Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 550 (The Speaker, *et al.*) (By Request - Administration)

Environment and Transportation and Economic Matters | Education, Energy, and the Environment and Budget and Taxation

Maryland Energy Administration – Energy Programs – Modifications (Clean Transportation and Energy Act)

This Administration bill (1) modifies two transportation sector programs funded by the Strategic Energy Investment Fund (SEIF); (2) modifies the authorized uses of certain Alternative Compliance Payments (ACPs) deposited in SEIF; and (3) increases the dollar amount cap on the amount of certain SEIF revenues that may be allocated toward administrative expenses. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: Special fund expenditures are affected, as summarized in the table below and discussed further in the Analysis section. Revenues are not affected. **This bill increases a mandated appropriation beginning in FY 2025.**

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues	$0	$0	$0	$0	$0
SF Expenditure	7,750,000	7,500,000	7,500,000	5,000,000	-
Net Effect	($7,750,000)	($7,500,000)	($7,500,000)	($5,000,000)	(-)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local governments may benefit from the bill's changes, as discussed below.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). (The attached assessment does not reflect amendments to the bill.) See Small Business Effect discussion below.

Analysis

Bill Summary:

Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program

The bill replaces requirements that the Governor, in each of fiscal 2024 through 2027, include, in the annual budget bill, appropriations from SEIF of (1) at least $1.0 million for grants under the Medium-Duty and Heavy-Duty (MHD) Zero-Emission Vehicle Grant Program for qualified medium-duty or heavy-duty zero-emission vehicles and (2) at least $750,000 for grants under the program for zero-emission heavy equipment property. The requirements are replaced with a single requirement that the Governor, in each of fiscal 2024 through 2027, include in the annual budget bill an appropriation from SEIF of at least $10.0 million for grants under the program for qualified newly manufactured medium-duty or heavy-duty zero-emission vehicles or zero-emission heavy equipment property. Under existing law and under the bill, the appropriations must be made irrespective of existing provisions specifying the allocation of SEIF revenues from the sale of the Regional Greenhouse Gas Initiative (RGGI) allowances among various uses.

The bill modifies a limit on the amount of individual grants awarded under the program for qualified medium-duty or heavy-duty zero-emission vehicles and zero-emission heavy equipment property and eliminates the availability of grants for qualified medium- or heavy-duty zero-emission vehicle supply equipment under the program. Under the bill, for each of fiscal 2024 through 2027, a person or unit of local government may apply to the Maryland Energy Administration (MEA) for a grant for up to *75% of the incremental cost* (rather than the existing limit of 20% of the cost) of a qualified medium-duty or heavy-duty zero-emission vehicle or zero-emission heavy equipment property. "Incremental cost" means the difference in price of (1) a conventional model vehicle and a zero-emission model that is attributable to the functional features of the vehicle or (2) conventional heavy equipment property and zero-emission heavy equipment property that is attributable to the functional features of the equipment. The bill also modifies the definition of a "qualified medium-duty or heavy-duty zero-emission vehicle" so that it means a motor vehicle that is rated at more than *10,000 pounds gross vehicle weight* (rather than 8,500 pounds unloaded gross weight) and powered by electricity that is stored in a battery or produced by a hydrogen fuel cell.

The bill also establishes that the MHD Zero-Emission Vehicle Grant Program applies only to vehicles and equipment intended for commercial or industrial use. In addition, in issuing program grants, MEA must give preference to:

- qualified medium-duty or heavy-duty zero-emission vehicles that are (1) expected to be primarily domiciled and operated in the State and (2) to be owned or operated by an entity engaged in business activity that impacts public health, the environment, or infrastructure in an overburdened or underserved community; and

- zero-emission heavy equipment property that is expected to be used primarily at locations in the State.

"Overburdened community" and "underserved community" have the meanings stated under existing provisions of the Environment Article of the Maryland Code that establish and govern the Commission on Environmental Justice and Sustainable Communities. "Overburdened community" means any census tract for which three or more of specified environmental health indicators are above the seventy-fifth percentile statewide. "Underserved community" means any census tract in which, according to the most recent U.S. Census Bureau Survey (1) at least 25% of the residents qualify as low-income; (2) at least 50% of the residents identify as nonwhite; or (3) at least 15% of the residents have limited English proficiency.

Electric Vehicle Recharging Equipment Rebate Program

The bill extends through fiscal 2026 the Electric Vehicle Recharging Equipment Rebate Program and raises the annual cap for the total amount of rebates that MEA may issue under the program from $1.8 million to $2.5 million.

