Department of Planning and Budget
2009 Fiscal Impact Statement

1. **Bill Number:** SB1345

House of Origin	___ Introduced	___ Substitute	_X_ Engrossed
Second House	_X_ In Committee	___ Substitute	___ Enrolled

2. **Patron:** Wagner

3. **Committee:** Commerce and Labor

4. **Title:** **Energy efficiency in state government.**

5. **Summary:** This bill establishes a goal of reducing the annual cost of nonrenewable energy purchases by each executive branch agency and institution by at least 20 percent of fiscal year 2008 expenditures by fiscal year 2012. Such agencies and institutions are required to implement energy efficiency measures that have a payback period of five years or less, as general fund appropriations become available to the state agency. The measure also requires that any state body entering the design phase for construction of a new building or renovation of an existing building meets certain requirements, shall conform to the U.S. Green Building Council's Leadership in Energy and Environment Design (LEED) rating system or Green Building Initiative green building standard, and shall achieve energy savings that exceed the American Society of Heating, Refrigerating and Air-Conditioning Engineers Standard 90.1-2004 by at least 15 percent for new construction and ten percent for major renovation. In addition, water systems shall be required to provide water use savings of at least 25 percent over the baseline standard established in the federal Energy Policy Act of 1992. The bill includes authority for the Department of General Services to grant an exemption from the design and construction standards of this bill upon a finding of special circumstances that make construction to the standards impractical.

6. **Fiscal Impact Estimates:** Indeterminate, see Item 8.

7. **Budget Amendment Necessary:** No.

8. **Fiscal Implications:**

   <u>Energy Reduction Goal</u>
   This bill requires that all executive branch agencies and institutions make it a goal to reduce their annual cost of nonrenewable energy purchases by at least 20 percent of FY 2008 expenditures by FY 2012.

   Based on information available through the state's accounting system, it is estimated that FY 2008 total state energy expenditures on nonrenewable resources (coal, gas, oil, steam, wood, electricity) was approximately $263 million in FY 2008 (actual expenditures are difficult to obtain as institutions of higher education are not required to report such expenditures in the central accounting database). However, based on this estimate, if all executive branch agencies are required to decrease their nonrenewable energy costs by at least 20 percent of fiscal year 2008 expenditures by fiscal year 2012, that would require a statewide reduction in purchase costs of approximately $52,600,000 by FY 2012.

The bill provides that, in order to meet this goal, agencies are to aggressively pursue: (1) energy-savings activities whose costs are recoverable in one fiscal year (i.e. replacing incandescent light bulbs with high-efficiency lighting), (2) energy-performance contracts, (3) larger capital energy-savings improvements, (4) alternate procurement techniques for energy, (5) renovations of existing buildings consistent with LEED, (6) reductions in transportation energy use requirements, and (7) purchase of renewable energy. While this bill only mandates that agencies make the efforts to achieve this goal, and does not mandate actual achievement of said goal, there are several barriers that agencies will incur in their efforts to attain the goal.

One such barrier is the fact that many agencies have already implemented energy efficiency efforts, and may not see significant reductions in out years as these efforts have already been made. The Department of Mines, Minerals and Energy (DMME), working through its Virginia Energy Management Program (VEMP) is continuing and expanding its efforts to implement energy efficiency projects and habits at all state agencies. DMME states that it is already performing this work and that this bill will not result in an additional fiscal impact on the agency as a result of having to assist agencies in implementing energy performance contracts.

A second factor to consider is the steady rise in energy prices that has occurred in recent years. Any efforts that agencies make to implement energy efficiency measures may reduce their consumption levels, but due to rising energy prices, this may only result in an avoidance of costs and not in actual savings to the agency.

The bill also suggests that agencies shift the type of energy purchased from nonrenewable, to more sustainable energy types. DMME states that current market prices are such that renewable energy costs twice as much as conventional energy. As the demand for sustainable energy increases, it is unknown if the cost of this energy will decline or rise. However, based on current market prices, if the state were to shift to purchasing renewable energy, just for electricity, and only for five percent of state's total electricity costs, DMME estimates this may cost the state an additional $10 million per year. As such, while shifting purchasing habits to nonrenewable energies would be in-line with the provisions of this bill, it may result in significant energy cost increases to agencies.

<u>Energy Projects with a Simple Payback Period</u>

This bill requires that all executive branch agencies and institutions occupying state-owned buildings implement energy efficient measures that have an aggregate simple payback period of five years or less and implies that funding for these projects is to come from general fund appropriations. This would create future general fund obligations for these projects. In addition, it is unknown if a five-year limit is practical within the standard contractual agreements with energy performance contracting entities.

<u>LEED, Green Globes Standard Requirements</u>

The bill requires adherence to specific building rating standards; specifically for any state body entering the design phase for construction of a new building greater than 5,000 gross square feet in size, or renovation of an existing building where the cost of renovation exceeds 50 percent of the value of the building. According to this bill, such projects shall conform to the U.S. Green Building Council's Leadership in Energy and Environment Design (LEED) rating system or Green Building Initiative green building standard ("Green Globes"), and shall achieve energy savings that exceed the American Society of Heating, Refrigerating and Air-Conditioning Engineers Standard 90.1-2004 (Energy Standard for buildings Except Low-Rise Residential Buildings) by at least 15 percent for new construction and ten percent for major renovation. In addition, water systems designed for such buildings shall be required to provide water use savings of at least 25 percent over the baseline standard established in the federal Energy Policy Act of 1992. The bill includes authority for the Department of General Services (DGS) to grant an exemption from the design and construction standards of this bill upon a finding of special circumstances that make construction to the standards impractical.

DGS states that they do not expect this bill to have a fiscal impact on its agency.

Other

The bill mandates that DMME maintain a system to monitor and report on progress made towards meeting this goal; DMME does not anticipate an additional fiscal impact on their agency as a result of this requirement.

This bill also requires that all executive branch agencies report their progress towards the energy-savings goals as part of the Governor's Management Scorecard, Resource Stewardship objective. While this may create additional workload for all executive branch agencies to track and report this data, it is anticipated that these costs can be absorbed by the individual agencies. It should be noted, however, that some agencies are not located in space that is separately metered. In these instances, measuring energy consumption may be difficult if not impossible.

9. **Specific Agency or Political Subdivisions Affected:** The Department of Mines, Minerals and Energy, Department of Planning and Budget, Department of General Services, all executive branch agencies.

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

11. **Other Comments:** This bill duplicates provisions that are already in effect in §4-4.01 u. of Chapter 879 of 2008 Acts of Assembly (Appropriation Act), which details restrictions regarding state funds used for these investments. However, this bill limits the scope of these projects to those provisions outlined, namely it restricts to only those that would qualify as an operating expense and not be subject to the capital budgeting process (i.e. total cost under $3.0 million, does not have a scope as defined in lines 35-39 of this bill).

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cc: Secretary of Commerce and Trade
Secretary of Finance