

CAP-AND-INVEST FOR MARYLAND

ISSUE BRIEF 10: REVENUE INVESTMENT

***Donald Goldberg
Dave Grossman***

***UPDATED
December 2025***

**Climate Law &
Policy Project**

Climate Law & Policy Project

Climate Law & Policy Project is a 501(c)(3) non-profit organization. CLPP's mission is to help formulate and advocate environmentally, socially, and scientifically sound policies to reduce emissions and protect communities around the world from the impacts of climate change.

CLPP operates like a think tank – seeking practical and politically viable strategies – while simultaneously advocating for strong responses to avert the increasingly urgent problem of climate change.

Additional information is available at www.clppproject.org.

About the Authors

Donald Goldberg is the executive director and founder of CLPP. Previously, he directed the climate program at the Center for International Environmental Law.

Dave Grossman is a senior advisor to CLPP and is the principal and founder of Green Light Consulting, a consulting practice specializing in research, analysis, writing, and strategic guidance on climate change and clean energy issues.

Table of Contents

Introduction.....	1
What Has to Be Decided Regarding Revenue Investment?	2
What Do Other Jurisdictions Do?	2
Discussion	6
What Should Maryland Do?	6

Introduction

Maryland's Department of the Environment (MDE) has discussed the possibility of developing an economy-wide cap-and-invest program for the state. This paper explores the issues involved in *investment of revenues generated by a cap-and-invest program*.

Maryland has some of the most ambitious greenhouse gas (GHG) reduction targets in the country. By law, it must reduce emissions 60% from 2006 levels by 2031 and achieve net-zero emissions by 2045.

In December 2023, MDE released [Maryland's Climate Pollution Reduction Plan](#) (CPRP) laying out a strategy to achieve the state's near-term goal and place the state on a path to achieve its 2045 goal. The CPRP includes an economy-wide cap-and-invest program, both to close a 3.5 million metric ton emissions gap remaining after MDE's other policy recommendations are implemented and to raise the roughly \$1 billion per year in new revenue the CPRP estimates is needed to fund several of these policy programs. (Other mechanisms, such as a carbon fee, are also included as potential revenue-raising options.) There is little detail in the CPRP about how cap-and-invest might be designed to best serve Maryland's needs.

In December 2024, the [annual report](#) from the Maryland Commission on Climate Change (MCCC) included a recommendation that the General Assembly authorize a study to evaluate the design of a cap-and-invest program. The MCCC's 2025 [recommendations](#) include a similar directive to the Moore Administration.

Not all stakeholders may be familiar with cap-and-invest and how it works. **Put simply, a cap-and-invest approach establishes a declining cap on emissions levels, requires polluters to acquire and retire emission allowances, and invests the proceeds of allowance sales (which can be substantial)**

in achieving a rapid, effective, and equitable transition to a decarbonized economy.

CLPP previously produced a [primer](#) that offered an overview of cap-and-invest, briefly described how it is being implemented in other jurisdictions, and identified some key design elements that must be considered to ensure cap-and-invest supports and complements other facets of Maryland's efforts to address climate change.

This issue brief is part of a [series](#) taking deeper dives into those and other design elements. Each brief focuses on one design element (or set of elements), reviews how other jurisdictions address that element, and discusses the issues at play as Maryland considers its own cap-and-invest program.

This brief focuses on the issue of how to **invest the revenues generated by a cap-and-invest program**.

For reasons discussed in this paper, Maryland should invest allowance auction revenues in a wide array of climate mitigation and resilience programs, and potentially in related programs such as workforce development and energy affordability. Maryland should also ensure focused investment of auction revenues to provide benefits to disadvantaged communities and vulnerable populations. To build public and political support, a robust stakeholder engagement process regarding investment of cap-and-invest revenues is strongly recommended.

What Has to Be Decided Regarding Revenue Investment?

Maryland is looking at establishing an economy-wide cap-and-invest program, which will generate substantial revenues. The state will have to determine the best avenues for investment of those revenues.

