

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2486-01
Bill No.: SB 649
Subject: Administration, Office of; Construction and Building Codes; Elementary and Secondary Education; Energy; Licenses - Professional; Natural Resources Department; Revenue Department; Tax Credits
Type: Original
Date: April 17, 2007

Bill Summary: This proposal creates requirements and provides incentives for environmentally sustainable building design and construction.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$1,727,587 to Unknown)	(1,750,316 to Unknown)	(1757823 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$1,727,587 to Unknown)	(\$1,750,316 to Unknown)	(\$1,757,823 to Unknown)

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
State Facility Maintenance & Operations Fund	(\$139,073)	(\$170,792)	(\$175,917)
Facility Management Revolving Fund	(\$5,750,000)	(\$5,750,000)	(\$6,192,121)
County Foreign	(Unknown)	(Unknown)	(Unknown)
County Stock	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$5,889,073 to Unknown)	(\$5,920,792 to Unknown)	(\$6,368,038 to Unknown)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Dept. of Economic Development	1 FTE	1 FTE	1 FTE
Dept. of Elementary and Secondary Education	1 FTE	1 FTE	11 FTE
Dept. of Natural Resources	2 FTE	2 FTE	2 FTE
Office of Administration	2 FTE	2 FTE	2 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 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the Department of Natural Resources assume the changes in chapter 8.812 would require the DNR to work with the Office of Administration's Division of Facilities Management, Design and Construction and a voluntary working group to promulgate rules and regulations on procedures for obtaining LEED certification for state facilities.

Chapter 640.157 creates an Office of Sustainability and would require staffing as necessary to interact with state agencies serving as a technical advisor on sustainability issues, renewable energy use and green building design and construction. The Department assumes 2 FTE would be requested to carry out the functions related to Chapter 8.812 and Chapter 640.157: an Energy Engineer II to serve as the Sustainability Program Coordinator and an Office Staff Assistant to provide clerical support services for the Office of Sustainability. The Office would provide technical assistance to local governments, businesses, schools and homeowners on sustainability issues, including renewable energy use and green building design and construction

Additional activities could include energy use analysis, energy audits, building design reviews, facility assessments and energy saving performance contracts, technical assistance to schools and local governments, technical training and conferences, building operator certification programs, publication and distribution of energy efficiency and renewable informational fact-sheets and brochures and staffing building home shows.

Officials at the **Department of Economic Development (DED)** assume the bill creates a new tax credit program for DED to administer -- the "Green Building Tax Credit" program. The program is capped at \$1 million per year in tax credits -- transferable provision. There are a lot of eligibility requirements outlined by the bill language by which the company can apply and receive the credit based on the construction or rehabilitation of a building into a "green" or environmentally sustainable building. It allows for preliminary applications which the DED would review and approve. DED anticipates the need for 1 FTE (Economic Development Incentive Specialist III) to administer the credit.

Officials at the **Department of Revenue (DOR)** assume this legislation establishes a new tax credit. Tax credits reduce the amount of tax due and therefore reduce the amount of state revenues. Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

Oversight assumes that since the tax credit is capped at \$1,000,000 that DOR could absorb the cost of processing the tax with existing personnel.

ASSUMPTION (continued)

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 4 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a rate of \$41,860.

Officials at the **Department of Higher Education (DHE)** assume the fiscal impact of this legislation on DHE is unknown. DHE currently leases a building via the Office of Administration. There could be a possible cost to DHE, but since the building is leased, the Office of Administration would be responsible for administering provisions outlined in this legislation.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume this proposal requires DESE to provide grants to assist local public school districts to obtain LEED 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 at the **Office of Administration's Facilities Management, Design and Construction (DFMDC)** assume this bill would have considerable fiscal effect on OA-Division of Facilities Management, Design and Construction. The construction cost impact in the Capital Improvement bill would increase by 4.2%-4.4%. In addition, operation cost would increase for LEED-related tasks that are above and beyond standard project requirements. To obtain a US Green Building Council's Leadership in Energy and Environmental Design (LEED) certification - would require documentation to be evaluated after a facility construction or renovation/modernization projects are complete.

The LEED certification has been around for approximate 7 years. Of the 4,500 buildings submitted to USGBC (US Green Building Council), only 615 have been LEED certified. It is hard to get a project certified.

LEED construction costs, LEED design costs (scope of work during the design and construction stages of a project) and LEED documentation costs (those tasks associated with documenting and submitting a LEED application to the U.S. Green Building Council for a minimum rating) costs more than a conventional construction.

The Capital Improvement Budget would increase by 4.2% for modernization and 4.4% for new construction. HB18 - FMRF (0124) bi-annual request is for \$169 million and an additional \$7

ASSUMPTION (continued)

million would need to be added for LEED certification. HB19 - New Construction request is for \$101 million and an additional \$4.5 million would need to be added for LEED certification. Because of the LEED Certification there would be a total of \$11.5 million cost increase in the CI budget. Since the costs are bi-annual the cost to each Fiscal Year 2008 and 2009 would be half the total or \$5,750,000 per year.

