

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 373 (Senators Hershey and West)
 Education, Energy, and the Environment

Environment - Regional Greenhouse Gas Initiative - Withdrawal (Restoring Energy Freedom Act)

This bill requires the Governor to immediately begin the process of withdrawing the State from participation in the Regional Greenhouse Gas Initiative (RGGI). Once the State is withdrawn from RGGI, other provisions of the bill take effect, repealing existing statutory provisions relating to RGGI, including provisions governing the distribution of proceeds received from auctions of carbon dioxide allowances under RGGI. **The requirement that the Governor begin the process of withdrawing the State from RGGI takes effect June 1, 2026. The remaining provisions take effect after the withdrawal upon specified reporting and notice of the withdrawal. If the notice does not occur by June 1, 2031, the bill’s provisions that repeal existing statutory provisions relating to RGGI are null and void.**

Fiscal Summary

State Effect: State finances are significantly affected, as summarized in the table below and discussed and shown in more detail in the Analysis section.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
SF Revenue	(\$138.3)	(\$276.6)	(\$276.6)	(\$276.6)	(\$276.6)
GF Expenditure	-	-	-	-	-
SF Expenditure	(\$138.3)	(\$276.6)	(\$276.6)	(\$276.6)	(\$276.6)
Net Effect	(-)	(-)	(-)	(-)	(-)

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

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

Small Business Effect: Meaningful.

Analysis

Bill Summary: The Governor must immediately begin the process of withdrawing the State from participation in RGGI and, within 30 days after receiving notice that the State is withdrawn from RGGI, the Governor, pursuant to an existing reporting requirement, must report to the General Assembly regarding (1) why participation ceased and (2) a plan to reduce carbon dioxide emissions from power plants in the State that considers the use of Maryland grown, native, warm season grasses as a possible method of reducing carbon emissions. Within 5 days after receiving the report from the Governor, the General Assembly must notify the Department of Legislative Services (DLS).

Once the Governor's report is received by the General Assembly, and notice is provided to DLS, the bill repeals several existing statutory provisions relating to RGGI, including provisions governing the Strategic Energy Investment Fund (SEIF) that allocate proceeds received from RGGI auctions among various programs and uses (see Current Law). The notice of the receipt of the report must be received by DLS by June 1, 2031; otherwise, the provisions of the bill repealing existing statutory provisions relating to RGGI are null and void.

Current Law:

Regional Greenhouse Gas Initiative

Chapters 23 and 301 of 2006 (Healthy Air Act) required the Governor to include the State as a full participant in RGGI by June 30, 2007. Statute authorizes the State's withdrawal from RGGI – as provided in a December 2005 RGGI memorandum – at any time after January 1, 2009, if the General Assembly enacts a law to approve the withdrawal.

If RGGI expires and there is a successor organization with the same purposes and goals, the Governor is encouraged to join the State in the successor organization.

If the State's participation in RGGI ceases for any reason, the Governor must report to the General Assembly regarding (1) why participation ceased and (2) a plan to reduce carbon dioxide emissions from power plants in the State that considers the use of Maryland grown, native, warm season grasses as a possible method of reducing carbon emissions.

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. 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) alternative compliance payment revenues generated under Maryland's renewable energy portfolio standard 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.

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

- at least 50% 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 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.

State Fiscal Effect: State finances are significantly affected by the bill, as shown in **Exhibit 1**. Under the assumptions identified in the exhibit's footnotes, special fund revenues and expenditures decrease by \$138.3 million in fiscal 2027 and by \$276.6 million annually thereafter, and general fund expenditures increase by an indeterminate, but presumably significant amount, to fund programs or other initiatives that are not wholly eliminated or foregone as a result of the loss of RGGI funding. The extent to which general fund expenditures increase cannot be reliably estimated and largely depends on

policy decisions of the Governor and the General Assembly regarding the use of general funds to support programs or initiatives no longer supported by RGGI funding.

Exhibit 2, for context, summarizes the actual and budgeted spending of RGGI funding over the course of fiscal 2025 (actual), fiscal 2026 (appropriation), and fiscal 2027 (allowance), based on Appendix H of the Governor’s FY 2027 Budget Highlights. The funding is allocated to the agencies identified in the exhibit. The spending under fiscal 2026 and 2027 is noticeably higher than annual RGGI revenues, reflecting spending of fund balance in those years. The following may also be worth noting:

- A significant portion of the funding under the “Tax Credits, Transfers, RGGI Dues” category is funding that is allocated to certain purposes (including paying RGGI dues) before revenue is allocated according to the formula identified under Current Law (energy assistance – 50%; efficiency and conservation programs – 20%, etc.).
- The formula identified under Current Law applies to the RGGI revenues received by SEIF each year, not the budgeting/spending of those revenues each year. The RGGI revenues are directed to subaccounts within SEIF that correspond to the formula categories (see the table at the end of Appendix H of the Governor’s FY 2027 Budget Highlights showing subaccount end-of-year fund balances). Spending under those categories in a given fiscal year may be higher or lower than the revenue received in that year. Therefore, the spending shown in Exhibit 2 is not proportionate to the percentages in the formula.