Additionally, the bill modifies limits on the amount of individual rebates so that MEA may issue a rebate to (1) an individual in an amount equal to the lesser of *50%* (rather than 40%) of the costs of acquiring and installing qualified electric vehicle recharging equipment or $700 or (2) a business entity or unit of State or local government in an amount equal to the lesser of *50%* (rather than 40%) of the costs of acquiring and installing qualified electric vehicle recharging equipment or *$5,000* (rather than $4,000). The bill correspondingly eliminates an increased maximum rebate available to retail service stations that, under current law, is $1,000 higher than the maximum available to other business entities and units of State or local government.

The bill authorizes MEA to alter the program, and adopt regulations, to offer additional benefits for the installation of qualified electric vehicle recharging equipment in multifamily housing, planned urban developments, and condominiums in (1) low- to moderate-income communities located in a census tract with an average median income at or below 80% of the State's average median income or (2) overburdened or underserved communities. The bill makes an existing requirement – that a rebate issued under the program be limited to the acquisition of one recharging system per individual – subject to the authorization for MEA to alter the program.

Authorized Uses of Alternative Compliance Payments

The bill modifies the authorized uses of ACPs (excluding ACPs related to post-2022 geothermal systems) generated under Maryland's Renewable Energy Portfolio Standard (RPS). Under the bill, instead of being used only to make loans and grants to support the creation of new Tier 1 renewable energy sources (and specifically new solar energy sources, in the case of solar ACPs) in the State, that are owned by or directly benefit low-income residents of the State, the bill establishes that the revenues may instead be used only to make loans and grants to support the creation of new Tier 1 renewable energy sources (and specifically new solar energy sources, in the case of solar ACPs) in the State that are owned by or directly benefit (1) low- to moderate-income communities located in a census tract with an average median income at or below 80% of the State's average median income or (2) overburdened or underserved communities.

Administration of the Strategic Energy Investment Fund

The bill increases the dollar amount cap on the amount of proceeds from the sale of allowances under RGGI that may be credited to an administrative expense account for costs related to the administration of SEIF. Under the bill, up to 10%, but not more than *$7.5 million* (rather than $5.0 million) of the proceeds may be credited to an administrative expense account.

Current Law:

Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program

Chapter 234 of 2022 established the MHD Zero-Emission Vehicle Grant Program. Chapter 234, for fiscal 2024 through 2027, and subject to available funding, authorizes a person or unit of local government to apply to MEA for a grant of up to 20% of the cost of a qualified medium-duty or heavy-duty zero-emission vehicle, qualified medium-duty or heavy-duty zero-emission vehicle supply equipment, or zero-emission heavy equipment property.

A qualified medium-duty or heavy-duty zero-emission vehicle is a motor vehicle that is (1) rated at more than 8,500 pounds unloaded gross weight and (2) powered by electricity that is stored in a battery or produced by a hydrogen fuel cell. Qualified medium-duty or heavy-duty zero-emission vehicle supply equipment is property in the State that is used for recharging or refueling medium-duty or heavy-duty zero-emission vehicles or zero-emission heavy equipment property. Zero-emission heavy equipment property is construction, earthmoving, or industrial heavy equipment, including any attachment for the equipment, that is mobile and does not use an internal combustion engine.

Chapter 234 specifies that – irrespective of existing provisions specifying the allocation of SEIF revenues from the sale of RGGI allowances among various uses – in fiscal 2024 through 2027, the Governor must include, in the annual budget bill, appropriations from SEIF totaling at least $1.75 million for the program, including (1) at least $1.0 million for grants for qualified medium-duty or heavy-duty zero-emission vehicles and (2) at least $750,000 for grants for zero-emission heavy equipment property.

Electric Vehicle Recharging Equipment Rebate Program

The Electric Vehicle Recharging Equipment Rebate Program, administered by MEA, authorizes, for fiscal 2021 through 2023, an individual, a business entity, or a unit of State or local government to apply to MEA for an electric vehicle recharging equipment rebate for the costs of acquiring and installing qualified electric vehicle recharging equipment. The rebate is equal to 40% of the costs of acquiring and installing qualified electric vehicle recharging equipment, up to a maximum of $700 for individuals, $4,000 for business entities (other than retail service stations) and units of State and local government, and $5,000 for retail service stations. An electric vehicle recharging equipment rebate is limited to the acquisition of one recharging system per individual.

MEA may award an annual maximum of $1.8 million in rebates each fiscal year and is authorized to use SEIF to provide rebates under the program.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program and the implementing SEIF to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. SEIF is funded through the proceeds from the auction of carbon allowances to power plants under RGGI, and the fund also receives ACP revenues generated under Maryland's RPS.

