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FISCAL AND POLICY NOTE
First Reader

House Bill 1040 (Delegates Stein and Watson)

Environment and Transportation and
Appropriations

**Maryland Strategic Energy Investment Fund - Mandated Uses - Climate Change
Programs**

This bill requires the Maryland Energy Administration (MEA), before providing any other funding as required under § 9-20B-05 of the State Government Article, to use the Strategic Energy Investment Fund (SEIF) to provide at least \$365.0 million in each fiscal year from fiscal 2028 through 2032 to programs that reduce the impact of climate change, as specified. The bill also (1) alters provisions governing the distribution of funding received by SEIF from the sale of allowances under the Regional Greenhouse Gas Initiative (RGGI) and (2) repeals a provision relating to the use of alternative compliance payments (ACPs) resulting from solar energy requirements under the State’s Renewable Energy Portfolio Standard (RPS) for grants under the Customer-Sited Solar Program.

Fiscal Summary

State Effect: No direct net effect on overall SEIF expenditures. However, from FY 2028 through 2032, the bill redirects the first \$365.0 million of SEIF expenditures for specified activities. In addition, beginning in FY 2027, the bill alters the allocation of existing SEIF expenditures for certain purposes. State revenues are not directly affected.

Local Effect: Local government finances and operations are affected, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Before providing any other funding as required under § 9-20B-05 of the State Government Article, MEA must use SEIF to provide at least \$365.0 million in each of fiscal 2028 through 2032 to programs that reduce the impact of climate change, including the following distributions (which total to \$350.0 million):

- MEA – \$234.0 million, as specified, for various incentives and programs, including for residential and commercial clean energy rebates, incentives to replace specified appliances, and for programs (1) to increase solar energy deployment, as specified; (2) relating to electric vehicle supply equipment, medium-duty and heavy-duty zero emission vehicle grants, and zero emission vehicle tax credits; and (3) regarding energy efficiency equity grants, smart energy communities, resiliency, energy infrastructure, and clean energy deployment, and offshore wind;
- Maryland Department of the Environment (MDE) – \$13.0 million, as specified, for technology support, communications, and marketing regarding clean energy, and for programs regarding climate change;
- Maryland State Department of Education (MSDE) – \$45.0 million to assist county boards of education and the Baltimore City Board of School Commissioners in reducing carbon emissions and acquiring and implementing electric school buses, as specified;
- Maryland Department of Labor – \$1.0 million for an industry-led, regional-in-focus, competitive workforce development grant program;
- Department of General Services – \$5.0 million for energy efficiency initiatives;
- Maryland Clean Energy Center (MCEC) – \$50.0 million; and
- Maryland Energy Innovation Institute – \$2.0 million.

The bill also alters the existing allocation of proceeds received from the sale of allowances under RGGI, as follows:

- at least 65%, rather than at least 50%, must be credited to an energy assistance account to be used for the Electric Universal Service Program (EUSP) and other electricity assistance programs in the Department of Human Services (DHS);
- at least 35%, rather than at least 20%, must be credited to a low- and moderate-income efficiency and conservation programs account and to a general efficiency and conservation programs account for energy efficiency and conservation programs, projects, or activities and demand response programs, of which half must be targeted to the low- and moderate-income programs account, as specified;
- the requirement to provide at least 20% to a renewable and clean energy programs account for specified purposes is repealed; and

- the provision allowing for up to 10%, but no more than \$7.5 million, to be credited to an administrative expense account for costs related to MEA’s administration of the fund is altered to specify that \$7.5 million (exactly) must be credited to the administrative cost account.

Further, the bill repeals the requirement that, through the end of fiscal 2027, at least 20% of the proceeds from ACPs resulting from solar energy requirements under the State’s RPS be used to provide grants to support the installation of new solar energy generating systems under the Customer-Sited Solar Program within MEA.

Current Law:

Climate Change Activities in Maryland – Generally

MDE’s Climate Change Program leads the State’s efforts to reduce greenhouse gas (GHG) emissions, as required by the Greenhouse Gas Emissions Reduction Act (GGRA), and participation and oversight in other initiatives, including RGGI and the U.S. Climate Alliance. The program also ensures State compliance with climate-related State and federal laws, such as the Climate Solutions Now Act (CSNA) of 2022, discussed below.

The U.S. Climate Alliance is a bipartisan coalition of governors, including the Governor of Maryland, committed to reducing GHG emissions consistent with the goals of the Paris Agreement. Maryland participates in the multi-state RGGI in order to reduce carbon dioxide emissions from the power sector. Each participating state limits carbon dioxide emissions from electric power plants, issues carbon dioxide allowances, and establishes participation in carbon dioxide allowance auctions. A single carbon dioxide allowance represents a limited authorization to emit one ton of carbon dioxide.

