



MARYLAND DEPARTMENT OF THE ENVIRONMENT

1800 Washington Boulevard • Baltimore MD 21230

410-537-3000 • 1-800-633-6101

Martin O'Malley
Governor

Robert M. Summers, Ph.D.
Secretary

Anthony G. Brown
Lieutenant Governor

April 9, 2012

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate
State House, H-107
Annapolis, MD 21401-1991

Dear Senate President Miller:

Pursuant to the Environment Article § 2-107, enclosed is the Maryland Department of the Environment's Fiscal Year 2011 Annual Report on the Maryland Clean Air Fund.

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,

Robert M. Summers, Ph.D.
Secretary

Enclosure





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April 9, 2012

The Honorable Michael E. Busch
Speaker of the House
State House, H-101
Annapolis MD 21401

Dear Speaker Busch:

Pursuant to the Environment Article § 2-107, enclosed is the Maryland Department of the Environment's Fiscal Year 2011 Annual Report on the Maryland Clean Air Fund.

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,

Robert M. Summers, Ph.D.
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Lieutenant Governor

April 9, 2012

Mr. 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 2011 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,

Robert M. Summers, Ph.D.
Secretary

Enclosures





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April 9, 2012

Ms. Sarah T. Albert
Library Assistant
Library and Information Services
Legislative Services Building
90 State Circle, BSMT
Annapolis, MD 21401-1991

Dear Ms. Albert:

In accordance with Section § 2-1312 of the State Government Article, I am submitting five (5) copies of the report prepared by the Department of the Environment entitled *Maryland Clean Air Fund, Annual Report, Fiscal Year 2011*.

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,

Robert M. Summers, Ph.D.
Secretary

Enclosures





MARYLAND CLEAN AIR FUND ANNUAL REPORT – 2011 –

Prepared by:

Operational Services & Administration
Air and Radiation Management Administration

Prepared for:

Senate Education, Health, and Environmental Affairs Committee

House Environmental Matters Committee

Martin O'Malley, Governor
State of Maryland

Anthony G. Brown, Lt. Governor
State of Maryland

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

Michael E. Busch, House Speaker
Maryland General Assembly

September 9, 2011



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
Martin O'Malley, Governor | Anthony G. Brown, Lt. Governor | Robert Summers, Ph.D., Secretary



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REQUIREMENT

This report fulfills the requirements of:

- (1) § 2-107(c)(3) of the Environment Article of the Maryland Code, which requires 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
- (2) uncodified language in § 3 of House Bill 1133 of the 1993 Session of the Maryland General Assembly, which requires an annual report on the Clean Air Act program and fee implementation, including an accounting of permit fee revenues, provision of 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. Its revenues are dedicated to funding activities under Title 2 of the 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 revenue to the Clean Air Fund.

Following the initial assessment of emission fees, revenues increased for about a decade then started to decline slightly due to emission decreases that occurred at sources, either as a result of the continuing addition of pollution control equipment, or as a result of a full or partial shutdown in operations at large sources. Given the 2006 passage of the Healthy Air Act, which required steep reductions in emissions from coal-fired power plants starting in 2009, the decline in revenues was projected to continue. As a result, the 2008 General Assembly enacted legislation modifying the emissions fee schedule and its structure. The first modification increased the emissions-based fee, which provides the bulk of the revenue for the Fund, raising the per-ton fee to \$50.00 beginning on October 1, 2008. The second modification raised the facility-wide fee cap to \$500,000 for 2008 and 2009, and eliminated the facility-wide cap altogether starting in 2010. The changes in the fee levels and structure increased the emission-based fee revenues by \$500,000 in fiscal year 2009 and by nearly \$2 million in fiscal year 2010.

When the Maryland Healthy Air Act is fully implemented in 2013, power plant emissions will drop even further from current levels, which are significantly lower than historical emissions already. In addition, emission controls planned for installation at other large (non-power plant) emissions sources across the State due to forthcoming State and federal regulations will result in further emission reductions. Collectively, these emission reductions will cause a decline in emission fee revenues by as much as \$1 million possibly as early as 2014 and will carry on into subsequent years. In order to maintain a revenue stream that can support program costs, a modification to the fee schedule may be needed in 2014.

A third 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 million.

