

Department of Planning and Budget 2010 Fiscal Impact Statement

1. Bill Number: SB129

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Stosch

3. Committee: Finance

4. Title: **Clean Energy Manufacturing Incentive Grant Program.**

5. Summary: This bill repeals the Solar Photovoltaic Manufacturing Incentive Grant Program and creates a program to provide financial incentives to companies that manufacture or assemble equipment, systems, or products used to produce renewable or nuclear energy, or products used for energy conservation, storage, or grid efficiency purposes. To be eligible for a grant, the manufacturer must make a capital investment greater than \$50 million and create at least 200 full-time jobs that pay at least the prevailing wage. The program would be managed by the Director of the Department of Mines, Minerals and Energy. The bill also includes an enactment clause stipulating that no grants shall be paid to an eligible entity before July 1, 2012.

6. Fiscal Impact Estimates: Preliminary.

7. Budget Amendment Necessary: No.

8. Fiscal Implications: This bill repeals the existing code section relating to the Solar Photovoltaic Manufacturing Grant program and replaces it with the Clean Energy Manufacturing Incentive Grant Program.

By creating the Clean Energy Manufacturing Incentive Grant Program, this bill expands eligibility for grants to other forms of alternative energy production than just solar photovoltaic, and makes several changes to the operation of the program, including:

(1) Adds the requirement that the terms of participation and the basis for grant awards are to be set-out in a Memorandum of Understanding (MOU) between the Department of Mines, Minerals and Energy (DMME), the Virginia Economic Development Partnership (VEDP), and the prospective manufacturer. It also requires a return on investment analysis to ensure that the return to the Commonwealth is positive. There is no MOU requirement under the current program.

(2) Adds the requirements that manufacturers meet a specific minimum investment threshold (\$50 million) and job creation threshold (200 full-time jobs) that pay at least the prevailing wage in the locality where the manufacturer commences/expands operations, in order to qualify for grant awards. This is an increase in the minimum investment threshold and job creation threshold from the current program. Companies will be eligible for grants if they

commence or expand manufacturing in the Commonwealth and meet these two requirements on or after July 1, 2010. The proposal also authorizes the Governor to reduce the capital investment and job creation thresholds if the manufacturer is located in a locality whose unemployment rate is one and one-quarter times the state average or more. The maximum number of years a manufacturer is eligible to receive a grant remains at its current limit of six years.

(3) Changes the program from an entitlement program to an eligibility program, subject to appropriation. According to this bill, in order to be eligible for grants, manufacturers must now enter into an MOU agreement with the state, and all grant payments due according to these MOUs are subject to appropriation. As the program currently stands, grants from the Solar Photovoltaic Manufacturing Incentive Grant Fund are made on a basis of entitlement to manufacturers who meet the basic requirements. The proposed changes in this bill will add several levels of analysis before grants are made from the newly-established Clean Energy Manufacturing Incentive Grant Fund to these manufacturers.

(4) Removes the option of awarding grants to manufacturers based on expansion of existing production capacity. Grants will only be awarded to companies who commence manufacturing in the Commonwealth on or after January 1, 2010, and who meet the capital investment and job creation thresholds on or after July 1, 2010.

(5) Authorizes the state to vary the payment rate depending on the MOU agreement. As currently written, Code specifications entitle manufacturers who sell solar photovoltaic panels made in Virginia to receive an annual grant of up to \$0.75 per watt of the rated capacity of panels, based on the extent of manufacturing that went into the product. The current ceiling is six million watts per year, or \$4.5 million at \$0.75 per watt manufactured and sold. This bill removes the codification of these stipulations and allows these details to be negotiated independently and authorized by MOU agreements.

To date, only two companies have participated in the program as is currently written, for a total of \$5,660,146 in grants from the Solar Photovoltaic Manufacturing Incentive Grant Fund (payments made over a period of seven years). No outstanding obligations remain under the current program.

The total number and size of companies that would qualify for future grants is indeterminate at this time. However, it is likely that this bill will create future funding obligations.

Stipulations of the bill limit the aggregate amount of grants awarded and outstanding at any given time to **\$25 million**, including grants with payments that stretch between fiscal years. However, the bill also includes an enactment clause stipulating that no grants shall be paid to an eligible entity before July 1, 2012, and gives provisions for prioritizing allocations from the Fund in years where the appropriation is less than obligations on the Fund.

Both DMME and VEDP expect to be able to absorb any operating costs incurred related to workloads associated with this bill.

Specific Agency or Political Subdivisions Affected: Department of Mines, Minerals and Energy, Virginia Economic Development Partnership Authority, Secretary of Commerce and Trade, Department of Treasury, Department of Accounts.

10. Technical Amendment Necessary: No.

11. Other Comments: SB129 and HB1037 also repeal the Solar Photovoltaic Manufacturing Incentive Grant Program and creates the Clean Energy Manufacturing Incentive Grant Program.

Note: HB1037 and SB171 define a “clean energy manufacturer” as “a manufacturer whose primary functions is to manufacture or assembly equipment, systems, or products used to produce renewable or nuclear energy, *or for energy conservation or efficiency purposes...*”.

This bill defines a “clean energy manufacturer” as “a manufacturer whose primary functions is to manufacture or assembly equipment, systems, or products used to produce renewable or nuclear energy, *or products used for energy conservation, storage, or grid efficiency purposes...*”.

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