According to the CPRP, Maryland will need about \$1 billion per year in new revenue to fund the programs in the plan. How much revenue a cap-and-invest program would generate would depend on many factors, including the sectors covered, the stringency of interim emission budgets, and the amount of allocated allowances (all of which were reviewed in more detail in previous [CLPP briefs](#)).

In any event, a cap-and-invest program would raise substantial revenue, so the “invest” part of cap-and-invest is important. Investment of revenues can make emission reductions easier and cheaper to achieve, can help achieve more emission reductions more quickly, and can support emission reductions in sectors not covered by the cap. Investment can also support a range of other purposes, including reducing any regressive effects of the carbon price on the poor, helping communities and workers transition to a clean energy economy, building a clean energy workforce, investing in research and development for next-generation decarbonization technologies, improving resilience to climate impacts, and much more.

The available funding from an economy-wide cap-and-invest program is expected to be substantial, but it will not be infinite. The state will have to make difficult choices about where to direct its investments. Maryland could decide to focus revenue investment very narrowly, on one or a few areas at a time; for example, the state could decide to dedicate substantial revenues to weatherizing and electrifying low- and moderate-income buildings and to deploying electric school buses, both of which could accelerate decarbonization while providing numerous economic and health benefits to vulnerable communities. Alternatively, the state could support a wide range of existing and new programs, such as those laid out in the CPRP. The state could decide to focus investments on areas that represent gaps in the suite of existing federal and state funding resources available, or it could decide to supplement those resources in the same areas. It could invest in research and development of new and improved technologies, or it could leave such investments to the federal government, other states, and/or the private sector.

What Do Other Jurisdictions Do?

Cap-and-invest programs already exist or are under development in some other North American jurisdictions. Maryland can learn from others’ experiences and approaches.

California’s cap-and-invest [program](#), since its launch in 2012, has generated more than \$33 billion in allowance auction [proceeds](#) that have

been deposited into the state’s Greenhouse Gas Reduction Fund (GGRF), in addition to almost \$21 billion more for utilities from the sale

of allowances that have been allocated to them and then consigned to auction for the benefit of ratepayers (as described in [CLPP issue brief #5](#) on auction and allocation of allowances).

Prior to the adoption of [AB1207](#) and [SB840](#) in September 2025, all cap-and-invest revenues went into the GGRF and were used solely for [California Climate Investments](#). About 65% of the proceeds from each quarterly auction were continuously appropriated to 5 agencies, while legislation directed some other expenditures (e.g., to replace a fire prevention fee on state lands). The remaining funds were [appropriated](#) by the state legislature through the regular, annual budget process.

As explained in [CLPP brief #2](#) on automatic adjustments and price certainty mechanisms, AB1207 redirected the proceeds from potential price ceiling sales, which used to be required to achieve emissions reductions on at least a ton-for-ton basis, to instead be deposited in a new California Climate Mitigation Fund that the Legislature can appropriate for “purposes including, but not limited to, providing direct rebates and investments to reduce household energy costs, including incentives to transition to zero-emission vehicles and energy efficient housing.” (California has never had to use its price ceiling mechanism — so all revenues actually generated may continue to flow into the GGRF.) AB1207 also directed that, from mid-2026 to the start of 2031, 5% of the revenues received by electric companies from the auction of consigned allowances be remitted to the State Treasury for deposit into a revolving fund to accelerate new transmission projects.

SB840, meanwhile, directed that — starting in mid-2026 — specific amounts of GGRF funds, in a specified priority, go to individual funds dedicated to clean transportation, housing and community investment, clean air and water,

wildfire prevention and resilience, agriculture, clean energy, and climate-focused innovation. A portion of the GGRF funds would still be continuously appropriated for certain purposes (e.g., affordable housing, transit, intercity rail, community air protection, fire prevention).