A final legislative change to the Fund provided that revenues generated from the sale of carbon dioxide allowances 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.

In FY 2011, the Maryland Clean Air Fund provided 48.9% of the funding for the State's air pollution control program. In the past several years, the Fund has supported less of the overall air pollution program operations.

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 (EPA) 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 2011 were approximately \$7 million (see Table 1). Most Clean Air Fund expenditures directly supported the Air and Radiation Management Administration (ARMA). A small portion of the Clean Air Fund expenditures supported related activities conducted by non-ARMA staff in the Department's Coordinating Offices and the Office of the Attorney General (see Figure 3).

Approximately 78% of Clean Air Fund direct expenditures in ARMA were for personnel costs. The remaining 22% 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 and from penalties for violations of air quality and asbestos laws and regulations. Table 2 shows revenues for FY 2011 from these sources. Total Clean Air Fund revenues in FY 2011 were approximately \$8.5 million.

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

CLEAN AIR FUND REVENUES:

YEAR	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
FEES	4,665,910	4,850,299	5,176,721	6,804,486	6,715,154
PENALTIES	317,655	1,076,313	533,050	768,250	569,159
RGGI ALLOWANCE REVENUE	0	0	1,000,000	2,192,245	1,234,840
TOTAL (GROSS)	4,983,565	5,926,612	6,709,771	9,764,981	8,519,153
INDIRECT COSTS	(628,174)	(565,603)	(670,991)	(1,020,594)	(980,637)
TOTAL REVENUES	4,355,391	5,361,009	6,038,780	8,744,387	7,538,516

MARYLAND'S AIR QUALITY OPERATING PERMIT PROGRAM

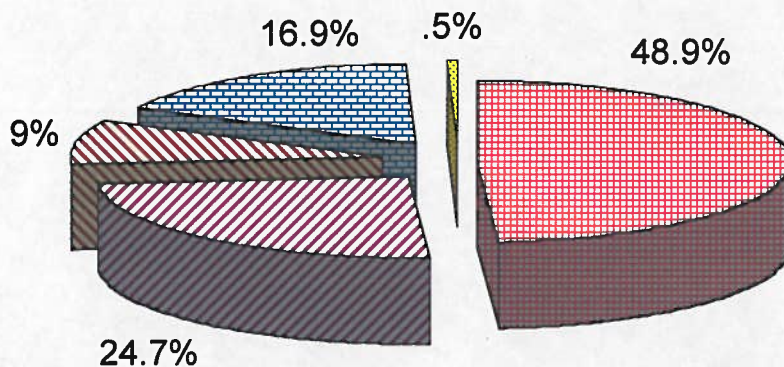
Maryland has administered an air quality operating permit program since 1971. Significant sources of air pollution are required to obtain a State operating permit. Since November 1989, emission-based fees have been collected from sources with operating permits for deposit into the Maryland Clean Air Fund. During FY 2011, annual emission-based fees were collected for 483 air quality permits to operate. Effective January 1, 2000, four major power plants, previously not classified as Title V sources under the Clean Air Act, were newly classified as Title V sources. As a result, fee payments received from these sources as of that date are treated as Title V revenues. Table 2 shows that operating permit fees generated 65% of Clean Air Fund receipts in FY 2011.

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

FIGURE 1

ARMA AIR QUALITY EXPENDITURES FISCAL YEAR 2011

Total Expenditures: \$14,149,311



■ MD Clean Air Fund \$6,922,562 (48.9%)

