

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5500-01
Bill No.: HB 2442
Subject: Administration, Office of; Energy; Environmental Protection; Housing
Type: Original
Date: April 14, 2008

Bill Summary: This proposal creates requirements and provides incentives for environmentally sustainable buildings.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Unknown greater than \$343,173)	(Unknown greater than \$412,718)	(Unknown greater than \$925,100)
Total Estimated Net Effect on General Revenue Fund	(Unknown greater than \$343,173)	(Unknown greater than \$412,718)	(Unknown greater than \$925,100)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
State Facility Maintenance & Operations Fund	(\$93,385)	(\$113,677)	(\$116,864)
Conservation Fund	(Unknown)	(Unknown)	(Unknown)
Parks and Soil Fund	(Unknown)	(Unknown)	(Unknown)
School District Trust Fund	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown over \$93,385)	(Unknown over \$113,677)	(Unknown over \$116,864)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Department of Natural Resources	5 FTE	5 FTE	5 FTE
Office of Administration	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	6 FTE	6 FTE	6 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 8.810.3 Design Documents

Officials at the **Department of Natural Resources** assume this would require any design documents submitted under this section to include a projection of the energy savings that would result from the design features that are employed. Projection of energy savings on designs would require the department's Division of State Parks (DSP) to hire a person with expertise in energy cost projection. DSP assume they would request one (1) Design Engineer III to implement this provision of the proposal.

Section 8.812 Energy Standards for State Buildings

Officials at the **Office of Administration's Division of Facilities Management, Design and Construction (FMDC)** assume they would need a Professional Engineer (civil, electrical, mechanical, structural engineering or engineering management) at a salary of \$69,456 to handle the compliance of the new requirements.

Officials at the **Department of Conservation (MDC)** assume this proposal would effect MDC funds due to additional construction costs and certification process for LEED. The exact amount of impact is unknown.

In response to similar legislation filed this year, officials at the **University of Missouri** assume the impact of this proposal is difficult to determine. It will fluctuate but could cost more than \$1,000,000 on a given year.

Officials at the **Missouri State University** assume purchasing energy star appliances is more expensive but does save some costs from operating. The fiscal impact is unknown.

Officials at the **Lincoln University** assume modest fiscal impact in the form of increased costs for both design and construction.

Officials at the **University of Central Missouri** assume that the cost of infrastructure replacement of equipment to achieve a 15% utilities reduction could cost at least one million for the HVAC system update. Additionally to achieve the weatherization in the form of window replacement and door replacement could cost at least ten million.

Oversight assumes that the costs of this proposal to Colleges and Universities is not state revenue. Additionally, Oversight assumes that the Colleges and Universities will raise tuition to

ASSUMPTION (continued)

cover any costs associated with this proposal.

Section 8.852 10% Renewable Energy Source

Officials at the **Department of Natural Resources** assume no direct impact to the department, technical support or energy-related information and/or data, including energy sustainability, renewable energy and green building information/data as stipulated in section 640.157 may be requested or supplied by the department to the meet the requirements of this section.

Officials at the **Missouri State University** assume it is difficult to estimate the fiscal impact of renewable energy.

Section 135.032 Green Building Tax Credit

Officials at the **Department of Natural Resources** assume this would require the department to administer a tax credit program beginning January 1, 2010, promulgate rules and certify that applicants have met all program requirements prior to receiving state certification authorizing the tax credit. It is assumed that tax credits and their recipients would be tracked in the Missouri Consumer Management System administered by the Department of Economic Development. The department assumes we would request one (1) Energy Engineer II and .5 Office Support Assistant to implement this portion of the proposal. The tax credit is capped at \$1 million annually.

Officials at the **Department of Revenue** assume computer changes and changes to the tax forms would be required. Additionally, Personal Tax would require one Tax Processing Technician for every 6,000 credits claimed. Corporate Tax would require one Tax Processing Technician I for every additional 5,200 returns to be verified and 2,080 additional pieces of correspondence generated. Customer Assistance would require two Tax Collection Technician I's and 3 Tax Processing Technician I's.

