Department of Planning and Budget
2017 Fiscal Impact Statement

1. **Bill Number:** HB2018

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron:** Villanueva

3. **Committee:** Commerce and Labor

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

5. **Summary:** Requires the Governor to seek to join the Regional Greenhouse Gas Initiative or other carbon trading program with an open auction of carbon allowances. The Department of Environmental Quality (DEQ) is directed to establish a carbon dioxide cap and trade program to reduce emissions released by electric generation stations. The revenues from the sale of carbon allowances are to be deposited in the Virginia Shoreline Resiliency Fund, a revolving fund established in 2016 for the purposes of mitigating future flood damage and creating a low-interest loan program to help residents and businesses that are subject to recurrent flooding.

6. **Budget Amendment Necessary**: Yes, Item 369 HB1500/SB900. See item 8, below for additional detail.

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

7a. Expenditure Impact: Item 369

Fiscal Year	*Dollars*	*Positions*	*Fund*
2017			
2018	$95,000	1.0	GF
2019	$95,000 - $295,000	1.0	GF
2020	$95,000 - $295,000	1.0	GF
2021	$95,000 - $295,000	1.0	GF
2022	$95,000 - $295,000	1.0	GF
2023	$95,000 - $295,000	1.0	GF

7b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2017		
2018		
2019	$250,000,000	NGF
2020	$250,000,000	NGF
2021	$250,000,000	NGF
2022	$250,000,000	NGF
2023	$250,000,000	NGF

8. **Fiscal Implications:** It is anticipated that this bill will have a general fund expenditure impact and a nongeneral fund revenue impact. The revenue impact, above, anticipates Virginia becoming a full participant in the RGGI rather than another carbon trading program. If Virginia were to join another trading program, then the revenue estimate for the sale of carbon allowances in table 7b above, could increase/decrease depending on the number of other participants included in the trading program and the ultimate trading price. The bill requires the deposit of any such revenue to the Virginia Shoreline Resiliency Fund. The Fund is available to localities primarily for the purpose of creating a low-interest loan program to help residents and businesses that are subject to recurrent flooding as confirmed by a locality-certified floodplain manager. Moneys in the Fund may be used to mitigate future flood damage.

    The expenditure estimate in table 7a above reflects the anticipated expenditure impact to the Department of Environmental Quality (DEQ). Under the provisions of this bill, DEQ is required to develop a new program, a carbon dioxide cap and trade program to reduce emissions released by electric generation stations. It is anticipated that DEQ will require additional resources to implement this new program. If Virginia is a full participant in the RGGI, it is anticipated that DEQ will need $95,000 annually and one position. However, if Virginia does not participate in RGGI, it is anticipated that DEQ, once auctions of allowances begin, will require an additional $200,000 annually for a consultant with expertise in conducting auctions. Executing auctions is not an activity DEQ currently undertakes.

    This position's responsibilities will include establishing the framework for the program, which DEQ anticipates to be large and complex, coordinating program requirements with localities and other entities, coordinating with RGGI, coordinating with the Virginia Department of Emergency Management (VDEM), preparing an annual report to be submitted to the General Assembly, and administering and supervising the cap and trade program. Statutorily, VDEM is responsible for establishing guidelines regarding the distribution of loans from the Fund and prioritization of such loans. At this time, any expenditure impact this bill may have on VDEM is unknown.

    According to DEQ, approximately 25 to 29 million tons of carbon allowances are estimated to be available each year. At an estimated price of $10 per ton, the overall revenue from this bill could generate $250.0 to $290.0 million annually that would be deposited to the Fund (the December 2015 auction price was $7.50 per ton, which could have resulted in $187.5 million). The final price is dependent on supply and demand, but $10 per ton is assumed for this estimate. (There is a possibility that revenue may not be realized until after FY 2019 if the decision were made to join a carbon trading program other than RGGI since additional administrative time made be needed.)

    In addition to VDEM's statutory responsibilities of establishing guidelines regarding the distribution of loans from the Fund and prioritization of such loans, the Virginia Resources Authority is responsible for establishing interest rates and repayment terms of such loans.

The proceeds from the sale of carbon allowances would be available to support: localities in implementing resilience efforts; investments in the promotion, development, and implementation of statewide distributed renewable energy development and energy efficiency programs; limiting greenhouse gas emissions from the energy sector; and, providing economic development assistance for families, businesses, and localities in Southwest Virginia to offset negative economic impacts associated with reduced fossil fuel production. An estimate of annual expenditures of the revenue generated from the sale of carbon allowance is indeterminate and will depend on market forces, the number of approved projects for which funding is sought and awarded, and other demand components.

9. **Specific Agency or Political Subdivisions Affected:** Departments of Environmental Quality and Emergency Management, Virginia Resources Authority, localities

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

11. **Other Comments:** SB1471, as introduced, is the companion to this bill.