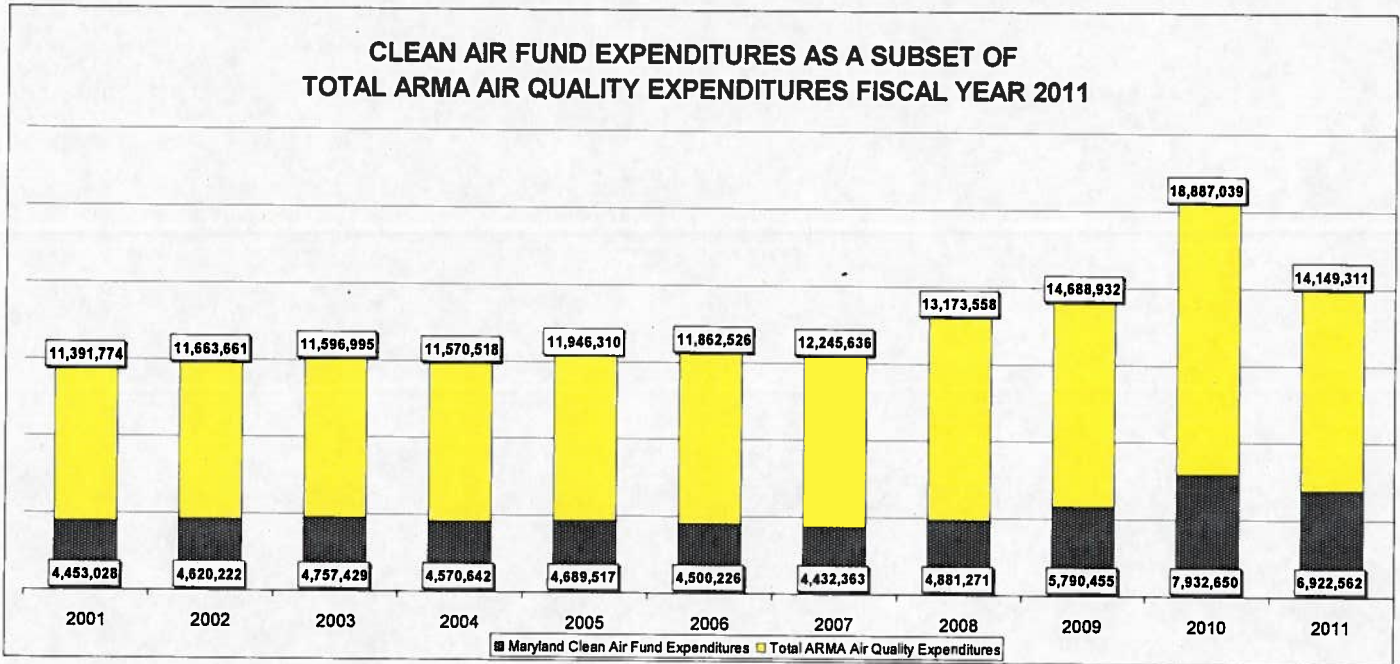
■ General Funds \$1,269,640 (9%)

■ Other Special Funds \$76,584 (.5%)

■ Federal Funds \$3,496,055(24.7%)

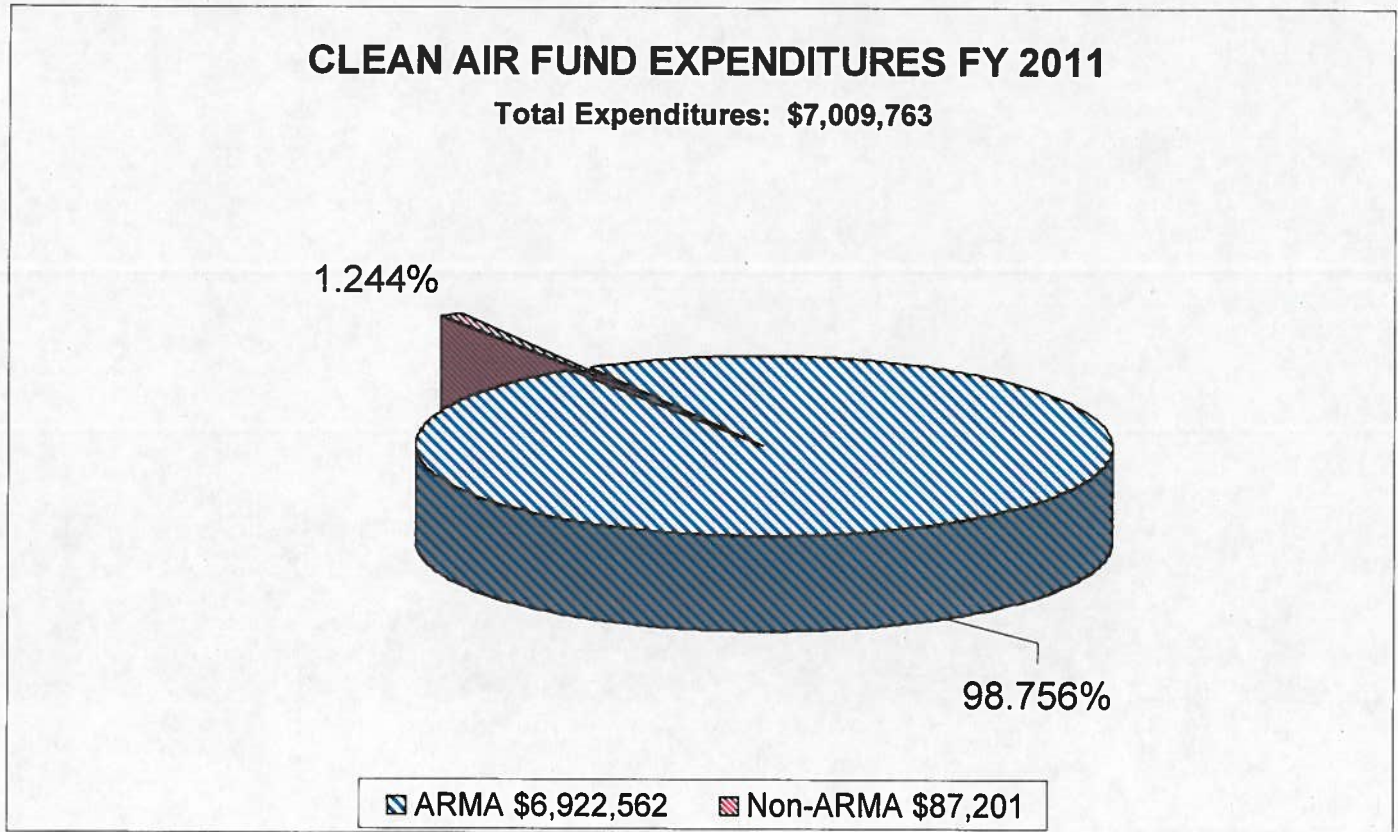
■ Reimbursable Funds \$2,384,470 (16.9%)