Oversight assumes that since the tax credit does not begin until January 1, 2010 then no more than half of the \$1 million tax credit could be distributed in FY 2011.

Section 143.121 Adjusted Gross Income Deduction

Officials at the **Budget and Planning** assume the legislation's proposed section 143.121.9 adds an income tax deduction for the purchase price, up to \$1000, of energy-star appliances. US BEA consumption data does not have an explicit category for appliances, but these data suggest a substantial portion, perhaps 1% of expenditures, may be made on appliances each year. Missourians file an estimated 2.6 million tax returns each year. Assuming 10% of these

ASSUMPTION (continued)

taxpayers purchase a qualifying appliance, at \$1,000, this would be an expenditure (and thus income tax deduction) of \$260 million. At an effective tax rate of 4.5%, this could reduce general and total state revenues by \$11.7 million.

Officials at the **Department of Revenue (DOR)** assume this section allows a new subtraction of 50% of the cost incurred by a taxpayer for a qualified home energy audit, from the taxpayer's federal adjusted gross income, to the extent the amount paid for such audit is included in federal taxable income. In addition this allows a new subtraction of 100% of the purchase price paid, not to exceed \$1,000, for energy star products purchased within the taxable year, shall be subtracted from the taxpayer's federal adjusted gross income, to the extent the amount paid for such products is included in federal taxable income. This will reduce general and total state revenue by an unknown amount.

DOR assumes this would require individual income tax form and instruction changes as well as changes to the MINITS, COINS and CAFE systems. Additionally, Personal Tax would require one Tax Processing Technician for every 19,000 credits claimed returns to be verified and one Tax Processing Technician I for every additional 2,400 pieces of correspondence generated. Additionally they would need two Temporary Tax Employees for key-entry.

Section 144.526 Show Me Green Sales Tax Holiday

Officials at the **Department of Natural Resources** assume this creates a tax abatement period of 7 days to extend from April 19 and ending April 25 annually beginning in 2009. Certain appliances that reflects the "ENERGY STAR" label are exempt from state and local sales tax during that period. Political subdivisions may adopt ordinances to opt-out of this sales tax holiday. The Department's Parks and Soil Fund, the Conservation Fund and the School District Trust Fund in addition to General Revenue would be effected by a sales tax exemption.

Officials at the **Department of Revenue** assume changes to the computer systems would be required. Additionally the Department believes it can absorb the cost of any needed staff with existing resources.

Officials at the **City of West Plains** assume a possible negative impact on the city.

Officials at the **City of Centralia** assume the impact is zero if the Board votes to be exempt from the sales tax holiday. Otherwise a loss of sales tax receipts less than \$2,000 per year.

Officials at the **Budget and Planning** assume this proposal would exempt the purchases of

ASSUMPTION (continued)

"Energy Star" certified appliances from sales tax for the seven day period beginning April 19th and ending April 25th, starting in 2009. Based on Personal Consumption data as provided by the US Bureau of Economic Analysis, sales of qualifying appliances would be approximately 0.04% of annual retail sales. Gross GR sales tax collections in FY07 were \$1,977.7M. Therefore, general and total state revenues would be reduced by proposed section 144.526 in the following ways, beginning in FY09:

Reductions (\$million)	
General Revenue	.791
Prop C	.264
Conservation	.033
DNR	.026
Total	1.114

Section 640.153 Energy Auditors

Officials at the **Department of Natural Resources** must certify qualified home energy auditors as required under subsection 8 of section 143.121, RSMo. The department assumes we would request a .5 Energy Specialist II to implement this portion of the proposal.

Oversight assumes the half an Energy Specialist II position can be absorbed with existing resources.

Section 640.157 Energy Center

Officials at the **Department of Natural Resources** assume they are to serve as a central point of coordination for activities relating to energy sustainability in the state. The department assumes we would request two (2) Energy Engineer II's and .5 Office Support Assistant to implement this portion of the proposal.

