

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0081-03
Bill No.: SB 430
Subject: Administration, Office of; Construction and Building Codes; Elementary and Secondary Education Dept.; Energy; Environmental Protection; Political Subdivisions; Natural Resources Dept.; Taxation and Revenue - Income
Type: Original
Date: March 18, 2009

Bill Summary: Creates and modifies provisions pertaining to environmentally sustainable practices.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(Unknown greater than \$774,172)	(Unknown greater than \$788,510)	(Unknown greater than \$791,163)
Total Estimated Net Effect on General Revenue Fund	(Unknown greater than \$774,172)	(Unknown greater than \$788,510)	(Unknown greater than \$791,163)

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
State Facility Maintenance & Operations Fund	(\$98,717)	(\$119,844)	(\$122,880)
Facility Maintenance Reserve Fund	(Unknown over \$100,000)	(Unknown over \$100,000)	(Unknown over \$100,000)
Conservation Fun	(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 greater than \$98,717)	(Unknown greater than \$119,844)	(Unknown greater than \$122,880)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)

FUND AFFECTED	FY 2010	FY 2011	FY 2012
Department of Elementary and Secondary Education	1	1	1
Office of Administration	1	1	1
Total Estimated Net Effect on FTE	2	2	2

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 2010	FY 2011	FY 2012
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Higher Education** and **Department of Economic Development** assume there will be no fiscal impact to their agencies.

Section 8.824

Officials from **Lincoln University** assume there will be major fiscal impact to increased cost of construction.

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 cover any costs associated with this proposal.

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

Officials with the **Office of Administration, Division of Budget and Planning (BAP)** assume the Division of Facilities of Management, Design and Construction should provide the estimate of possible increased costs to the state as a result of the energy and environment related procurement and building requirements provided by sections 8.305 and 8.824 of the proposal.

Officials with the **Office of Administration, Division of Facilities Management, Design and Construction** assume this proposal would have a fiscal effect on their division.

Section 8.824 has an unknown fiscal impact for Capital Improvement (FMRF) and HB - 13 Real Estate Services. The impact is determined by the scope of work of construction, renovation and lease requirements. At a minimum, one FTE (SFMOF-0501) to review the various aspects of the silver-level certification.

Section 64.170

Officials from the **City of Centralia** assume they will have no fiscal impact to their city.

ASSUMPTION (continued)

Section 143.114

Officials from the **Office of the Secretary of State** (SOS) provided the following response.

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 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, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal. BAP also provided this estimate of the fiscal impact for the proposal.

This proposal would authorize any taxpayer who purchases a qualified hybrid vehicle to subtract from their adjusted gross income an amount equal to \$2,000 or ten percent of the purchase price of the vehicle, whichever is less. According to a 12/09/08 web publication by www.hybridreview.blogspot.com, there were 291,129 hybrid vehicle sold nationwide up until November 2008. If the current trend continues through December, about 317,595 hybrid vehicles would be sold in 2008. Approximately 68% of the total hybrid sales occur in the top 10 purchasing states. Since Missouri is not among the top 10 states, we can assume that Missouri hybrid sales accounts for 1/40 of the remaining sales, or a total of 2,568.

Therefore, this proposal could reduce Missouri Taxable Income by $(2,568 \times \$2,000) = \5.13 million. Assuming a 4.5% effective tax rate, this proposal would reduce general and total state revenues by \$231,081 annually beginning in FY09. This number is lower than previous year's estimate of \$347,900 due to reduced hybrid vehicle sales this year. However, BAP notes that sales may rise in the future.

Officials from the **Department of Natural Resources** do not anticipate any direct fiscal impact as a result of this proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a taxpayer who purchases a qualified hybrid motor vehicle to take a deduction from Missouri Adjusted Gross Income of \$2,000 or 10% of the purchase price, whichever is less, for all tax years beginning on or after January 1, 2010. The proposal would authorize the Director of Revenue to establish procedures by which the deduction may be claimed, and promulgate rules to implement these provisions.

Modifications to the MINITS system and tax forms would be required. Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns reviewed and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence.

