Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 548 (The President, *et al.*) (By Request - Administration)

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 increase by $4.6 million in FY 2024, at least $8.0 million in FY 2025 and 2026, and at least $5.0 million in FY 2027. Revenues are not affected.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues	$0	$0	$0	$0	$0
SF Expenditure	4,600,000	8,000,000	8,000,000	5,000,000	0
Net Effect	($4,600,000)	($8,000,000)	($8,000,000)	($5,000,000)	$0

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

Local Effect: Local governments may benefit as eligible applicants under the affected programs as discussed below.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment as discussed below.

Analysis

Bill Summary:

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

The bill modifies a limit on the amount of individual grants awarded under the Medium-Duty and Heavy-Duty (MHD) Zero-Emission Vehicle Grant 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 *100% 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, qualified medium-duty or heavy-duty zero-emission vehicle supply equipment, or zero-emission heavy equipment property. "Incremental cost" means the difference in price of a conventional model vehicle and a zero-emission model that is attributable to the functional features of the vehicle or the cost to retrofit a conventional model vehicle to operate as a zero-emission vehicle. DLS notes it is unclear how this change affects how much of the cost of qualified medium-duty or heavy-duty zero emission vehicle supply equipment and zero-emission heavy equipment property may be covered by a grant under the program since "incremental cost" is only defined with respect to vehicles.

The bill repeals the requirement that, from fiscal 2024 through 2027, the Governor must include in the annual budget bill an appropriation from SEIF of at least $1.0 million for grants for qualified medium-duty or heavy-duty zero-emission vehicles under the program.

Allowable 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 be used only to make loans and grants that support (1) zero-emission vehicles, zero-emission vehicle infrastructure programs, and other transportation sector greenhouse gas reduction and carbon reduction efforts and (2) energy efficiency measures, solar renewables, and other Tier 1 renewable sources that directly benefit low-income or environmental justice communities. For all of the loans and grants, MEA must prioritize making loans and grants to benefit low-income communities or environmental justice communities.

Electric Vehicle Recharging Equipment Rebate Program

The bill extends through fiscal 2026 the Electric Vehicle Recharging Equipment Rebate Program and repeals the statutory cap that limits MEA to issuing $1.8 million in rebates each fiscal year. Additionally, the bill eliminates a higher maximum rebate available to retail service stations that is $1,000 higher than the maximum available to other business entities and units of State or local government.

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 the Regional Greenhouse Gas Initiative (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 an appropriation from SEIF of 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.

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, of the proceeds may be credited to an administrative expense account for costs related to the administration of SEIF.

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 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.

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; and (3) striving to establish sustainable sources of funding to support vehicle and infrastructure incentive programs.

MEA indicates that the bill allows for an increased incentive for the purchase of qualified vehicles under Maryland's MHD Zero-Emission Vehicle Grant Program, comparable to incentives in neighboring states, and increases flexibility in the funding of transportation sector programs under SEIF (by allowing the use of ACP revenues), including programs that directly benefit low-income and environmental justice communities.

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 introduced includes $4.6 million in special funds for the program.

State Fiscal Effect: Special fund (SEIF) expenditures increase by $4.6 million in fiscal 2024, at least $8.0 million in fiscal 2025 and 2026, and at least $5.0 million in fiscal 2027, 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 (ACP-funded)	$0.0	**$5.0**	**5.0**	**5.0**	$0.0
Electric Vehicle Recharging Equipment Rebate Program	**4.6**	**3.0**	**3.0**	0.0	0.0
Increased Administrative Expenses Cap	0.0	0.0	0.0	0.0	0.0
Total	**$4.6**	**$8.0**	**$8.0**	**$5.0**	$0.0

ACP: alternative compliance payment

Source: Department of Legislative Services

Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program (ACP-funded)

SEIF expenditures increase by at least $5.0 million annually from fiscal 2025 through 2027, due to the funding of grants for qualified medium-duty or heavy-duty zero-emission vehicles under the MHD Zero-Emission Vehicle Grant Program with accumulated ACP revenues in SEIF. MEA indicates that funding of the grants at that level ($5.0 million) is a reasonable assumption of a minimum annual funding amount for a viable program, accounting for expected demand in fiscal 2025 and future years and the modified allowed individual grant amount under the bill (up to 100% of the incremental cost). The fiscal 2024 budget as introduced includes $4.8 million in SEIF RGGI revenue funding for the program.