Oversight has, for fiscal note purposes only, changed the starting salary for the Energy Engineer II and the Office Support Assistant to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months of FY 2002 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

ASSUMPTION (continued)

Section 640.216 Studies in Energy Conservation Fund

Officials at the **Department of Natural Resources** assume this creates the "Studies in Energy Conservation Fund" and the fund would be administered by the department. Following the initial appropriation from the fund, in the College of Natural and Applied Sciences of Missouri State University (MSU), a full professorship in energy conservation would be established. Following the establishment of this professorship at MSU, the department could request appropriations to create similar professorships at any public university within the state. The primary responsibilities of these professorships is to conduct studies and research regarding energy efficiency and renewable energy, including evaluation of policy proposals and legislation relating to energy efficiency and renewable energy. The department would collaborate with the professor(s) and provide oversight of this new fund. The department assumes we would request .5 Planner III to implement this portion of the proposal.

Officials at the **Missouri State University** assume it is estimated that the full-year ongoing costs for such a professorship would be \$97,345 including fringe benefits. In addition MSU estimates it would take \$150,000 to \$200,000 in one-time start up funds to recruit a professor and to begin the program.

Oversight assumes the half a Planner III position can be absorbed with existing resources.

Oversight assumes that the costs of this proposal to Missouri State University is not state revenue. Additionally, Oversight assumes that Missouri State University will raise tuition to cover any costs associated with this proposal.

Oversight assumes that the Department of Revenue can absorb the costs of the computer changes, tax form changes and staff with existing resources. Should the volume of work exceed what present staff can handle then the Department can request appropriations through the appropriations process.

Officials at the **Department of Higher Education, Metropolitan Community College, Administrative Hearing Commission, Department of Economic Development, Linn State Technical College, St. Louis County, Budget and Planning** and the **Missouri Department of Transportation** assume that there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain

ASSUMPTION (continued)

amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Cost</u> - Dept. of Natural Resources			
Tax Credits	\$0	\$0	\$0 to \$500,000)
<u>Cost</u> - Dept. of Natural Resources			
Personal Services	(\$183,000)	(\$226,188)	(\$232,974)
Fringe Benefits	(\$80,923)	(\$100,020)	(\$103,021)
Expense and Equipment	<u>(\$79,250)</u>	<u>(\$86,510)</u>	<u>(\$89,105)</u>
<u>Total Costs</u> - Dept of Natural Resources	(\$343,173)	(\$412,718)	(\$425,100)
FTE Change - DNR	5 FTE	5 FTE	5 FTE
<u>Loss</u> - General Revenue			
Loss of tax revenue	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown greater than \$343,173)</u>	<u>(Unknown greater than \$412,718)</u>	<u>(Unknown greater than \$925,100)</u>
Estimated Net FTE Effect on General Revenue	5 FTE	5 FTE	5 FTE

**STATE FACILITY MAINTENANCE
& OPERATIONS FUND (SFMOF)**

Cost- SFMOF

Personal Service	(\$59,616)	(\$73,686)	(\$75,896)
Fringe Benefits	(\$26,362)	(\$32,584)	(\$33,561)
Expense and Equipment	<u>(\$7,407)</u>	<u>(\$7,407)</u>	<u>(\$7,407)</u>
Total Costs - SFMOF	<u>(\$93,385)</u>	<u>(\$113,677)</u>	<u>(\$116,864)</u>
FTE Change - SFMOF	1 FTE	1 FTE	1 FTE

**ESTIMATED NET EFFECT ON
STATE FACILITY MAINTENANCE
& OPERATIONS FUND**

(\$93,385) **(\$113,677)** **(\$116,864)**

Estimated Net FTE Change on
State Facility Maintenance & Operations
Fund

1 FTE 1 FTE 1 FTE

CONSERVATION FUND

<u>Cost</u> - LEED certification	(Unknown)	(Unknown)	(Unknown)
<u>Loss</u> - Sales Tax	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

**ESTIMATED NET EFFECT ON
CONSERVATION FUND**

(Unknown) **(Unknown)** **(Unknown)**

PARKS AND SOIL FUND

<u>Loss</u> - Sales Tax	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
-------------------------	------------------	------------------	------------------

**ESTIMATED NET EFFECT ON
PARK AND SOIL FUND**

(Unknown) **(Unknown)** **(Unknown)**

SCHOOL DISTRICT TRUST FUND

<u>Loss</u> - Sales Tax	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
-------------------------	------------------	------------------	------------------

**ESTIMATED NET EFFECT ON
SCHOOL DISTRICT TRUST FUND**

(Unknown) **(Unknown)** **(Unknown)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENT FUNDS			
<u>Loss</u> - Sales Tax	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

There could be an impact on businesses that sell energy efficient products.