DOR provided an estimate of the administrative cost to implement this proposal, including the two additional FTE and related equipment and expense, totaling \$90,618 for FY 2010, \$98,721 for FY 2011, and \$101,683 for FY 2012.

Oversight has estimated that qualifying vehicle sales for this proposal would be 2,779 for FY 2010, and assumes that DOR could process the returns with those additional deductions using existing resources. If unanticipated costs are incurred or if multiple requests are implemented which increase the DOR workload, resources could be requested through the budget process.

DOR also provided an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this proposal could be implemented utilizing two existing CIT III for one month for modifications to the MINITS system and three existing CIT III for two months for system modifications to COINS, Café, Corp E-file, and the EDW interface at an estimated total cost of \$31,087. ITSD/DOR assumes the IT portion of this proposal could be completed with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

ASSUMPTION (continued)

Oversight found an Automotive News report of 315,761 USA hybrid vehicle sales for 2008, a 9.9% reduction from 2007 sales. Oversight will use the BAP estimate of the percentage of hybrid sales for Missouri.

- * Accordingly, Missouri sales would represent $(2,568/291,129) = 0.88\%$ of USA sales.
- * Total hybrid sales for Missouri would be $(315,761 \times 0.88\%) = 2,779$ vehicles.
- * Those sales would result in $(2,779 \times \$2,000) = \$5,558,000$ additional deductions.
- * The additional deductions would result in $(\$5,558,000 \times 6\%) = \$333,480$ in lost revenue.

Oversight assumes that all Missouri taxpayers would be able to take this tax credit, and that all Missouri hybrid vehicle purchases would be made by taxable entities. Oversight notes that hybrid vehicle purchasers could switch to qualifying vehicles made in the United States, and that foreign manufacturers could move production of qualifying vehicles to the United States. Those market changes could increase the fiscal impact of this proposal. Oversight notes that the decline in hybrid vehicle sales from 2007 to 2008 volume may not indicate any future pattern in sales.

Oversight will indicate a reduction in revenues for this proposal of more than \$100,000 for FY 2010, FY 2011, and FY 2012.

Section 8.305 and 161.360

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there should be no added cost to Budget and Planning as a result of this proposal.

This section of this proposal adds an income tax deduction for the purchase price, up to \$1,000, 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 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.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal 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 assume this would require individual income tax form and instruction changes as well as changes to the MINITS, COINS and CAFÉ systems. Additional 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 161.360

Officials from the **Department of Elementary and Secondary Education (DESE)** assume this section will provide grants to assist local public school districts to obtain LEED (Leadership in Energy and Environmental Design) certification for new construction or substantial renovation of public school buildings. The cumulative total of grants awarded shall not exceed \$500,000 per fiscal year. DESE will need 1.0 FTE supervisor to administer this grant program.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there should be no added cost to Budget and Planning as a result of this proposal.

This section of this proposal would require the Department of Elementary and Secondary Education to provide grants to public school districts after July 1, 2010 to help schools obtain Leadership in Energy and Environmental Design (LEED) certification for new building construction or substantial renovation projects, with the total amount of grants to be awarded per year not to exceed \$500,000. Funding for these grants will likely result in up to \$500,000 in additional costs for General Revenue.