While not explicitly required by the bill, this analysis assumes that grants for qualified medium-duty or heavy-duty zero-emission vehicles are funded with ACP revenues under the bill beginning in fiscal 2025 (through fiscal 2027), due to (1) the bill's elimination of the existing mandated appropriation of $1 million of SEIF RGGI revenues (from fiscal 2024 through 2027) for grants for qualified medium-duty or heavy-duty zero-emission vehicles under the program and (2) the bill's modification of the uses of the ACP revenues (excluding ACPs related to post-2022 geothermal sources) to allow for their use to make loans and grants that support, among other things, zero-emission vehicles, with prioritization of loans and grants that benefit low-income communities or environmental justice communities (consistent with the State's commitments under the multi-state MOU discussed above).

Due to recent, significantly increased ACP revenues, there is an accumulation of the revenues in SEIF (DLS analysis of proposed MEA fiscal 2024 budget, pgs. 15, 18-19), and MEA indicates that the expansion of allowable uses of the ACP revenues under the bill will allow for ACP revenues to be spent in the near term that otherwise would not be spent until later years under the current limitations on the use of the revenues. Spending of ACP revenues in the near term, for expanded uses, therefore increases overall SEIF expenditures in the near term.

This analysis assumes that the transition of the funding of qualified medium-duty and heavy-duty zero-emission vehicle grants from RGGI revenues to ACP revenues begins in fiscal 2025, since the fiscal 2024 budget as introduced already funds those grants with RGGI revenues. To the extent the grants are transitioned to being ACP-funded earlier, in fiscal 2024, by budget amendment, overall SEIF expenditures increase in fiscal 2024 as well.

Electric Vehicle Recharging Equipment Rebate Program

SEIF expenditures increase by $4.6 million in fiscal 2024 and by at least $3.0 million in fiscal 2025 and 2026, due to the extension of the Electric Vehicle Recharging Equipment Rebate Program through fiscal 2026 in statute and the repeal of the statutory cap that limits MEA to issuing $1.8 million in rebates each fiscal year. With the statutory cap removed, this analysis assumes the program is funded in fiscal 2024 at the level of funding included in the fiscal 2024 budget as introduced for the program, which MEA indicates reflects the monetary value of the outstanding requests for rebates that were unfulfilled at the time the statutory cap was reached for fiscal 2023 plus expected new demand for the program in fiscal 2024. MEA expects there to be sufficient demand for rebates in future years to use at least $3 million in rebate funding per 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 at some level of funding. This analysis assumes that the associated increase in expenditures is consistent with MEA's proposed funding level for the program in fiscal 2024 and an estimated minimum funding level sufficient to meet demand in fiscal 2025 and 2026 ($3.0 million).

MEA indicates that the bill's repeal of the higher maximum rebate available to retail service stations will have minimal effect since they have received very few applications for that incentive.

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 the extension of the Electric Vehicle Recharging Equipment Rebate Program in statute and the bill's authorization of larger grants under the MHD Zero-Emission Vehicle Grant Program. To the extent that grants for qualified medium-duty and heavy-duty zero-emission vehicles are transitioned to being funded by ACP revenues under the bill, local governments may also benefit from the prioritization of grants to benefit low-income communities and environmental justice communities.

Small Business Effect: DLS concurs with the Administration's characterization of the bill as having minimal or no impact on small businesses to the extent it is referring to small businesses in general or that the bill has no *negative* impact on small businesses. Small businesses are eligible applicants under both the Electric Vehicle Recharging Equipment Rebate Program and the MHD Zero-Emission Vehicle Grant Program and may benefit from the extension of the rebate program in statute and modification to the grant program and its funding source. Additionally, small businesses that install electric vehicle infrastructure could see an increase in business if more individuals and entities use rebates to invest in new infrastructure.

Additional Information

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

Designated Cross File: HB 550 (The Speaker, *et al.*) (By Request - Administration) - Environment and Transportation and Economic Matters.

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: SB548

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.