CSNA made broad changes to the State’s approach to reducing statewide GHG emissions and addressing climate change. Among other things, CSNA accelerated previous statewide GHG emissions reductions targets originally established under GGRA by requiring the State to develop plans, adopt regulations, and implement programs to (1) reduce GHG emissions by 60% from 2006 levels by 2031 and (2) achieve net-zero statewide GHG emissions by 2045.

Strategic Energy Investment Fund – Generally

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. Chapters 127 and 128 require all of the proceeds from the sale of Maryland allowances under RGGI to be deposited in SEIF. SEIF’s other revenue sources include (1) ACP revenues generated under Maryland’s RPS

and (2) pursuant to Chapter 411 of 2024, a portion of corporate income tax revenues from qualified data centers that are operational on or after January 1, 2026.

As specified in § 9-20B-05 of the State Government Article, MEA must use SEIF to:

- invest in the promotion, development, and implementation of (1) cost-effective energy efficiency and conservation programs, projects, or activities, including measurement and verification of energy savings; (2) renewable and clean energy resources; (3) climate change programs directly related to reducing or mitigating the effects of climate change; and (4) demand response programs that are designed to promote changes in electric usage by customers in response to changes in the price of electricity over time or incentives designed to induce lower electricity use at times of high wholesale market prices or when system reliability is jeopardized;
- provide targeted programs, projects, activities, and investments to reduce electricity consumption by customers in the low-income and moderate-income residential sectors;
- provide supplemental funds for low-income energy assistance through EUSP and other electric assistance programs in DHS;
- provide rate relief by offsetting electricity rates of residential customers, as specified;
- provide grants, loans, and other assistance and investment as necessary and appropriate to implement the purposes of the Maryland Strategic Energy Investment Program;
- implement energy-related public education and outreach initiatives regarding reducing energy consumption and GHG emissions;
- provide rebates under the Electric Vehicle Recharging Equipment Rebate Program;
- provide grants to encourage combined heat and power projects at industrial facilities;
- provide at least \$1.2 million in each fiscal year for fiscal 2025 through 2028 to the Climate Technology Founder's Fund;
- provide at least \$2.1 million in funding each fiscal year to the Maryland Energy Innovation Fund (at least \$1.2 million may be used to fund MCEC, and at least \$900,000 may be used to fund the Maryland Energy Innovation Institute);
- provide at least \$500,000 each year to the Resiliency Hub Grant Program Fund;
- provide grants through the Customer-Sited Solar Program;
- pay costs associated with the Air and Radiation Administration within MDE; and
- pay the expenses of the Maryland Strategic Energy Investment Program.

Use of Regional Greenhouse Gas Initiative Proceeds

Subject to certain exceptions (where RGGI proceeds are allocated to certain purposes before the below percentages are applied to the remainder of the proceeds), RGGI proceeds received by SEIF are allocated as follows:

- at least 50% to an energy assistance account to be used for EUSP and other electricity assistance programs in DHS;
- at least 20% to a low- and moderate-income efficiency and conservation programs account and to a general efficiency and conservation programs account for energy efficiency and conservation programs, projects, or activities and demand response programs (at least one-half of which must be used for low- and moderate-income programs);
- at least 20% to a renewable and clean energy programs account for (1) renewable and clean energy programs and initiatives; (2) energy-related public education and outreach; and (3) climate change and resiliency programs; and
- up to 10% but no more than \$7.5 million to an administrative expense account for costs related to the administration of the fund.

Statute further elaborates on the types of programs and activities included under “energy efficiency and conservation programs” (under the second bullet above) and “renewable and clean energy programs and initiatives” and “energy-related public education and outreach” (under the third bullet above).

EUSP is established under § 7-512.1 of the Public Utilities Article. DHS, through the Office of Home Energy Programs, is responsible for administering the electricity bill assistance and arrearage retirement components of the program, which assists low-income electricity customers.

