HB 1199

Department of Legislative Services

Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1199 (Delegate Fraser-Hidalgo)
Environment and Transportation

Study on Greenhouse Gas Emissions Economy-Wide Cap-and-Invest Program (Maryland Climate Crisis Equity Act)

This bill requires The Maryland Department of the Environment (MDE), in collaboration with the Maryland Commission on Climate Change (MCCC), the Maryland Department of Transportation (MDOT), and the Maryland Energy Administration (MEA), and in coordination with the Commission on Environmental Justice and Sustainable Communities (CEJSC) and any other agency or stakeholder identified by MDE, to complete a study and develop a report evaluating the potential design and implications of implementing an economy-wide cap-and-invest program that (1) places the State on a pathway to achieve its net-zero statewide greenhouse gas (GHG) emissions reduction goal by 2045 and (2) provides a sustainable funding source for climate-related initiatives. MDE may contract with a consultant to conduct all or part of the study, and funding for the study must be provided from the Strategic Energy Investment Fund (SEIF). If a cap-and-invest program is implemented by June 30, 2030, funding for the study must be reimbursed from program revenues. MDE must submit the required report to the General Assembly by December 31, 2027. **The bill takes effect June 1, 2026.**

Fiscal Summary

State Effect: No impact in FY 2026. Special fund (SEIF) expenditures increase by $200,000 in FY 2027 only for contractual costs to conduct the study. State revenues are not directly affected but would be affected to the extent a cap-and-invest program is actually implemented, as discussed below.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenues	$0	$0	$0	$0	$0
SF Expenditure	0	200,000	0	0	0
Net Effect	$0	($200,000)	$0	$0	$0

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

Local Effect: None. There is no direct impact on local finances or operations.

Small Business Effect: Minimal or none.

Analysis

Bill Summary: MDE must engage with stakeholders during the study, including soliciting input and feedback on program design, revenue use, equity considerations, and other components of an economy-wide cap-and-invest program. The bill specifies minimum program design elements that the study must evaluate, including, broadly, (1) covered sectors and entities; (2) the use of facility-specific limits or other mechanisms to limit GHG emissions from facilities located in or near overburdened communities; (3) the treatment of emissions-intensive, trade-exposed industries, as specified; (4) the distribution of allowances, auction design, and the use of offset credits; and (5) any other design elements that MDE or any other entity participating in the study considers necessary to ensure an effective, equitable, and efficient program.

Additionally, the study must consider (1) the potential uses of revenue generated through a program, as specified; (2) the implications of some or all of the revenue generated through a program being temporarily diverted to other nonclimate-related expenditures; and (3) the implications of linking a Maryland program with similar programs in other North American jurisdictions.

Finally, the study must include modeling and an analysis of (1) the potential impacts of a program on achieving the State's GHG emissions reduction targets, energy affordability for consumers, and the State's economy and economic competitiveness; (2) remedial measures, if needed, to address potential adverse impacts of a program; (3) strategies to ensure that low-income households do not experience a net increase in costs resulting from a program; and (4) the potential impact of existing and anticipated changes to federal funding and regulatory programs.

Current Law:

The Maryland Department of the Environment's Climate Change Program

MDE's Climate Change Program leads the State's efforts to reduce GHG emissions, as required by the Greenhouse Gas Emissions Reduction Act and participation and oversight in other initiatives, including the Regional Greenhouse Gas Initiative (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 (Chapter 38), 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. These goals include reducing collective net GHG emissions by at least 26% to 28% by 2025 and by 50% to 52% by 2030 (both below 2005 levels) and collectively achieving overall net-zero GHG emissions as soon as practicable, but no later than 2050.

Maryland also participates in the multi-state RGGI in order to reduce carbon dioxide (CO_2) emissions from the power sector. Each participating state limits CO_2 emissions from electric power plants, issues CO_2 allowances, and establishes participation in CO_2 allowance auctions. A single CO_2 allowance represents a limited authorization to emit one ton of CO_2.

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. Proceeds from the auction of carbon allowances under RGGI are a significant source of funding for SEIF.

Maryland Greenhouse Gas Emissions Reduction Targets and the Climate Solutions Now Act

CSNA made broad changes to the State's approach to reducing statewide GHG emissions and addressing climate change. Among other things, the Act accelerated previous statewide GHG emissions reductions targets originally established under the Greenhouse Gas Emissions Reduction Act 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.

In December 2023, MDE published *Maryland's Climate Pollution Reduction Plan*, which was developed to implement CSNA. Establishing a cap-and-invest program is included in the plan as one potential approach to further reduce GHG emissions and generate revenue to support Maryland's transition to a net-zero-emission economy.

Maryland Commission on Climate Change

MCCC, which was originally created by Executive Order, was codified in statute pursuant to Chapter 429 of 2015 to advise the Governor and the General Assembly on ways to mitigate the causes of, prepare for, and adapt to the consequences of climate change. MCCC is required to submit annual updates to the Governor and the General Assembly on the State's efforts to mitigate the causes of, prepare for, and adapt to the consequences of climate change, including any future plans and recommendations for legislation. MDE and the Department of Natural Resources jointly staff the commission.

MCCC's 2025 Annual Report recommended that that the Moore Administration evaluate and propose potential designs for an economy-wide cap-and-invest program. The report also recommended that any development of such a program should hold low-income customers harmless and that a percentage of the dividends should be distributed to low-income customers.

Commission on Environmental Justice and Sustainable Communities

CEJSC was established in 2001 by Executive Order and codified in statute in 2003. The commission has several statutory duties, including, among other things, (1) advising State government agencies on environmental justice and related community issues; (2) analyzing the impact of current State and local laws, permits, actions, and policies on the issue of environmental justice and sustainable communities; (3) assessing the adequacy of State and local laws to address the issue of environmental justice and sustainable communities; and (4) recommending options to the Governor and the General Assembly for addressing issues, concerns, or problems related to environmental justice, as specified. MDE staffs the commission.

State Fiscal Effect: SEIF special fund expenditures increase by $200,000 in fiscal 2027 only for contractual costs for MDE to hire a consultant with expertise in economics and environmental policy to complete the study. This estimate is based on consulting costs for similar studies and reports that require emissions modeling and economic analysis. (Despite the bill's June 1, 2026 effective date, it is assumed that no costs are incurred in fiscal 2026.)

It is assumed that MDOT and MEA can coordinate with MDE as necessary using existing resources. (MDE staffs both MCCC and CEJSC, and, except for the costs to hire the consultant, the bill does not otherwise affect MDE's expenditures.)

This analysis does not reflect (1) any costs or operational impacts related to adopting and implementing an economy-wide cap-and-invest program; (2) any State revenues that might result from the implementation of such a program; or (3) any reimbursement to SEIF (for study costs) from such revenues, as contemplated under the bill. At this time, any such estimates would be speculative, as it is unclear if or when a cap-and-invest program might be implemented; the bill does not require such a program to be implemented.

Additional Information

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

Designated Cross File: SB 590 (Senator Kramer) - Education, Energy, and the Environment.

Information Source(s): Maryland Department of the Environment; Maryland Department of Transportation; Maryland Energy Administration; Public Service Commission; Department of Legislative Services

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