This proposal could reduce total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
<u>Revenue Reduction</u> (Section 141.114) - Hybrid vehicle tax deduction *	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
Subtotal	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
*Calculated impact was \$333,340			
<u>Loss</u> (Section 143.121) Loss of tax revenue	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Subtotal	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Cost</u> (Section 161.360) - Department of Elementary and Secondary Education			
Salaries	(\$44,960)	(\$55,570)	(\$57,237)
Fringe Benefits	(\$21,864)	(\$27,024)	(\$27,834)
Equipment & Expense	(\$7,348)	(\$5,916)	(\$6,092)
Other Fund Costs - Green School Grants	<u>(\$500,000)</u>	<u>(\$500,000)</u>	<u>(\$500,000)</u>
Subtotal	<u>(\$574,172)</u>	<u>(\$588,510)</u>	<u>(\$591,163)</u>
FTE Change - DESE	1	1	1
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown greater than \$774,172)</u>	<u>(Unknown greater than \$788,510)</u>	<u>(Unknown greater than \$791,163)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
STATE FACILITY MAINTENANCE & OPERATIONS FUND (SFMOF)			
<u>Cost - SFMOF</u>			
Personal Service	(\$61,111)	(\$75,166)	(\$77,045)
Fringe Benefits	(\$29,718)	(\$36,553)	(\$37,467)
Expense and Equipment	<u>(\$7,888)</u>	<u>(\$8,125)</u>	<u>(\$8,368)</u>
<u>Total Costs - SFMOF</u>	<u>(\$98,717)</u>	<u>(\$119,844)</u>	<u>(\$122,880)</u>
FTE Change - SFMOF	1	1	1
ESTIMATED NET EFFECT ON STATE FACILITY MAINTENANCE & OPERATIONS FUND			
	<u>(\$98,717)</u>	<u>(\$119,844)</u>	<u>(\$122,880)</u>
FACILITY MAINTENANCE RESERVE FUND (FMRF)			
<u>Cost - FMRF</u>			
Cost of upgrades to state buildings	<u>(Unknown over \$100,000)</u>	<u>(Unknown over \$100,000)</u>	<u>(Unknown over \$100,000)</u>
ESTIMATED NET EFFECT ON FACILITY MAINTENANCE RESERVE FUND			
	<u>(Unknown over \$100,000)</u>	<u>(Unknown over \$100,000)</u>	<u>(Unknown over \$100,000)</u>
CONSERVATION FUND			
<u>Cost - LEED Certification</u>	(Unknown)	(Unknown)	(Unknown)
<u>Loss - Sales Tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION FUND			
	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
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PARKS AND SOIL FUND

<u>Loss - Sales Tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON PARK AND SOIL FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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SCHOOL DISTRICT TRUST FUND

<u>Loss - Sales Tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
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LOCAL GOVERNMENT FUNDS

<u>Loss - Sales Tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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FISCAL IMPACT - Small Business

Small businesses which purchase Hybrid vehicles would have a direct fiscal impact as a result of this proposal.

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

FISCAL DESCRIPTION

SECTION 8.824 - State Buildings

Any state building built, substantially renovated, or acquired for lease after August 28, 2009 must be certified by the U.S. Green Building Council as meeting the silver rating under the Leadership in Energy and Environmental Design (LEED) green building rating system.

SECTIONS 64.170 and 67.280 - Codes

The act gives counties of the third classification the same authority to adopt a building code as current law provides to counties of the first and second classifications.

The act adds "energy efficiency" code to the definition of a "technical code" for which certain counties, fire protection districts, and municipalities have the authority to adopt by reference. Any energy efficiency code adopted shall be at least as stringent as the 2006 International Energy Conservation Code.

SECTION 143.114 and 143.121 - Income Tax Deductions

The act creates an income tax deduction for the purchase of qualified hybrid motor vehicles. Missouri taxpayers who purchase certain new hybrid motor vehicles for their own use may deduct from their Missouri adjusted gross income the lesser of either \$2,000 or 10% of the vehicle's purchase price. The tax deduction sunsets in 6 years unless reauthorized.

The act creates an income tax deduction of up to one hundred percent of the purchase price paid for Energy Star labeled products, up to \$1,000 per taxpayer per year.

SECTION 161.360 - Green School Grants

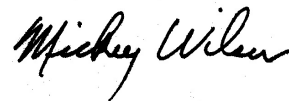
The Department of Elementary and Secondary Education shall provide grants to public school districts after July 1, 2010 to assist schools obtain LEED certification for new building construction or substantial renovation projects. Preference for the grants shall be given to schools that are designed to function as community centers of learning. The total amount of grants that may be awarded per year shall not exceed \$500,000.

This legislation is not federally mandated, would not duplicate any other program and would not

require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Facilities, Design & Construction
 Division of Budget & Planning
Department of Elementary & Secondary Education
Department of Natural Resources
Department of Revenue
Department of Conservation
Lincoln University
Department of Economic Development
 Public Service Commission
 Office of Public Counsel
Department of Higher Education
City of Centralia



Mickey Wilson, CPA
Director
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