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



NOTE: The ending total for the FY 2011 Clean Air Fund Expenditures is a combination of the ARMA (\$6,922,562) and Non-ARMA (\$87,201) 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, 2011

REVENUES

Fund Balances June 30, 2010	\$2,845,840	
		<u>\$2,845,840</u>
RGGI Allowance	1,234,840	
Fees	6,715,155	
Penalties	569,158	
		<u>\$8,519,153</u>
Total FY 2011 Revenues		11,364,993
Indirect costs	980,637	
Total Revenues (reduced by indirect costs)		<u>\$10,384,356</u>

EXPENDITURES - Actuals and Accruals

FY 2011 Expenditures ARMA	6,922,562	
FY 2011 Expenditures MDE Non-ARMA	87,201	
Total FY 2011 Expenditures		<u>\$7,009,763</u>
Prior Fiscal Year Encumbrance Activity	1,229,633	
Fund Balance June 30, 2011 (excess of revenues over expenditures)		<u>\$2,144,960</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, 2011**

		Percent of Revenues/Direct Expenditures
REVENUES		
Fund Balance as of June 30, 2010	\$ 2,845,840	
		<u>\$ 2,845,840</u>
RGGI Allowance	1,234,840	14.49%
Construction Permits issued	320,813	3.77%
State Operating Permits - annual fees	683,001	8.02%
Title V Operating Permits - annual fees	5,538,264	65.01%
Asbestos Licenses issued	78,625	0.92%
Asbestos Training Applications reviewed	13,650	0.16%
Air Penalties	450,943	5.29%
Asbestos Penalties	118,216	1.39%
Certification of Public Convenience & Necessity	80,800	0.95%
Total FY 2011 Revenues		<u>\$ 8,519,153</u> 100%
Indirect costs	980,637	
Total Revenues (reduced by indirect costs)		<u><u>\$ 10,384,356</u></u>
EXPENDITURES - Actuals and Accruals		
Direct Expenditures ARMA		
Salaries and Fringe	5,372,163	78%
Operating Costs	1,550,399	22%
Total Direct Expenditures ARMA		<u>\$ 6,922,562</u>
Direct Expenditures MDE Non-ARMA	87,201	
Total Expenditures		<u><u>\$ 7,009,763</u></u>
Prior Year Encumbrance Activity	1,229,633	
Fund Balance As Of 6/30/11		\$ 2,144,960