Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1008 (Delegate Stein)

Environment and Transportation and
Economic Matters

Fossil Fuel Transportation Fee and Mitigation Fund (Climate Pollution Reduction Fund Act)

This bill establishes a fee of 30 cents per million British thermal units on specified fossil fuels transported in the State. Generally, the fee is imposed on the first carrier to transport the fossil fuel in the State and does not apply to certain fossil fuels on which an existing fee has been paid. The bill establishes the Fossil Fuel Mitigation Fund in the Maryland Department of the Environment (MDE) to support activities that reduce greenhouse gas (GHG) emissions from fossil fuels and their impacts in the State. Revenues from the fossil fuel transportation fee are deposited into the mitigation fund and used for administrative costs (up to 5%) and programmatic purposes. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: Special fund revenues for MDE increase significantly beginning as early as FY 2025 from fees; revenues may range from $275 million to $300 million on an annual basis. Special fund expenditures increase beginning as early as FY 2025 for programmatic and administrative purposes. General fund expenditures may increase in FY 2025 for initial implementation costs, likely repaid in FY 2026. State expenditures (all funds) increase significantly due to higher energy prices beginning as early as FY 2025.

Local Effect: Local expenditures for energy increase significantly beginning as early as FY 2025; local revenues and expenditures may increase from funds received under the bill.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Fossil Fuel Transportation Fee

There is a fossil fuel transportation fee imposed on a carrier for the privilege of transporting a fossil fuel in the State. The fee is equal to 30 cents per million British thermal units of fossil fuels transported in the State. Generally, the fee is imposed on the first carrier to transport the fossil fuel in the State; however, the fee may be imposed on a subsequent carrier that transports the fossil fuel in the State if any of the previous carriers fails to pay the fee.

The fee does not apply to the transportation of (1) a fossil fuel on which the fee has already been paid; (2) a fossil fuel on which an existing fee on the transfer of petroleum products or byproducts has been paid; or (3) a fossil fuel that is solely for use on a farm and the carrier does not otherwise use, manufacture, package for sale, or sell the fossil fuel in the State.

A carrier must pay the fee to MDE and provide any information required by the department. MDE must distribute the revenue attributable to the fee to the Fossil Fuel Mitigation Fund established by the bill.

MDE must adopt regulations (1) that establish the fossil fuels to which the fee must apply and (2) to provide for the administration and collection of the fee. MDE may establish procedures for the audit of carriers of fossil fuels.

Fossil Fuel Mitigation Fund

The Fossil Fuel Mitigation Fund is established as a special, nonlapsing fund in MDE to support activities that reduce GHG emissions from fossil fuels and their impacts on the State. MDE must administer the fund. The fund consists of revenue distributed from fossil fuel transportation fees paid under the bill, money appropriated in the State budget to the fund, interest earnings, and any other money from any other source.

The fund may be used only by MDE or related entities for activities and programs that reduce GHG emissions in the State consistent with MDE's Climate Pollution Reduction Plan. MDE may use up to 5% of the amount distributed to the fund each year for administrative expenses.

Money expended from the fund for fossil fuel mitigation and remediation is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for fossil fuel mitigation and remediation.

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 (Chapter 38 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. 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 Strategic Energy Investment Fund (SEIF) to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. SEIF is primarily funded through the proceeds from the auction of carbon allowances under RGGI.

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

Chapter 38 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 Chapter 38.

Establishing a hazardous substance fee for the hazardous substances transported in the State is included in Maryland's Climate Pollution Reduction Plan as one potential approach to generate revenue to support Maryland's transition to a net-zero-emission economy. According to the plan, a hazardous substance fee would require entities to pay a fee for the hazardous substances transported in the State, including fossil fuels used in or exported from the State.

The Oil Fund

The Maryland Oil Disaster Containment, Clean-up and Contingency Fund (Oil Fund) was established in 1986 to provide funding to MDE's oil pollution prevention programs, such as permitting, enforcement, and oil spill response. A fee was imposed on each barrel of oil transferred into the State. The fee has been increased and extended multiple times since its establishment and is currently 8 cents per barrel of oil transferred into the State. Beginning July 1, 2024, the fee decreases to 5 cents per barrel. Fees are generally credited to the Oil Fund. "Barrel" means any measure of petroleum products or its by-products, which consists of 42.0 U.S. gallons of liquid measure.

State Fiscal Effect: MDE advises that the fossil fuels currently assessed an oil transfer fee include gasoline, ethanol for fuel, kerosene, aviation/jet fuels, diesel fuel, biodiesel, used oil, waste oil, lubricating oils, hydraulic oil, mineral oil, and all heating oils. The fuels subject to the existing fee are not subject to the fee under the bill. Therefore, the bill primarily applies to the transportation of coal, natural gas, and propane in the State.

Special fund revenues from the fossil fuel transportation fees cannot be reliably estimated at this time. However, special fund revenues for MDE increase *significantly* beginning as early as fiscal 2025 from the fees; MDE estimates revenues of about $275 million to $300 million on an annual basis. Special fund expenditures for MDE increase beginning as early as fiscal 2025 as fee revenues are used for programmatic and administrative purposes.

As noted earlier, up to 5% of the fee revenue may be used for administration. Due to many unknown factors, the total administrative costs to implement the bill cannot be reliably estimated at this time, although MDE advises that administrative costs are relatively modest in comparison with estimated revenues – approximately $200,000 for salaries and related expenses for two staff. The Department of Legislative Services advises that administrative costs could be higher for additional staff and/or any necessary information technology expenses not included in MDE's estimate, and additional funding would be available under the revenue estimates described above.

MDE may have administrative costs prior to the collection of fee revenues under the bill. Thus, it is assumed that some general funds are needed to initially cover costs in fiscal 2025 prior to special funds being made available for repayment.

To the extent that the collection of fees is delayed until fiscal 2026, as may be the case due to the time necessary for MDE to adopt regulations, the duration of general fund support increases, while special fund revenues and associated expenditures are delayed.

State Energy Expenditures

The bill increases costs for coal, natural gas, and propane. Therefore, State expenditures (all funds) increase significantly beginning as early as fiscal 2025 due to higher energy prices. To the extent any State agencies receive funds from the Fossil Fuel Mitigation Fund, the anticipated increase in expenditures may be offset.

Local Fiscal Effect: Local government expenditures increase significantly beginning as early as fiscal 2025 due to higher energy prices, for the reasons discussed above. To the extent any local governments receive funds from the Fossil Fuel Mitigation Fund, the anticipated increase in expenditures may be offset.

Small Business Effect: Small businesses throughout the State, particularly those with substantial natural gas or propane use, incur a significant increase in expenditures due to higher energy prices for the reasons discussed above. Small businesses may also benefit from funds received through the Fossil Fuel Mitigation Fund.

Additional Comments: The bill establishes a fee of 30 cents per million British thermal units. One million British thermal units is approximately 10 natural gas therms – the typical unit of measurement on customer bills.

Additional Information

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

Designated Cross File: None.

Information Source(s): Maryland Department of the Environment; Comptroller's Office; Maryland Department of Agriculture; Department of General Services; Public Service Commission; Department of Juvenile Services; Department of Public Safety and Correctional Services; University System of Maryland; Northeast Maryland Waste Disposal Authority; Harford and Wicomico counties; City of Frostburg; Maryland Association of Counties; Maryland Municipal League; Department of Legislative Services

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