As described in [CLPP issue brief #9](#) on equity, California enacted [SB 535](#) in 2012, which required that a minimum of 25% of cap-and-invest revenues be invested in ways that provide benefits to disadvantaged communities. In 2016, [AB 1550](#) upped that to a minimum of 35% of benefits flowing to disadvantaged communities, low-income communities, and low-income households (“[priority populations](#)”). CARB creates [priority population investment targets](#) for every agency that receives funding from the GGRF each fiscal year.

Over the last decade, California has [invested](#) \$13 billion of cap-and-invest revenues in projects to address climate change and pollution. (The remaining \$20 billion or so will fund more projects in the near future.) California has [invested](#) in programs to provide rebates for clean vehicles, develop high-speed rail, conserve and restore land, incentivize reductions in fluorinated gas emissions, enhance coastal resilience, support healthy soils, advance community fire prevention and preparedness, promote workforce development, and much more. Roughly three-quarters of the funds (more than \$9 billion) have been spent to benefit underserved, over-burdened, low-income communities, including [projects](#) to locate affordable housing near job centers, expand low-emission [transit](#) and [mobility](#), plant urban trees, support low-income home solar and weatherization, improve community air quality, and more.

Quebec's cap-and-invest [system](#), which is linked with California's, [sends all revenues](#) from allowance auctions to the [Electrification and](#)

[Climate Change Fund](#) (which in 2020 replaced the Green Fund). Since launching in 2013, the cap-and-invest system has generated more than \$10 billion (Canadian) in [revenues](#) for Quebec to invest (plus, since 2024, almost \$17 million more from allocated allowances consigned for auction).

The Electrification and Climate Change Fund finances initiatives in the [2030 Plan for the Green Economy](#), plus some continuing commitments made under the [2013-2020 Climate Change Action Plan](#). It funds measures to reduce emissions, electrify the economy, and adapt to climate impacts. Just using [2022-2023](#) as an example, the broad range of investments included support for innovative emission-reducing technologies, electrification of transportation, energy efficiency and clean energy for buildings and industry, reducing refrigerant emissions, agricultural technologies and practices, adaptation planning, and more. Some [investments](#) of revenue provide benefits to disadvantaged communities, but there do not appear to be any mandatory revenue investment goals or targets related to equity.

Washington, which launched its cap-and-invest [program](#) in 2023 following adoption of the [Climate Commitment Act \(CCA\)](#) in 2021, has the newest cap-and-invest program in operation, and it has already generated more than \$3 billion in allowance auction [revenue](#).

As directed by the CCA, auction revenue goes into three main accounts: the Carbon Emissions Reduction Account (CERA), the Climate Investment Account (CIA), and the Air Quality & Health Disparities Improvement Account (AQHDIA). The CCA directs a precise amount first be deposited in the CERA each year through 2037 — different amounts for 2023, 2024, and 2025, and then one set figure for 2026-2037 — after which the CERA will receive

50% of auction proceeds each year. The remaining funds go to the CIA and the AQHDIA. (RCW [70A.65.100](#)) The funds in each account may be spent only after appropriation by the legislature.

The CERA funds are for projects that reduce emissions in the transportation sector, including alternatives to single-occupancy vehicles, reductions in vehicle-miles traveled by single-occupancy vehicles, and reductions from freight, ferries, and ports. (RCW [70A.65.240](#)) [SB 5972](#) in 2022 added two sub-accounts to the CERA, which receive 80% of the CERA funds: 56% goes to the Climate Transit Programs Account (for grants focused on a range of transit needs), and 24% goes to the Climate Active Transportation Account (for programs focused on pedestrians, biking, and the like).