Alternative Compliance Payments

Maryland's RPS requires that renewable sources generate specified percentages of Maryland's electricity supply each year. Utilities and other electricity suppliers must submit renewable energy credits equal to these percentages in each year or else pay an ACP equivalent to the shortfall. ACP revenues are deposited into SEIF and, aside from ACPs related to post-2022 geothermal sources, may only be used to make loans and grants to support the creation of new Tier 1 renewable energy sources (wind, solar, geothermal, qualifying biomass, and others) in the State that are owned by or directly benefit low-income residents of the State. Solar ACPs must be accounted for separately in the fund and may only be used to make loans and grants to support the creation of new solar energy sources in the State that are owned by or directly benefit low-income residents of the State.

A low-income resident has an annual household income at or below 175% of the federal poverty level.

Administrative Expense Account

The proceeds received by SEIF from the sale of allowances under RGGI are subject to statutory allocations, including an allocation of up to 10%, but not more than $5.0 million, to an administrative expense account for costs related to the administration of SEIF.

Background:

Medium- and Heavy-Duty Zero Emission Vehicles

Maryland is a signatory state of the Multi-State Medium- and Heavy-Duty Zero Emission Vehicle Memorandum of Understanding (MOU), signed in July 2020, which identified transportation as being the nation's largest source of greenhouse gas emissions, with medium- and heavy-duty trucks being the next largest source of transportation sector greenhouse gas emissions after light-duty vehicles. Under the MOU, the signatory states agree to work together to foster a self-sustaining market for zero emission medium- and heavy-duty vehicles and to seek to accelerate the deployment of zero-emission medium- and heavy-duty trucks and buses to benefit disadvantaged communities that have been historically burdened with higher levels of air pollution.

The MOU required the development of a multi-state action plan to identify barriers and propose solutions to support widespread electrification of medium- and heavy-duty vehicles. The action plan, issued in July 2022, includes various recommendations for the design of vehicle and infrastructure incentive programs to improve the economics of electrification for fleets and prioritize electrification of trucks and buses that operate in overburdened and underserved communities, including (1) subsidizing a portion of the total incremental cost differential between an electric and diesel or gasoline truck or bus, or conversion or repowering to a zero-emission powertrain where appropriate; (2) reserving a percentage of funding for deployments that will benefit state-defined overburdened communities; (3) prioritizing and offering increased incentives that cover a larger portion of the cost differential to fleets that are domiciled or operate in overburdened communities such as ports and drayage trucks, fleets operating near warehouse and goods distribution hubs, and school and transit buses; and (4) striving to establish sustainable sources of funding to support vehicle and infrastructure incentive programs.

Electric Vehicle Recharging Equipment Rebate Program

While statute does not allow for applications to be submitted to MEA for a rebate under the Electric Vehicle Recharging Equipment Rebate Program beyond fiscal 2023, MEA plans to continue to operate the program in fiscal 2024 under its broad authority and responsibilities under the SEIF statute, which include investing in the promotion, development, and implementation of climate change programs directly related to reducing or mitigating the effects of climate change. The fiscal 2024 budget as passed by the General Assembly includes $4.6 million in special funds for the program.

State Fiscal Effect: Special fund (SEIF) expenditures increase by at least $7.75 million in fiscal 2024, at least $7.5 million in fiscal 2025 and 2026, at least $5.0 million in fiscal 2027, and by an indeterminate amount in fiscal 2028, as shown in **Exhibit 1**. This estimate reflects the information and assumptions discussed below.

Exhibit 1
Increased Strategic Energy Investment Fund Expenditures
($ in Millions)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Medium- and Heavy-Duty Zero-Emission Vehicle Grant Program	**$5.3**	**$5.0**	**$5.0**	**$5.0**	$0.0
Electric Vehicle Recharging Equipment Rebate Program	**2.5**	**2.5**	**2.5**	0.0	0.0
Spending of ACP Revenues	**-**	**-**	**-**	**-**	**-**
Increased Administrative Expenses Cap	0.0	0.0	0.0	0.0	0.0
Total	**$7.8**	**$7.5**	**$7.5**	**$5.0**	**-**

ACP: alternative compliance payment
"-": indeterminate increase

Source: Department of Legislative Services

Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program

SEIF expenditures increase by $5.25 million in fiscal 2024 and $5.0 million annually from fiscal 2025 through 2027, reflecting the difference between (1) appropriations to the MHD Zero-Emission Vehicle Grant Program, under the bill, of at least $10.0 million in fiscal 2024 through 2027 (with the fiscal 2024 appropriation being discretionary and the fiscal 2025 through 2027 appropriations mandated) and (2) appropriations to the program, in the absence of the bill, of $4.75 million in fiscal 2024 (the amount included for the program in the fiscal 2024 budget as passed by the General Assembly) and $5.0 million in fiscal 2025 through 2027 (the amount MEA indicates is an approximate minimum amount of annual funding needed to sustain a viable program). While current law only mandates a minimum of $1.75 million for the program, this analysis assumes that, in the absence of the bill, the amount included in the fiscal 2024 budget as passed by the General Assembly ($4.75 million) is appropriated in fiscal 2024 and the minimum amount needed for a viable program ($5.0 million) is appropriated in fiscal 2025 through 2027.

