

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5199-02
Bill No.: SB 1263
Subject: Office of Administration; Attorney General; Business and Commerce;
Construction and Building Codes; Department of Elementary and Secondary
Education; Energy; Department of Natural Resources; Political Subdivisions;
Public Buildings
Type: Original
Date: March 5, 2008

Bill Summary: This legislation modifies energy efficiency requirements for public buildings, creates energy efficiency standards for certain products, and creates home improvement energy efficiency incentive programs.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| General Revenue | (Unknown but Greater than \$919,994) | (Unknown but Greater than \$983,360) | (Unknown but Greater than \$1,022,112) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (Unknown but Greater than \$919,994) | (Unknown but Greater than \$983,360) | (Unknown but Greater than \$1,022,112) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 16 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|--|---|---|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| State School Moneys Fund* | \$0 | \$0 | \$0 |
| Parks and Soil Fund | (Unknown) | (Unknown) | (Unknown) |
| Facility Maintenance Reserve Fund | (Unknown) | (Unknown) | (Unknown) |
| State Facility Maintenance and Operations Fund | (\$93,385) | (\$113,677) | (\$116,864) |
| Conservation Fund | (Unknown) | (Unknown) | (Unknown) |
| Total Estimated Net Effect on <u>Other</u> State Funds | (Unknown but Greater than \$93,385) | (Unknown but Greater than \$113,677) | (Unknown but Greater than \$116,864) |

*Unknown savings and losses would net to \$0.

| 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 |
| General Revenue | 6 FTE | 6 FTE | 6 FTE |
| State Facility Maintenance and Operations Fund | 1 FTE | 1 FTE | 1 FTE |
| Total Estimated Net Effect on FTE | 7 FTE | 7 FTE | 7 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

Officials from the **Department of Revenue, Office of Administration-AHC, Metropolitan Community College, City of Columbia** and the **Department of Public Safety - Directors Office - Alcohol and Tobacco Control - Capitol Police - SEMA - Missouri Gaming Commission - Missouri State Water Patrol** each assume the proposal would have no fiscal impact on their respective agencies.

Officials from the **City of Centralia** state there are no such buildings planned in the next three years. There will be costs to adopt Energy Code which is \$300 to purchase the code books, advertisements, ordinances and to change the city code book.

Oversight has, for fiscal note purposes only, assumed the \$300 expense to the City of Centralia is a minimal amount that could be absorbed by the city.

Officials from **West Plains** assume the proposal could definitely have significant impact on the city of an unknown amount.

Officials from **Linn State Technical College (LSTC)** state LSTC would expect to incur a significant increase in construction costs in order to meet the International Energy Conservation Code. Although, LSTC would expect to recover a significant portion of those costs through lower building life cycle expenses. However, the exact fiscal impact is unknown at this time.

Officials from the **University of Missouri (UM)** assume the proposal could cost the UM \$380,000 annually in construction cost for compliance in both design, labor, materials and in administrative overhead. There could also be energy costs, but this is difficult to determine.

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

ASSUMPTION (continued)

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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Public Safety - Missouri Veterans Commission** assume the proposal would increase the cost of construction.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the following:

Section 8.615:

This section will likely lead to additional costs for school districts; however, DESE does not have data available to estimate a fiscal impact. DESE defers to another agency regarding these unknown costs.

Section 170.011:

Currently, these instructional areas are embedded within most biology curricula. This proposal appears to require separate instruction which would require DESE to pull those embedded items from the biology end-of-course exam and develop additional items to make the full exam. Development and readjustment could cost at least \$250,000.

The proposal indicates that local school districts may consult with DESE for assistance in training teachers and creating appropriate curricula. It should be noted that DESE does not create curricula. Local school districts will likely incur unknown costs to train teachers and create curricula. Such costs will likely be significant.

Section 701.515.2:

There is no state cost to the foundation formula associated with this proposal. Should the new crimes and amendments to current law result in additional fines or penalties, DESE cannot know how much additional money might be collected by local governments or the DOR to distribute to schools. To the extent fine revenues exceed 2004-2005 collections, any increase in this money distributed to schools increases the deduction in the foundation formula the following year. Therefore the affected districts will see an equal decrease in the amount of funding received through the formula the following year; unless the affected districts are hold-harmless, in which

ASSUMPTION (continued)

case the districts will not see a decrease in the amount of funding received through the formula (any increase in fine money distributed to the hold-harmless districts will simply be additional money). An increase in the deduction (all other factors remaining constant) reduces the cost to the state of funding the formula.