Listed below are three estimates base on \$150 per square foot for construction cost to follow the Silver certification (35 points):

Minimum 5,000 sq ft X \$150.00 = \$750,000 plus \$35,000 (4.2% increase in construction cost and \$.44 increase per square foot in design/documental costs). Total estimate = \$783,700. (Small projects are not cost effective for certifications)

Building a 50,000 sq ft X \$150.00 = \$7.5 million plus \$337,000 (4.2% increase in construction cost and \$.44 increase per square foot in design/documental costs). Total estimate = \$7,837,000.

Building a 100,000 sq ft X \$150.00 = \$15 million plus \$674,000 (4.2% increase in construction cost and \$.44 increase per square foot in design/documental costs). Total estimate = \$15,674,000.

To conclude, the cost of LEED stringent certification depends upon: extensive and explicit requirements, the level of certification sought, the particular project demographics and characteristics, the LEED experience of the Design Team, the LEED experience of the estimator, the state in the design at which the decision to seek certification and the state's perception of the value and benefits of a more attractive building environment for their occupants. All factors are numerous to manage and require two FTE (Design Engineer III position) to oversee LEED projects.

DFMDC operating budget (SFMOF-State Facility Maintenance and Operations Fund) would increase based on staffing needs and EE needs. The Design Engineer III position must be registered as a Professional Engineer (civil, electrical, mechanical, structural engineering or engineering management) and DFMDC would need 2 Design Engineer III's at a salary of \$64,596.

Officials at the **Missouri Department of Conservation (MDC)** assume this proposed legislation would have fiscal impact on MDC funds due to additional construction costs and the certification process for LEED. The exact amount of impact is unknown, but is expected to be less than \$100,000 annually.

ASSUMPTION (continued)

Officials at the **Missouri Department of Transportation (MoDOT)** assume this proposal would require extensive re-design of existing design standards for typical building types. It would require extensive administrative efforts to coordinate all the requirements necessary for LEED certification. It also would increase the capital and administrative cost of building projects by 1.5 – 8% over typical construction practices. However, it does include language that allows the Commissioner of Administration to exempt certain buildings where the cost of compliance would exceed the life-cycle cost savings. MoDOT anticipates maintenance facilities would be exempted based on the usage and life-cycle cost. Maintenance building types constitute the majority of MoDOT's capital improvement projects. MoDOT assumes the financial impact would be negated.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

The department is uncertain how the refund of the tax credits will be processed under premium tax collection. Typically any excess credit is carry forwarded as allowed by statute. The department assumes if refunds occur it will come from the general revenue portion of premium tax.

The department will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials at the **University of Missouri** assume the LEEDS Silver is known to add 1-3% to a project budget. This would cost the University projects \$2,500,000 in aggregate next year.

Officials at the **Missouri State University** assume that this proposal would increase costs. The fiscal amount of those costs is unknown.

ASSUMPTION (continued)

Officials at the **Linn State Technical College** assume that there is no fiscal impact from this proposal.

Officials at the **University of Central Missouri** assume higher initial cost (no low bid without LEED certification) for lower life cycle cost.

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 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.

Oversight has, for fiscal note purposes only, changed the starting salary for all positions listed in this note 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.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Cost - Dept of Economic Development</u> tax credits	(\$0 to \$1,000,000)	(\$0 to \$1,000,000)	\$0 to \$1,000,000)
<u>Cost - Dept of Economic Development</u> Personal Service	(\$33,145)	(\$40,968)	(\$42,197)
Fringe Benefits	(\$15,001)	(\$18,542)	(\$42,197)
Equipment and Expense	<u>(\$20,909)</u>	<u>(\$17,445)</u>	<u>(\$17,968)</u>
<u>Total Costs - DED</u>	(\$69,055)	(\$76,955)	(\$79,263)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Cost - DESE</u> Local School Grants	(\$0 to \$500,000)	(\$0 to \$500,000)	(\$0 to \$500,000)
<u>Cost - DESE</u> Personal Service	(\$31,930)	(\$39,465)	(\$40,649)
Fringe Benefits	(\$14,452)	(\$17,862)	(\$18,398)
Equipment and Expense	<u>(\$7,144)</u>	<u>(\$5,855)</u>	<u>(\$6,031)</u>
<u>Total Costs - DESE</u>	(\$53,526)	(\$63,182)	(\$65,078)
FTE Change - DESE	1 FTE	1 FTE	1 FTE
<u>Cost - Dept of Natural Resources</u> Personal Service	(\$54,981)	(\$67,957)	(\$69,996)
Fringe Benefits	(\$24,884)	(\$30,757)	(\$31,680)
Equipment and Expenses	<u>(\$25,141)</u>	<u>(\$11,465)</u>	<u>(\$11,806)</u>
<u>Total Costs - Dept of Natural Resources</u>	(\$105,006)	(\$110,179)	(\$113,482)
FTE Change	2 FTE	2 FTE	2 FTE
<u>Loss - General Revenue</u> Loss of tax revenue	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$1,727,587 to Unknown)</u>	<u>(\$1,750,316 to Unknown)</u>	<u>(\$1,757,823 to Unknown)</u>
Estimated Net FTE Change on General Revenue	4 FTE	4 FTE	4 FTE

