

**Department of Legislative Services**  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**

House Bill 1031 (Delegate Bronrott, *et al.*)  
 Economic Matters

**Mandatory Participation in the Regional Greenhouse Gas Initiative**

This bill requires the Governor to include the State as a participating member in the Regional Greenhouse Gas Initiative (RGGI). The bill provides that, if the Governor has not negotiated the State’s entrance into RGGI by September 30, 2006, the Governor must report to the General Assembly, by October 7, 2006, on why negotiations failed and a plan to reduce carbon dioxide (CO<sub>2</sub>) emissions from power plants in the State by 10% below current levels by 2018.

The bill takes effect June 1, 2006.

**Fiscal Summary**

**State Effect:** General fund expenditure increase of at least \$80,000 in FY 2007 for the Maryland Department of the Environment (MDE) to administer RGGI within the State; future year expenditures reflect ongoing operating costs but do not include auction or computer costs. Potential significant increase in State revenues beginning in FY 2009 as a result of proceeds from the sale of CO<sub>2</sub> allowances.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF/SF Rev.	\$0	\$0	-	-	-
GF Expenditure	80,000	76,700	80,800	85,200	89,900
Net Effect	(\$80,000)	(\$76,700)	(\$80,800)	(\$85,200)	(\$89,900)

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

**Local Effect:** The bill is not anticipated to significantly affect local finances.

**Small Business Effect:** None. Power plant owners are not small businesses.

## Analysis

**Current Law:** The Air and Radiation Management Administration within MDE operates the State's air pollution control programs under the framework established by the federal Clean Air Act.

**Background:** RGGI is a seven-state coalition that includes Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont. RGGI was created to discuss the design of a regional cap-and-trade program to reduce emissions of greenhouse gases, such as CO<sub>2</sub>, from power plants in the region. In 2003, the Governor declined to include the State as a participating member. RGGI has established internal procedures to determine if and how observer states, such as Maryland, may become member states. RGGI has established goals to cap CO<sub>2</sub> pollution from power plants between 2009 and 2015, with further reductions between 2015 and 2020.

**State Revenues:** If the State were to join RGGI or establish its own plan involving a trading program for CO<sub>2</sub> allowances, it could result in an increase in revenues as a result of proceeds from the sale of such allowances. The bill does not include any language governing the deposit of such revenues, so it is unclear at this time how any such proceeds would be handled. In any event, revenues would depend largely on the price of CO<sub>2</sub> allowances at that time, which cannot be predicted with certainty; however, most estimate the cost between \$1 and \$2 per ton. Under RGGI, such revenues would likely not accrue until 2009.

Although an exact estimate cannot be made at this time, based on information provided by the Maryland Energy Administration, revenues from the sale of allowances under RGGI could range from \$4 million to \$20 million annually at the start of the trading program. This estimate is based on 2004 data from the U.S. Energy Information Administration regarding CO<sub>2</sub> emissions from specified units of specified facilities. The estimated range reflects two different prices for allowances (\$0.75 per ton and \$3.50 per ton), based on modeling work conducted for RGGI. Over time, the number of allowances auctioned off could decrease, but the price per allowance would likely increase.

If the State does *not* join RGGI, but rather implements its own plan to reduce CO<sub>2</sub> emissions, the extent to which the plan would result in an increase in revenues would depend on the details of such a plan, which are unknown.

**State Expenditures:** MDE advises that costs would increase by over \$250,000 in fiscal 2007 to implement the bill. MDE's estimate reflects the cost of hiring three public health engineers. It includes salaries, fringe benefits, one-time start-up costs (including approximately \$100,000 in new computer hardware and software costs), and ongoing

operating expenses. MDE's estimate does not include any costs relating to holding an emissions auction; MDE advises that it would have to hire a contractor to do so, but that such costs cannot be estimated at this time. MDE advises that its administrative costs would be similar regardless of whether the State joins RGGI or implements its own plan to reduce CO<sub>2</sub> emissions.

Legislative Services disagrees. Based on information provided by several states that are RGGI participants, if the State were to join RGGI, it would probably be able to implement RGGI with one additional public health engineer. Accordingly, general fund expenditures could increase by at least \$80,047 in fiscal 2007, which reflects a July 1, 2006 implementation date. This estimate reflects the cost of hiring one public health engineer to administer RGGI within Maryland. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses, including travel.

Salary and Fringe Benefits	\$71,472
Equipment/Operating Expenses	<u>8,575</u>
<b>Total FY 2007 State Expenditures</b>	<b>\$80,047</b>

The estimate does not include any contractual costs related to holding auctions, nor does it include any costs for additional hardware and software; accordingly, costs could be higher. The estimate also assumes that MDE would take advantage of the regional organization for additional support when feasible. To the extent one additional employee is insufficient, MDE may request additional positions through the annual budget process.

Future year expenditures reflect: (1) 4.6% annual salary increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. If the State does *not* join RGGI, but rather implements its own plan to reduce CO<sub>2</sub> emissions, any costs would depend on the details of such a plan, which are unknown. However, it is reasonable to assume that administrative costs would be higher.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 268 (Senator Garagiola, *et al.*) – Education, Health, and Environmental Affairs.

**Information Source(s):** Maryland Department of the Environment, Maryland Energy Administration, State of Delaware, State of New Jersey, State of New Hampshire, State of Maine, State of New York, State of Vermont, Department of Legislative Services

**Fiscal Note History:** First Reader - February 21, 2006  
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