Officials from the **Department of Natural Resources (DNR)** state the following:

Section 8.615:

Requires all energy-using buildings and facilities that are constructed, purchased, leased, enlarged or renovated in whole or in part with the use of state funds or the funds of any political subdivision of the state to meet the requirements and standards set forth in the International Energy Conservation Code 2006, or the latest subsequent version thereof. DNR's Division of State Parks officials assume cyclic replacement of equipment and building renovations to include energy efficiency measures could be planned and budgeted for. However, should the intent of this proposal be to immediately upon enactment require all state buildings to meet the provisions outlined in this proposal, there would be a significant unknown fiscal impact from this provision. DSP officials also noted it would be difficult for some of their historic structures to attain compliance with the International Energy Conservation Code of 2006.

Section 8.812:

DNR would be required by January 1, 2009, to establish by rule a minimum energy efficiency standard for new or substantially renovated state buildings that meets or exceeds the standards reflected in the International Energy Conservation Code, 2006, latest revision. The Department and the Office of Administration's Division of Design and Construction are required to convene a voluntary working group to advise and assist the department in the development and implementation of the minimum energy efficiency standard.

Section 640.151:

Requires DNR to administer a home rebate option program created in this proposal. The program would provide rebates for energy efficiency improvements made to existing homes. The rebate would be 20% of the energy efficiency premium, not to exceed \$2,000 per home. Homeowners would have to apply to DNR. Only projects that show an estimated home efficiency improvement of 30% or greater would be approved to participate in the program. DNR would be required to develop procedures to certify home energy raters for the program and must promulgate rules for the implementation of this section, including eligibility criteria, application and inspection procedures. The program would sunset six years after the effective date unless re-authorized by the General Assembly.

ASSUMPTION (continued)

Section 640.154:

Beginning July 1, 2009 through June 30, 2019, this section would establish a rebate up to \$500 for the purchase and installation in residential structures of certain energy-efficient components. Rebates would not exceed \$5M in aggregate per year. No single rebate could exceed the actual cost of purchase and installation. DNR would be charged with administering the program. The department must report to the General Assembly on the cost-effectiveness of the program on or before January 1, 2011.

Section 640.160:

Require DNR to administer the "Residential Lighting Rebate Program" established in this proposal. The program would provide rebate coupons for the purchase of energy efficient lighting by consumers for residential use. The department must promulgate rules to implement this program.

Sections 701.500-701.515:

Creates minimum energy efficiency standards for certain new appliances and products sold or installed within the state. Exceptions are provided for certain products that are intended to be sold outside the state, installed in manufactured homes, or designed expressly for use in recreational vehicles. DNR must promulgate the energy efficiency standards for such products at least as stringent as the standards described in the proposal.

The Appliance Energy Efficiency Advisory Group, created in the act, would advise the DNR on the development of the standards. The composition of the advisory group is outlined in the proposal.

In consultation with the advisory group, the DNR must update the minimum energy efficiency standards for the appliances and products at least once every 3 years to keep current with technological advancements.

Manufacturers of the appliances and products for which the energy efficiency standards apply must certify to the department that their products meet the standards.

Manufacturers who knowingly certify a product that does not meet the standards would be subject to a civil penalty up to \$10,000 per violation and up to \$10,000 per day for a continuing violation. Manufacturers would also be required to mark their products as meeting the energy efficiency standards.

ASSUMPTION (continued)

DNR would have the authority to enforce the provisions of the energy efficiency standards for appliances and products. The department may test and inspect appliances and products and may charge a manufacturer for the cost of such testing if a product is found not to be in compliance with the standards. Violations of the energy efficiency standards may be referred to the Attorney General for prosecution.

The Department would request 6 FTE to implement and administer relevant sections in the proposal: 640.151 and 640.154 - 1 FTE, Energy Engineer II; 640.160 - 1.0 FTE, Energy Specialist III; 701.500 - 1.5 FTE, Energy Engineer II

The proposal would also require the following to carry out duties and responsibilities related to all sections that impact the department, including office support and auditing and fiscal oversight of outsourced subcontractors as described below:

1 FTE - Office Support Assistant; 0.5 FTE - Auditor II; 1 FTE - Accounting Specialist II to monitor the payments and purchases from the many new programs outlined in this proposal.