As for the CIA, up to 5% of the funds can support administration of the CCA. The remaining funds are sent to two sub-accounts: 75% to the Climate Commitment Account (for projects that support the transition to a low-carbon economy, improve air quality, and increase access to clean energy) and 25% to the Natural Climate Solutions Account (for projects that increase ecosystem resilience, such as habitat restoration and flood risk reduction). (RCW [70A.65.250](#))

The AQHDIA (which does not have sub-accounts) directs funds to projects that address environmental justice and health equity, such as through air quality monitoring and reducing environmental harms in overburdened communities. (RCW [70A.65.280](#))

As described in [CLPP issue brief #9](#) on equity, Section 4 of the CCA requires an Environmental Justice Assessment every year or two (as appropriate) related to the

investment of cap-and-invest revenues. It also directs agencies to have a minimum of 35% and a goal of 40% of investments providing direct and meaningful benefits to vulnerable populations in overburdened communities. ([RCW 70A.65.030](#), [230](#)) Another 10% of auction revenue must be used for projects with tribal support. ([RCW 70A.65.230](#)) Across 2023-2025 budgets, Washington [estimates](#) that of the \$1.4 billion in CCA investments already made, 42% are directed to benefit overburdened communities and 7.8% to benefit tribes. Investments include vouchers for low- and moderate-income electricity consumers, rebates for high-efficiency electric equipment (e.g., heat pumps), clean energy projects, weatherization, urban tree planting, bike and pedestrian grants, vehicle electrification, transit, and more.

New York is in the process of developing an economy-wide cap-and-invest [program](#), following the 2019 enactment of the [Climate Leadership and Community Protection Act \(CLCPA\)](#).

The revenues from the New York Cap-and-Invest (NYCI) program will be invested in promoting emission reductions, ensuring affordability for New Yorkers, and providing benefits to disadvantaged communities. State law directs that any revenues generated from regulations or actions to meet the state's GHG reduction targets go into an account at the New York State Energy Research and Development Authority (NYSERDA) and then be transferred as follows: not less than 30% to the NY Climate Action Fund Consumer Climate Action Account (for distributions to help reduce potential increased costs for consumers); up to 3% to the NY Climate Action Fund Industrial Small Business Climate Action Account (to help reduce potential increased costs to industrial small businesses); and not less than 67% to the

NY Climate Action Fund Climate Investment Account (to aid in the transition to a less carbon-intensive economy, including climate mitigation, energy efficiency, clean transportation, and other projects). (Public Authorities Law [§ 1854](#); State Finance Law [§ 99-qq](#))

The CLCPA also directed agencies to invest resources such that disadvantaged communities receive at least 35% of the benefits of spending on clean energy and energy efficiency programs and projects, with a goal of 40%. ([§ 75-0117](#)) Following the direction of the CLCPA, one of the [core principles](#) of the proposed NYCI program is investing in disadvantaged communities. Two [recent studies](#) found that higher allowance prices in NYCI could make low-income populations better off by increasing the amount of money that can be invested in community priorities and returned as dividends (as well as by spurring greater reductions in both GHGs and co-pollutants). These studies both projected that NYCI could generate billions of dollars of revenue for investment every year.

The Regional Greenhouse Gas Initiative (RGGI) — a cooperative regional cap-and-invest [program](#) among several Northeastern and Mid-Atlantic states (including Maryland) that covers just the electric power sector — sends the revenues from allowance auctions back to each state for investment. Since RGGI's launch in 2009, its auctions have [generated](#) more than \$9 billion in proceeds. (Maryland alone has [received](#) more than \$1.6 billion in RGGI auction proceeds.)

Each RGGI state has discretion in how it invests auction proceeds, but as a whole, as of 2023, [state investments](#) generally have gone towards energy efficiency (56% of cumulative investments), clean and renewable energy (12%), emissions abatement and climate

adaptation (7%), beneficial electrification (5%), and direct bill assistance (15%). In 2023, around 36% of state investments went towards environmental justice and equity, including clean transportation, electrification infrastructure, and low-income rate relief, weatherization, and efficiency.