Electric Vehicle Recharging Equipment Rebate Program

SEIF expenditures increase by $2.5 million in fiscal 2024 through 2026, due to the bill's extension of the Electric Vehicle Recharging Equipment Rebate Program through fiscal 2026 in statute, subject to the $2.5 million statutory cap for the issuance of rebates under the program. MEA expects there to be sufficient demand for rebates to use the full $2.5 million in rebate funding available each year.

As mentioned above under Background, while statute does not allow for applications to be submitted to MEA for an electric vehicle recharging equipment rebate beyond fiscal 2023, MEA plans to continue to operate the program in fiscal 2024. This analysis, however, nonetheless reflects the extension of the program in statute as increasing expenditures even though MEA intends to continue the program in the absence of the bill at least through fiscal 2024. An increase in expenditures is assumed to be associated with the extension of the program in statute because it removes MEA's discretion of whether or not to continue the program, requiring the program to continue through fiscal 2026.

Spending of Alternative Compliance Payment Revenues

Due to recent, significantly increased ACP revenues, there is an accumulation of the revenues in SEIF (Department of Legislative Services' (DLS) analysis of proposed MEA fiscal 2024 budget, pgs. 15, 18-19). MEA indicates that the bill's modification of the allowable uses of ACP revenues will allow it to increase spending of those revenues in the near term; however, the extent and duration of increased spending cannot be reliably determined at this time. While the extent and duration of increased spending cannot be reliably determined, this analysis assumes indeterminate increases in SEIF spending of ACP revenues may occur in each of fiscal 2024 through 2028, as shown in Exhibit 1.

Increased Administrative Expenses Cap

The increase in the dollar amount cap on the amount of RGGI proceeds that may be allocated toward MEA administrative expenses is not expected to have a net effect on SEIF expenditures since it expressly reallocates the distribution of RGGI revenues within SEIF (by modifying the RGGI revenue distribution formula) and does not create an added SEIF funding obligation. MEA indicates that this bill itself does not create a need for additional administrative expenditures but having the ability to use more RGGI proceeds for administrative expenses will help it meet the demands of administering an increasing amount of funding from RGGI, ACP, and other revenues.

Local Fiscal Effect: As eligible applicants under both programs, local governments may benefit from (1) the bill's increase in funding for the MHD Zero-Emission Vehicle Grant Program and increased individual grant amounts under the program and (2) the extension of the Electric Vehicle Recharging Equipment Rebate Program in statute, with higher rebate amounts available and authorization of MEA to offer specified additional benefits. This analysis assumes that the bill's provision establishing that the MHD Zero-Emission Vehicle Grant Program applies only to vehicles and equipment intended for commercial or industrial use is not intended to eliminate the availability of the program to local governments, since local governments are still authorized to apply to MEA for a grant under the program. Local governments may also benefit from any increased spending of ACP revenues to make loans and grants to support the creation of new Tier 1 renewable energy sources.

Small Business Effect: DLS concurs that the bill has minimal or no impact on small businesses in general. However, small businesses are eligible applicants under both the MHD Zero-Emission Vehicle Grant Program and the Electric Vehicle Recharging Equipment Rebate Program and may benefit from the bill's changes in a similar manner as local governments (discussed above). Additionally, small businesses that are involved in the installation of electric vehicle infrastructure, sales or servicing of medium- and heavy-duty zero-emission vehicles, or the installation of Tier 1 renewable energy sources could see an increase in business as a result of additional funding/spending under the bill.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 548 (The President, *et al.*) (By Request - Administration) - Education, Energy, and the Environment and Budget and Taxation.

Information Source(s): Maryland Association of Counties; Maryland Municipal League; Department of Budget and Management; Department of General Services; Maryland Department of Transportation; Maryland Energy Administration; Public Service Commission; Department of Legislative Services

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Maryland Energy Administration – Energy Programs – Modifications (Clean Transportation and Energy Act)

BILL NUMBER: HB0550

PREPARED BY: Landon R. Fahrig, Esq.

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

_____ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

MEA anticipates minimal impacts on small businesses. However, transportation programs within MEA that support fleet vehicles, including zero emission heavy-duty vehicles, will be bolstered, offering a greater volume and magnitude of benefit to small business grantees.