

Department of Planning and Budget 2021 Fiscal Impact Statement

1. **Bill Number:** HB2118

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. **Patron:** Keam

3. **Committee:** Finance

4. **Title:** Electric Vehicle Grant Fund and Program; creation; report.

5. **Summary:** Requires the Department of Environmental Quality to establish the Electric Vehicle Grant Program (the Program) for the purpose of (i) awarding grants on a competitive basis to school boards for (a) assisting with the complete replacement of existing diesel school buses with electric school buses no later than 2031; (b) the implementation of recharging infrastructure or other infrastructure needed to charge or maintain such electric school buses; and (c) workforce development and training to support the maintenance, charging, and operation of such electric school buses and (ii) developing education outreach to promote the Program. The bill contains provisions relating to grant applications, priority, awards, and uses. The grants would be funded from a \$0.05 per gallon tax on dyed diesel fuel. Farmers would be eligible for a refund of the tax for dyed diesel fuel used for agricultural or horticultural purposes. The bill has an expiration date of July 1, 2031.

6. **Budget Amendment Necessary:** Yes. Item 438, HB1800/SB1100 (Department of Motor Vehicles). See Item 8 below.

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

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2021	\$32,250	-	NGF
2022	\$3,200,000	43	NGF
2023	\$3,200,000	43	NGF
2024	\$3,200,000	43	NGF
2025	\$3,200,000	43	NGF
2026	\$3,200,000	43	NGF
2027	\$3,200,000	43	NGF

8. **Fiscal Implications:** This fiscal impact estimate is preliminary and will be updated with additional information as information becomes available.

This bill establishes a new program within the Department of Environmental Quality (DEQ), to be funded through a tax at the rate of five cents per gallon on dyed diesel fuel. Moneys are to be deposited into the Electric Vehicle Grant Fund, which is also established by this measure. Agricultural users can obtain a refund of the tax for dyed diesel fuel if they have a United States Department of Agriculture (USDA) identification number and the fuel is used for agricultural or horticultural purposes.

Any revenue impact as a result of this bill is indeterminate as it depends on the net number of taxable gallons after agricultural refunds are issued, which is unknown as this data is not currently collected. On the assumption that 25 percent of dyed diesel fuel is used for agriculture, and that all qualifying farmers claim a refund, the Department of Taxation (TAX) estimates that revenues from agricultural refunds could be \$9.7 million in FY 2022 and \$10.6 million annually thereafter. However, again, TAX lacks data on the actual portion of dyed diesel fuel that is used in agriculture, versus construction and home heating.

Department of Environmental Quality (DEQ)

According to DEQ, there are approximately 16,465 diesel public school buses currently operating in the Commonwealth. Eighty-four percent of these buses are Type C buses. The difference in cost between a new Type C diesel bus and a new Type C electric bus is estimated to be approximately \$265,000, which includes the necessary charging infrastructure. Based on these numbers, it is estimated that over \$4.0 billion may be needed to replace the current diesel fleet operating in the Commonwealth.

For program implementation, DEQ anticipates a need of at least three FTEs for development and management, fund management, grant solicitations and distribution, and reporting. These FTEs have an estimated cost of \$115,500 per position excluding any indirect costs, or a total of \$346,500 annually. Staffing and any other administrative costs would be funded from tax revenue collections. Revenues need to be collected before any program administration or grants are distributed. An appropriation would be needed at that time.

Department of Motor Vehicles (DMV)

According to DMV, this bill will impact two agency tax services systems: the VAETS system for filing tax returns and the Fuels Tax Refund system. DMV's vendor has estimated that changing the VAETS system to collect the dyed diesel tax would require 215 hours of design, and cost \$32,250 to implement. The Fuels Tax Refund System would require a new refund type and a data link to USDA to verify that the farmer has a valid USDA identification number. DMV expects this to exponentially increase the number of refund applications, so additional server space may be required for the refund system to handle increased applications.

DMV Tax Services also would need additional resources to implement the refund portion of this bill. According to the Virginia Department of Agriculture and Consumer Services (VDACS), there were 43,225 farms in Virginia as of 2017. If half of those farms apply for a refund, and they apply for a refund once a quarter, there could be 86,450 new applications from farmers for Tax Services to process. In calendar year 2020, Tax Services processed

5,300 refund applications for all application types for the whole year, and there are currently 3 FTEs assigned to examining refunds. Based on current workloads, Tax Services estimates it would need a minimum of 43 tax examiners to process agricultural dyed diesel refunds. DMV would require a budget amendment to increase the maximum employment level for the agency in order to fulfill these new employment needs. The estimated cost to support these positions is \$3.2 million annually.

In addition to the costs for DMV's vendor, this legislation will require system programming changes, costing \$27,451. The 380 staff hours required can be accomplished during the normal work schedules for DMV employees, given current workloads. The bill does not authorize DMV to recover its administrative costs from the Fund so DMV has indicated that it will utilize its Motor Vehicle Special Fund for that purpose. Any impact this may have on the department's other programs and activities is unknown at this time.

Department of Education and Direct Aid to Public Education

It is anticipated that this bill will not have a fiscal impact on the Department of Education. The additional state cost for the grant program cannot be determined, as any cost is dependent on the amount of funding appropriated by the General Assembly for such grants. A reduction in RSUT revenue may reduce the amount of sales tax revenue directed to local school divisions through Direct Aid to Public Education. According to DMV, dyed diesel will no longer be subject to RSUT. No immediate state fiscal impact under Direct Aid to Public Education is anticipated but any change to the school bus requirements for local school divisions could affect local costs for bus-related expenditures and eventually impact the state cost for the school bus formula in the Standards of Quality. Any actual fiscal impact to the state or localities is indeterminate.

9. Specific Agency or Political Subdivisions Affected: Department of Environmental Quality; Department of Taxation; Department of Education; Direct Aid to Public Education; local school divisions.

10. Technical Amendment Necessary: No.

11. Other Comments: None.