Local Fiscal Effect: Local governments are affected, as recipients of funding under RGGI-supported programs. MEA indicates that (1) its programs support local government investments in clean energy, energy efficiency, and energy resilience and (2) to the extent those programs are funded in a given fiscal year through RGGI revenues, they are no longer available to local governments under the bill.

Small Business Effect: Similar to local governments, small businesses are affected as eligible recipients of funding for investments in clean energy, energy efficiency, and energy resilience. Small businesses providing goods or services for clean energy, energy efficiency, and energy resilience projects are presumably also meaningfully affected by the loss of RGGI revenue.

Additional Comments: The Public Service Commission notes that the bill may reduce the cost to operate some power plants in the State, potentially reducing energy prices; however, the commission indicates that whether such a reduction occurs under the bill, and the extent of any reduction, is unknown. An evaluation of the bill’s effect on energy costs for Maryland consumers should also take into account the loss of the use of RGGI revenues for (1) energy bill assistance for low-income Maryland residents and (2) programs that

fund efforts to reduce residents’ energy consumption (and lower their energy bills as a result).

Exhibit 1
Fiscal Impact of the Bill
(\$ in Millions)

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
<i>RGGI Auction Revenues (Under Current Law)¹</i>	\$276.6	\$276.6	\$276.6	\$276.6	\$276.6
<i>RGGI Auction Revenues (Under the Bill)²</i>	138.3	0.0	0.0	0.0	0.0
<i>Impact on the State Budget:</i>					
Special Fund Revenues	(138.3)	(276.6)	(276.6)	(276.6)	(276.6)
Special Fund Expenditures ³	(138.3)	(276.6)	(276.6)	(276.6)	(276.6)
General Fund Expenditures ⁴	-	-	-	-	-
Net Impact	(-)	(-)	(-)	(-)	(-)

-: indeterminate increase

(-): indeterminate decrease

RGGI: Regional Greenhouse Gas Initiative

¹ Assumes, for the purposes of this analysis, that revenues remain at a level similar to revenues estimated for fiscal 2027 in Appendix H of the Governor’s FY 2027 Budget Highlights. However, the Maryland Energy Administration notes, in its [January 2026 report](#) (Vol I, page 58) on the Strategic Energy Investment Fund, that forecasting RGGI revenues is difficult because the RGGI auction price is market-based and thus dynamic, similar to a stock price.

² Assumes the Governor withdraws the State from RGGI by the end of calendar 2026, resulting in the State receiving half of the RGGI revenues it otherwise would in fiscal 2027.

³ Assumes special fund expenditures decrease correspondingly with special fund revenues.

⁴ Assumes general fund expenditures are needed to replace at least some portion of the RGGI funding to continue to fund programs or initiatives that are not wholly eliminated or foregone as a result of the State’s withdrawal from RGGI.

Source: Department of Legislative Services

Exhibit 2
For Context: Spending of RGGI Funding Under Current Law
Fiscal 2025-2027
(\$ in Millions)

<u>Category</u>	<u>Agencies</u>	<u>FY 2025</u> <u>(Actual)</u>	<u>FY 2026</u> <u>(Appr.)</u>	<u>FY 2027</u> <u>(Allow.)</u>
Tax Credits, Transfers, RGGI Dues	Maryland Energy Administration; Maryland Department of the Environment; Department of Natural Resources (Power Plant Research Program); University of Maryland, College Park (Maryland Energy Innovation Institute); Maryland Department of Transportation	\$69.1	\$30.6	\$68.9
Energy Assistance	Department of Human Services	96.6	160.1	160.0
Low- and Moderate-Income Energy Efficiency	Maryland Energy Administration; Department of Housing and Community Development	13.6	17.2	45.0
Energy Efficiency in All Sectors	Maryland Energy Administration; Department of General Services; Higher Education Institutions	16.3	72.8	64.4
Renewable Energy, Climate Change	Maryland Energy Administration; Maryland Clean Energy Center; Department of Budget and Management; Department of General Services; and Others	61.6	65.6	120.7
Administration	Maryland Energy Administration	8.5	9.2	9.6
Total		\$265.8	\$355.6	\$468.5

Allow.: Allowance

Appr.: Appropriation

RGGI: Regional Greenhouse Gas Initiative

Source: Governor's FY 2027 Budget Highlights, Appendix H; Department of Legislative Services

Additional Information

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

Designated Cross File: HB 66 (Delegate Chisholm) - Environment and Transportation.

Information Source(s): Department of Commerce; Maryland Municipal League; Governor's Office; University System of Maryland; Department of Budget and Management; Maryland Department of the Environment; Department of General Services; Maryland Department of Health; Department of Human Services; Maryland Department of Labor; Department of Natural Resources; Maryland Department of Transportation; Maryland Energy Administration; Office of People's Counsel; Public Service Commission; Department of Legislative Services

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