In addition to the additional FTEs, the Department assumes certain aspects of the program implementation, including reviewing applications for rebates and processing rebate payments, to a private-sector entity selected through competitive procurement would be outsourced. It is estimated that outsourcing three rebate programs (energy efficiency improvements to homes, rebates for energy-efficient equipment, and rebates for energy-efficient lighting) would cost approximately \$250,000 for first year implementation based on estimated costs related to similar programs which the Energy Center is engaged with investor-owned utilities approved by the PSC through investor-owned gas and electric rate cases.

Total rebates are limited to \$5 million in the aggregate annually with single rebates limited to \$500 per applicant. Assuming an average rebate of approximately \$250 per applicant, approximately 20,000 rebates could be processed at an estimated expense of approximately \$12.50 per rebate application in the first year.

It is assumed that the number of applicants would increase in future years, and thus, outsource costs would increase. A specific cost is unavailable until such time the programs are designed and issued under a competitive Request for Proposals initiative.

ASSUMPTION (continued)

In addition, the Department would plan to outsource on-site monitoring to verify that energy-efficiency improvements were actually implemented in homes and that energy-using components for which rebates were applied were actually installed. The Energy Center proposes to monitor 10% of the homes. Estimated cost of on-site monitoring is approximately \$5,000 for the first year. The department assumes that the number of applicants would increase in future years, and thus, outsourced monitoring costs would increase. We do not propose to do on-site monitoring for the energy-efficient lighting component of the bill or the portions of the bill pertaining to rebates for equipment/appliances.

In response to a similar proposal from this year (SB 1117), officials from the **Office of Administration's Division of Facilities Management, Design and Construction (FMDC)** assume the overall cost to the CI budget to comply, has many variables that would affect cost such as:

- Type of building,
- Square footage of a building,
- New Construction or renovation/modernization,
- Rehab existing building,
- Renovation/modernization project cost over \$100,000 or \$500,000,
- Modify spaces in buildings,
- Flexibility and adaptability of project,
- Evaluation process in the daily activities of the facility,
- Overall five-year plan and other issues.

The proposal would have considerable fiscal effect on the FMDC. The preliminary estimate by FMDC is the total cost will be between multi-millions to billions for all state buildings to comply to the Facility Maintenance Reserve Fund.

FMDC's operating budget (SFMOF-State Facility Maintenance and Operations Fund) would increase based on staffing needs and EE needs. At this time we are unable to determine the exact position needs but it should include a Professional Engineer (civil, electrical, mechanical, structural engineering or engineering management) at a salary of \$69,456.

In response to a similar proposal from this year (SB 1117), 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.

| <u>FISCAL IMPACT - State Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
|---|---------------------|---------|---------|
|---|---------------------|---------|---------|

GENERAL REVENUE FUND

Savings - Department of Elementary and
 Secondary Education*

| | | | |
|---|---------|---------|---------|
| Reduced appropriations to State School Moneys Fund | Unknown | Unknown | Unknown |
|---|---------|---------|---------|

Costs - Department of Elementary and
 Secondary Education*

| | | | |
|-----------------------|--|--|--|
| Section 8.615 Costs | (Unknown) | (Unknown) | (Unknown) |
| Section 170.011 Costs | <u>(Greater than \$250,000)</u> | <u>(Greater than \$250,000)</u> | <u>(Greater than \$250,000)</u> |

| | | | |
|---------------------------|---|---|---|
| <u>Total Costs</u> - DESE | <u>(Unknown but Greater than \$250,000)</u> | <u>(Unknown but Greater than \$250,000)</u> | <u>(Unknown but Greater than \$250,000)</u> |
|---------------------------|---|---|---|

*Oversight assumes costs will exceed savings.