Use of Alternative Compliance Payment Revenues

Nonsolar ACP revenues may be used to support the creation of new renewable energy sources in the State that are owned by or directly benefit low- to moderate-income, overburdened, or underserved communities. Solar ACP revenues must be used to support the creation of new solar energy sources in the State that are owned by or directly benefit those communities or low- to moderate-income households. In fiscal 2026 only, up to \$100.0 million of ACP revenues may be used for solar development on State government property and local government clean energy projects. Additionally, through the end of fiscal 2027, at least 20% of ACP revenues resulting from solar energy requirements under the RPS must be used to provide grants to support the installation of new solar energy generating systems under the Customer-Sited Solar Program (discussed below). Up to

10% of the solar ACP revenues are credited to an administrative expense account for costs related to the administration of SEIF. Finally, ACP revenues may be used to provide grants to electric companies to be refunded or credited to each residential distribution customer based on the customer's consumption of electricity supply that is subject to the RPS.

Renewable Energy Portfolio Standard

Maryland's RPS was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. The RPS establishes eligibility tiers (Tier 1 and Tier 2) and includes carve-outs for solar, offshore wind, and geothermal. The 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. For 2026, the requirements are 38.0% from Tier 1 sources, including at least 8.0% from solar and 0.5% from post-2022 geothermal systems, plus 2.5% from Tier 2 sources.

Customer-sited Solar Program

Chapter 595 of 2024 established the Customer-Sited Solar Program within MEA to (1) increase deployment of customer-sited solar energy generating systems and (2) provide grants to eligible customer-generators that have installed solar energy generating systems with or without energy storage. At least 20% of ACP revenues resulting from solar energy requirements under the RPS must be used to provide grants to support the installation of new solar energy generating systems under the program. The program may provide a grant to an income-verified eligible customer-generator with a low- to moderate-income, in an amount equal to \$750 per kilowatt of nameplate capacity for a solar energy generating system, up to a maximum of \$7,500 per system. The program terminates June 30, 2027.

“Low- to moderate-income” means a household with an annual household income at or below 150% of the median income for the State.

State Expenditures: This analysis assumes that the bill does not have a direct, net effect on overall SEIF expenditures, since it only (1) redirects, from fiscal 2028 through 2032, the first \$365.0 million in SEIF spending toward programs that reduce the impact of climate change (across several specified programs and entities); (2) beginning in fiscal 2027, alters the allocation of RGGI-sourced SEIF funding (by increasing the percentages of funding that must be provided to EUSP in DHS and specified energy efficiency and conservation programs and repealing the allocation for renewable and clean energy programs); and (3) for fiscal 2027 only, repeals the allocation of ACP-sourced SEIF funding for the Customer-Sited Solar Program within MEA.

Several State agencies currently receive funding from SEIF for authorized uses. While some State agencies may receive more funding under the bill than they do under current law, others may receive less. In addition, for context, although SEIF revenues vary from year to year, ACP and RGGI revenue totaled \$632.2 million in fiscal 2025 - \$364.7 from ACPs and \$267.5 from RGGI. Therefore, even though the bill limits the State's flexibility regarding the use of the first \$365.0 million in SEIF spending from fiscal 2028 through 2032, if the level of SEIF revenues in fiscal 2028 through 2032 is similar to revenues in fiscal 2025, approximately \$267.7 million in revenues would be available for spending for other authorized purposes during those years.

The Department of Legislative Services notes that, under the bill, the allocation of RGGI-sourced SEIF funding totals more than 100.0%, as the bill specifies that *at least 65.0%* must be credited to EUSP, *at least 35.0%* must be credited to specified energy efficiency and conservation programs, and *\$7.5 million* must be credited to MEA's administrative cost account. Although it is unclear how MEA is able to allocate the RGGI-sourced funds in accordance with these provisions, this analysis assumes that MEA, nonetheless, has sufficient use of SEIF to cover its administrative costs. (In addition to this provision, current law specifies that up to 10% of the solar ACP revenue must be credited to an administrative expense account for costs related to the administration of SEIF.)

Local Fiscal Effect: Local governments currently receive funding from SEIF through various MEA programs. Accordingly, the redistribution of SEIF funding resulting from the bill may affect local grant revenues and corresponding expenditures. While the overall impact on local jurisdictions is unknown, local boards of education benefit from the \$45.0 million allocation of SEIF funding through MSDE – from fiscal 2028 through 2032 – to assist them in reducing carbon emissions and acquiring and implementing electric school buses.

Small Business Effect: The redistribution of SEIF funding under the bill also presumably affects small businesses, who are often involved in various energy efficiency, renewable energy, and related projects. The overall effect on small businesses cannot be reliably estimated but could be significant.

Additional Information

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

Designated Cross File: None.

Information Source(s): Maryland Energy Administration; Maryland Department of the Environment; Maryland State Department of Education; Department of Human Services; Maryland Department of Labor; University System of Maryland; Baltimore City Public Schools; Montgomery County Public Schools; Prince George's County Public Schools; Department of Legislative Services

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