FISCAL DESCRIPTION

This bill changes the laws regarding energy efficiency and conservation. In its main provisions, the bill:

- (1) Requires up to 10% of the funds appropriated each year for the Facilities Maintenance Reserve Fund to be used for otherwise eligible projects that are also energy projects with a 20-year payback or less;
- (2) Requires any appliance purchased with state funding to be an appliance that has earned the Energy Star under the Energy Star Program of the United States Department of Energy and the federal Environmental Protection Agency;
- (3) Requires the Division of Facilities Management, Design, and Construction within the Office of Administration to ensure that regular maintenance is conducted on the lighting, heating, ventilation, and air conditioning systems in all state buildings;
- (4) Requires design documents submitted to the division for new construction or substantial renovation of certain state buildings to include a projection of the energy savings of the building as a result of meeting the state minimum energy efficiency standard;
- (5) Requires the Department of Natural Resources, by January 1, 2009, to revise the minimum energy efficiency standard so that it is at least as stringent as the 2006 International Energy Conservation Code rather than the current standard of the American Society of Heating, Refrigerating, and Air Conditioning Engineers Standard 90. By July 1, 2009, all designs for state buildings involving new construction or substantial renovation and any building considered for purchase or lease by a state agency must meet the new minimum energy efficiency standard. Exemptions from the minimum standard may be granted for any state building for safety reasons

FISCAL DESCRIPTION (continued)

or when the cost of compliance is expected to exceed the energy cost savings;

(6) Requires, beginning July 1, 2016, at least 10% of the electricity used by the state government to come from renewable energy sources and, beginning July 1, 2026, at least 20% to come from renewable energy sources;

(7) Establishes the Green Building Tax Credit which authorizes, beginning January 1, 2010, a tax credit for individuals who construct a green building or green tenant space or rehabilitate an existing structure into a green whole or base building or green tenant space. The tax credit has a per-taxpayer cap of \$50,000 per year and an aggregate cap of \$1 million per year and can be refunded, transferred, sold, or assigned;

(8) Authorizes an income tax deduction of 50% of the cost of a qualified home energy audit conducted by an energy auditor certified by the Department of Natural Resources and an income tax deduction of 100% of the purchase price for energy star certified products, up to \$1,000 per taxpayer per year;

(9) Establishes the Show Me Green Sales Tax Holiday which specifies that, for 2009 and every year thereafter, during the seven-day period from April 19 to April 25, all retail sales of energy star certified appliances will be exempt from state and local sales tax;

(10) Requires the Missouri Energy Task Force to reconvene at least once each year to submit to the Governor and General Assembly an annual status report by December 31 on the task force's progress in meeting the recommendations made in its final report;

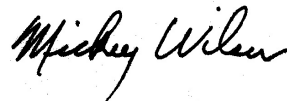
(11) Designates the energy center of the Department of Natural Resources as a central coordinator for energy sustainability activities in the state; and

(12) Creates the Studies in Energy Conservation Fund, consisting of appropriations and private donations, to establish a full professorship of energy conservation in the College of Natural and Applied Sciences of Missouri State University for research regarding energy efficiency and renewable energy. The provisions of the bill regarding the Green Building Tax Credit Program will expire three years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would require additional capital improvements or rental space.

SOURCES OF INFORMATION

City of West Plains
City of Centralia
University of Missouri
Metropolitan Community College
Administrative Hearing Commission
Department of Conservation
Department of Economic Development
Lincoln University
Department of Higher Education
Budget and Planning
Linn State Technical College
Office of the Secretary of State
Department of Elementary and Secondary Education
St. Louis County
Office of Administration
Missouri Department of Transportation
Department of Natural Resources
Department of Revenue
Missouri State University
University of Missouri



Mickey Wilson, CPA
Director
April 14, 2008