Department of Planning and Budget
2020 Fiscal Impact Statement

1. **Bill Number:** HB981

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

2. **Patron:** Herring

3. **Committee:** Commerce Agriculture & Natural Resources

4. **Title:** Clean Energy and Community Flood Preparedness Act; fund.

5. **Summary:** Directs the Department of Environmental Quality to incorporate into regulations previously adopted by the State Air Pollution Control Board certain provisions establishing a carbon dioxide cap and trade program to reduce emissions released by electric generation facilities. Such provisions are required to comply with the Regional Greenhouse Gas Initiative (RGGI) model rule. The bill authorizes the Director of the Department of Environmental Quality to establish, implement, and manage an auction program to sell allowances into a market-based trading program. The bill 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 Community Flood Preparedness Fund, (ii) to the Department of Housing and Community Development for low-income energy efficiency programs, (iii) for administrative expenses, and (iii) for statewide climate change planning and mitigation activities. The bill continues the Virginia Shoreline Resiliency Fund as the Virginia Community Flood Preparedness Fund for the purpose of creating a low-interest loan program to help inland and coastal communities that are subject to recurrent flooding.

6. **Budget Amendment Necessary**: No.

7. **Fiscal Impact Estimates:** Indeterminate. See item 8.

8. **Fiscal Implications:** This bill renames the Virginia Shoreline Resilience Fund the Virginia Community Flood Preparedness Fund, and moves responsibility for administering the Fund from the Department of Emergency Management (VDEM) to the Department of Conservation and Recreation (DCR). Additionally, this bill requires that the Fund be on the books of the Commonwealth. Previously, the Fund was not required to be part of the state books. Further, the bill requires that 45 percent of any revenue generated from the sale of emissions allowances sold through a market-based trading program consistent with the Regional Greenhouse Gas Initiative (RGGI) program are to be deposited to the Fund. Moneys in the Fund are to be used to support localities in implementing flood prevention and protection projects in areas that are subject to recurrent flooding, mitigating future flood damage, and to assist communities that are subject to recurrent or repetitive flooding.

The remaining 55 percent of any revenue generated from the sale of emissions allowances is to be deposited into subsequent accounts to support programs that the bill requires the Department of Housing and Community Development (DHCD) to implement, and to fund the costs incurred by DHCD, the Department of Environmental Quality (DEQ), and the Department of Mines Minerals and Energy (DMME) while implementing those programs. For the purposes of this impact statement, accounts is interpreted to mean fund.

The proposed legislation states that, "To the extent permitted by Article X, Section 7 of the Constitution of Virginia, [DEQ] shall (…) (ii) use the proceeds without further appropriation…." State expenditures require an appropriation. The bill does not identify where the 55 percent of revenue generated from the sale of emissions allowances and utilized by DHCD, DEQ, and DMME is to be deposited. These agencies will need appropriations in order to expend the revenue.

It is anticipated that this bill will have a fiscal impact to the Office of the Secretary of Natural Resources, the Virginia Resources Authority (VRA), the DEQ, DCR, DMME, and DHCD. It is anticipated that the Office of the Secretary of Natural Resources can absorb any fiscal impact resulting from this bill. VRA currently manages the Fund and is able to recover reasonable costs and expenses incurred in this capacity, and this bill will allow VRA to continue to be reimbursed for reasonable costs and expenses incurred in its management.

The bill allows DHCD and DMME to use a portion of the revenue generated from the sale of allowances to support the administration and implementation of the low-income energy efficient programs required by this bill. The proposed legislation provides DEQ with sufficient resources to support its administrative expenses.

DCR cannot determine the fiscal impact from this bill, as the revenue and scope of the program is unknown. Based on similar programs, DCR may require $116,000 for an additional grants manager to administer the program. DCR believes that it will be able to utilize moneys in the Fund to cover its expenses; however, this is not explicitly provided for in the bill. VDEM anticipates no fiscal impact from the proposed legislation.

DEQ anticipates that joining the RGGI program will generate proceeds that will vary in magnitude from year-to-year based on market fluctuations. Revenues for the coming six fiscal years are estimated to be between $104 million to $109 million, starting at the lower end of the range.

The proposed bill directs DEQ to manage a program that is consistent with RGGI, as opposed to directly joining RGGI. The cost to duplicate a program similar to RGGI is indeterminate. The impact estimates provided in this statement are based on full participation in RGGI.

9. **Specific Agency or Political Subdivisions Affected:** Department of Environmental Quality.

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

11. Other Comments: None.