Department of Planning and Budget
2018 Fiscal Impact Statement

1. **Bill Number:** HB1273

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Bulova

3. **Committee:** Commerce and Labor

4. **Title:** Virginia Alternative Energy and Coastal Protection Act.

5. **Summary:** Directs the State Air Pollution Control Board to adopt regulations establishing a carbon dioxide cap and trade program to reduce emissions released by electric generation facilities. The regulations are required to comply with the Regional Greenhouse Gas Initiative (RGGI) model rule. The measure authorizes the Director of the Department of Environmental Quality (DEQ) to establish, implement, and manage an auction program to sell allowances into a market-based trading program. The measure requires revenues from the sale of carbon allowances, to the extent permitted by Article X, Section 7 of the Constitution of Virginia, to be deposited in an interest-bearing account and to be distributed without further appropriation (i) to the Virginia Shoreline Resiliency Fund, (ii) to the VirginiaSAVES program, (iii) for certain programs in Southwest Virginia, and (iv) for administrative expenses.

6. **Budget Amendment Necessary**: See item 8, below.

7. **Fiscal Impact Estimates:** Preliminary.

8. **Fiscal Implications:** This bill directs the State Air Pollution Control Board to develop and adopt regulations consistent with the RGGI model rule establishing a carbon dioxide (CO2) cap and trade program to limit and reduce the total carbon dioxide emissions released by electric generation units that generate electricity, and providing for the sale of 100 percent of all allowances issued each year through an allowance auction. Additionally, this bill authorizes the Director of DEQ to establish, implement and manage an auction program; the proceeds from any such auction are to be held in an interest bearing account. DEQ is also required to prepare an annual report describing the Commonwealth's participation in RGGI, and the revenues collected and expended, beginning in FY 2020.

   The bill further provides for the deposit of 35 percent of the revenue to the Virginia Shoreline Resilience Fund, 30 percent to the VirginiaSAVES program to support energy efficiency programs, 20 percent to the VirginiaSAVES program to support renewable energy programs; 10 percent to an unidentified account to support economic development, education, and workforce training programs in Southwest Virginia to revitalize communities adversely affected by the decline of fossil fuel production, and five percent is to be used to cover administrative expenses of DEQ and the Department of Mines, Minerals, and Energy

(DMME). DMME is required to review and approve all funding proposals for energy efficiency programs and renewable energy programs that will be financed under VirginiaSAVES. In addition, DMME is required to develop guidelines for the use of the revenue toward economic development, education, and workforce training programs in Southwest Virginia.

The Virginia Shoreline Resiliency Fund is administered by the Department of Emergency Management and managed by the Virginia Resources Authority (VRA). The Code requires localities to use moneys from the Fund primarily for creating a low-interest loan program to help residents and businesses that are subject to recurrent flooding, and allows for moneys in the Fund to be used to mitigate future flood damage.

VirginiaSAVES is a public/private partnership sponsored by DMME to provide subsidized financing for energy efficiency, renewable energy, and alternative fuel loans for both private and local government properties and entities within the Commonwealth of Virginia. Partners include the Virginia Small Business Financing Authority, VRA. Eligible borrowers under the program include local governmental, non-profit institutional, commercial, and industrial businesses.

The bill does not specify which agencies will implement the economic development, education, and workforce training programs in Southwest Virginia, or how their costs may be addressed.

Under the provisions of the bill, DEQ and DMME are permitted to use up to five percent of the revenue to cover reasonable administrative expenses. DEQ anticipates expending $95,000 annually to support one position and address any expenses RGGI may charge. The position will be responsible for establishing the program's framework, coordinating program requirements with RGGI, DMME, localities, and other entities, preparing the annual report, and administering the cap and trade program. DMME anticipates needing $200,000 annually and two positions to develop and administer the energy efficiency programs, renewable energy programs, and economic development, education, and workforce training programs in Southwest Virginia.

The revenue impact is indeterminate, and will depend on supply and demand. However, DEQ estimates potential annual revenue of $174.9 million to $208.5 million.

9. **Specific Agency or Political Subdivisions Affected:** Department of Environmental Quality, Department of Mines, Minerals and Energy, Department of Emergency Management; Virginia Resources Authority, State Corporation Commission, Virginia Small Business Financing Authority, localities.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** The bill states that the funds are to be disbursed without further appropriation. It is unclear how this may occur. Expenditures by state agencies require an appropriation.

A regulation for emissions trading (9 VAC 5-140) is currently in the public comment period through April 9, 2018.