2,211,129	2,673,760
Sub-Total	9,764,981	8,519,153	8,169,996	7,921,964	8,744,136
Indirect Costs & Rev Transfers	(1,020,594)	(980,637)	(971,056)	(999,741)	(952,554)
Total Revenues	8,744,387	7,538,516	7,198,940	6,922,223	7,791,582
EXPENDITURES - Actuals, Accruals and Encumbrances					
Direct ARMA	7,932,650	6,922,562	7,280,409	7,487,845	7,796,923
Direct MDE Non-ARMA	87,120	87,201	134,286	0	0
Total Expenditures	8,019,770	7,009,763	7,414,695	7,487,845	7,796,923