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

Cost - SFMOF

Personal Services	(\$91,711)	(\$113,355)	(\$116,756)
Fringe Benefits	(\$41,508)	(\$51,304)	(\$52,844)
Equipment and Expense	<u>(\$5,854)</u>	<u>(\$6,133)</u>	<u>(\$6,317)</u>
Total Costs - SFMOF	<u>(\$139,073)</u>	<u>(\$170,792)</u>	<u>(\$175,917)</u>
FTE Change - SFMOF	2 FTE	2 FTE	2 FTE

**ESTIMATED NET EFFECT ON
 SFMOF**

	<u>(\$139,073)</u>	<u>(\$170,792)</u>	<u>(\$175,917)</u>
Estimated Net FTE Change for SFMOF	2 FTE	2 FTE	2 FTE

**FACILITY MANAGEMENT
 REVOLVING FUND (FMRF)**

Cost - FMRF

LEED Certification costs	<u>(\$5,750,000)</u>	<u>(\$5,750,000)</u>	<u>(\$6,192,121)</u>
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**ESTIMATED NET EFFECT ON
 FMRF**

	<u>(\$5,750,000)</u>	<u>(\$5,750,000)</u>	<u>(\$6,192,121)</u>
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COUNTY FOREIGN

Loss - County Foreign

Loss of tax revenue	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON
 COUNTY FOREIGN**

	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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COUNTY STOCK

Loss - County Stock

Loss of tax revenue	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON
 COUNTY STOCK**

	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

A small business could qualify for the tax credit.

FISCAL DESCRIPTION

This act requires that after July 1, 2009, all newly built or substantially renovated state buildings larger than 5,000 square feet must meet the silver rating level of green building certification under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. The Department of Natural Resources shall promulgate rules for this requirement.

Beginning July 1, 2015, at least 10% of the electricity used by state buildings must come from renewable energy sources and beginning July 1, 2025, at least 20% of the electricity used by state buildings must come from renewable energy sources.

This act allows a tax credit for taxpayers who construct a green building or modify an existing structure into a green building. A green building is defined as a building that is designed to achieve integrated systems design and construction so as to significantly reduce or eliminate the negative impact of the built environment in a number of different ways including water conservation, energy efficiency, renewable energy, and indoor environmental quality and human health.

The tax credit consists of three components: the green whole building component; the green base building component; and the green tenant space component. An applicant may receive a tax credit for each eligible component satisfied by the applicant's project.

Prior to construction, a taxpayer may apply for a preliminary certification for a green building tax credit from the Department of Economic Development. If the Director of the Department of Economic Development determines that the construction or renovation meets requirements of the tax credit program, the director may issue a final certification upon completion of construction.

The green building tax credit has an annual aggregate cap of one million dollars. Green building tax credits are refundable and fully transferable. The Department of Economic Development

FISCAL DESCRIPTION (continued)

must promulgate rules one hundred and twenty days after the effective date of this act to determine the amount of green building tax credits available to any one taxpayer based upon the size of the building, the level of Leadership in Energy and Environmental Design rating achieved by the building (silver, gold, or platinum) and whether the project is located in an economic development area.

The Department of Elementary and Secondary Education shall provide grants to public school districts 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 and to schools that incorporate sustainability concepts into their teaching. The total amount of grants that may be awarded per year shall not exceed \$500,000.

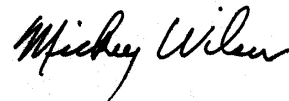
Green building design courses approved by the Missouri Board for Architects, Professional Engineers, Professional Land Surveyors and Landscape Architects shall be allowed to be used in meeting the continuing education requirements for architects, landscape architects, and professional engineers. For interior designers, one college course credit in green building design shall count as one continuing education credit.

The act creates the Office of Sustainability within the Department of Natural Resources. The Office shall assist other state agencies comply with the renewable energy requirements and green state building requirements. The Office shall also provide technical assistance to local governments, businesses, schools, and homeowners on renewable energy use and green building design and construction.

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 the Secretary of State
Department of Conservation
Department of Transportation
Department of Economic Development
Department of Higher Education
Department of Elementary and Secondary Education
Department of Revenue
Office of Administration
Missouri State University
University of Missouri
University of Central Missouri
Linn State Technical College
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources



Mickey Wilson, CPA
Director
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