In Maryland, RGGI money flows into the Strategic Energy Investment Fund (SEIF). As of

2023, Maryland had directed 48% of RGGI funds to direct bill assistance, 28% to energy efficiency, 8% to clean and renewable energy, and 10% to emissions abatement and climate adaptation. In 2023, Maryland RGGI investments included low-income bill payment, low- and moderate-income energy efficiency programs, state and city energy efficiency projects, clean transportation, solar incentives, research and development, and more.

Discussion

The experiences and approaches of other North American jurisdictions can be instructive in considering how Maryland should invest the revenues generated by a cap-and-invest program.

The other jurisdictions with cap-and-invest programs (or plans to develop such a program) — all of which have raised (or expect to raise) billions of dollars from allowance auctions — have some similarities in their approaches to revenue investment. All of the jurisdictions focus investments on climate-related measures, but they do not do so in a narrow way. Given the scale of available funding and the wide range of programs that need it, they have chosen to invest with a wide lens, supporting programs across the entire array of climate mitigation and adaptation/resilience. Some jurisdictions have also supported workforce development and other efforts that are needed to support a low-carbon transition. In addition, Washington, New York, and RGGI states devote (or plan to

devote) funding to ensure energy affordability, via dividends, vouchers, or bill assistance.

Another similarity across jurisdictions (though to a lesser extent with Quebec) is a focus on ensuring that revenue investments provide benefits to disadvantaged communities. California, Washington, and New York have explicit minimum investment goals, while California, RGGI, and Washington highlight some of the many ways that cap-and-invest revenues can be invested to provide benefits to overburdened and disadvantaged communities. Those programs have made numerous investments in transportation, weatherization, clean energy, energy efficiency, urban canopy, affordable housing, and much more.

What Should Maryland Do?

MDE has discussed the possibility of developing an economy-wide cap-and-invest program to close an emissions gap and raise the substantial revenues needed to support the sectoral programs in its *Climate Pollution Reduction Plan*. How to invest those revenues is a key element to consider; to achieve climate goals, the investment

of revenues in climate-related solutions is just as fundamental as the establishment of an emissions cap.

MDE's [Climate Pollution Reduction Plan](#) lists programs related to electricity, transportation, buildings, industry, waste, agriculture, and forestry and land use, which will be necessary for meeting the state's GHG reduction targets. The CPRP also describes the need for new public investment of around \$1 billion annually in measures such as: home energy efficiency and electrification incentives; commercial, multifamily, and institutional building incentives; electric vehicle incentives; industry, public infrastructure, and nature-based solutions incentives; workforce development; consumer education efforts; and a climate transition and clean energy technical support hub. These needs come against the backdrop of a difficult state budget picture and the cessation (if not claw-back) of federal funds for climate and clean energy efforts.

In light of all this, and given the experience in other jurisdictions, it seems preferable for investment of auction revenues from a Maryland cap-and-invest program to be done with a wide lens, supporting a diverse array of programs (such as those described in the CPRP). In addition to explicit "climate" programs, Maryland should consider supporting clean energy workforce development efforts. Maryland could also consider using a portion of the revenues to provide dividends to low- and moderate-income households to counteract any

potential regressive effects of a carbon price. Short-term measures could be adopted to temporarily direct a greater percentage of revenues to support immediate needs (e.g., the state budget, fired federal workers), but there is much to be done to address climate mitigation and resilience needs, and many programs in need of investment.

As noted in [CLPP issue brief #9](#) on equity, Maryland should also ensure that investment of auction revenues provides benefits to disadvantaged communities and vulnerable populations, aiming to meet the 40% minimum goal laid out in a 2024 [executive order](#) from Governor Moore. MDE [tracks](#) state spending on GHG reductions, including the percentage benefitting disproportionately affected communities, and it was around 31% in FY24. MDE should continue to try to ensure that a meaningful percentage of the overall benefits from revenue investments flows to those communities.

Given the range of potential needs and priorities, combined with the difficult state financial picture, it will be important for MDE to get input on and build public and political support for investment priorities and decisions. A robust stakeholder engagement process regarding investment of cap-and-invest revenues is strongly recommended.