Costs - Department of Natural Resources

| | | | |
|--------------------------|--------------------|--------------------|--------------------|
| Personal Services | (\$236,900) | (\$292,808) | (\$301,593) |
| Fringe Benefits | (\$104,757) | (\$129,480) | (\$133,364) |
| Expense and Equipment | (\$78,337) | (\$36,072) | (\$37,155) |
| Contract Services Costs | <u>(\$250,000)</u> | <u>(\$275,000)</u> | <u>(\$300,000)</u> |
| <u>Total Costs</u> - DNR | <u>(\$669,994)</u> | <u>(\$733,360)</u> | <u>(\$772,112)</u> |
| FTE Change - DNR | 6 FTE | 6 FTE | 6 FTE |

| | | | |
|---|--|--|--|
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUN | <u>(Unknown but Greater than \$919,994)</u> | <u>(Unknown but Greater than \$983,360)</u> | <u>(Unknown but Greater than \$1,022,112)</u> |
|---|--|--|--|

| | | | |
|--|-------|-------|-------|
| Estimated Net FTE Change for General Revenue Fund | 6 FTE | 6 FTE | 6 FTE |
|--|-------|-------|-------|

STATE SCHOOL MONEY FUND

Savings - Department of Elementary and
Secondary Education

Reduced distributions to local school
districts

Unknown

Unknown

Unknown

Losses - Department of Elementary and
Secondary Education

Reduced appropriations from General
Revenue Fund

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
STATE SCHOOL MONEYS FUND**

\$0

\$0

\$0

PARKS AND SOIL FUND

Loss - Department of Natural Resources

Sales Tax Loss

(Unknown)

(Unknown)

(Unknown)

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

(Unknown)

(Unknown)

(Unknown)

**FACILITY MAINTENANCE
RESERVE FUND**

Costs - Office of Administration-
Facilities Management, Design and
Construction

Program Costs

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
FACILITY MAINTENANCE
RESERVE FUND**

(Unknown)

(Unknown)

(Unknown)

**STATE FACILITY MAINTENANCE
 AND OPERATIONS FUND**

Costs - Office of Administration -
 Facilities Management, Design &
 Construction

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

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

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

Estimated Net FTE Change for State
 Facility Maintenance and Operations
 Fund

1 FTE 1 FTE 1 FTE

CONSERVATION FUND

Costs - Department of Conservation
 Program Costs

(Unknown) (Unknown) (Unknown)

**ESTIMATED NET EFFECT ON
 CONSERVATION FUND**

(Unknown) (Unknown) (Unknown)

| <u>FISCAL IMPACT - Local Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
|---|---------------------|---------|---------|
|---|---------------------|---------|---------|

POLITICAL SUBDIVISIONS

Costs - Cities, Counties, Colleges,
Schools & Universities

| | | | |
|--------------------|------------------|------------------|------------------|
| Construction Costs | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |
|--------------------|------------------|------------------|------------------|

**ESTIMATED NET EFFECT ON
POLITICAL SUBDIVISIONS**

| | | | |
|--|------------------|------------------|------------------|
| | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |
|--|------------------|------------------|------------------|

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation requires buildings and facilities that are constructed, purchased, leased, enlarged, or renovated with any portion of state funding or funding by a political subdivision shall meet the requirements of the 2006 International Energy Conservation Code (IECC), or the latest subsequent version of the IECC.

The legislation requires that by January 1, 2009, the Department of Natural Resources shall modify the minimum energy efficiency standard for state buildings so that it is at least as stringent as the 2006 IECC rather than the current standard of American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) Standard 90. The legislation modifies the date to July 1, 2009, by which all design for state buildings involving new construction or substantial renovation and any building considered for purchase or lease by a state agency shall comply with the minimum energy efficiency standard.

The legislation 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. Any county that adopts an energy code shall make such code at least as stringent as the 2006 IECC, or the latest version of the IECC.

FISCAL DESCRIPTION (continued)

The legislation adds energy codes to the types of technical codes for which certain counties, fire protection districts, and municipalities currently have the authority to adopt by reference. Any energy code adopted shall be at least as stringent as the 2006 IECC, or any subsequent version.

Beginning in the 2009-2010 school year, every high school in the state shall ensure its students receive instruction in certain environmental-related topics around Earth Day each year.

The legislation creates the Home Energy Rebate Option program, which shall be administered by the Department of Natural Resources. The Department shall offer rebates to homeowners who make a certain amount of energy improvements to their homes. The amount of the rebate is specified in the legislation, but shall not exceed \$2,000 per home. Any homeowner accepted in the program shall have a home energy rating conducted upon the participating home by a home energy rater who is certified by the department. The program shall sunset in 6 years unless reauthorized.

The Department of Natural Resources shall offer rebates up to \$500 for replacement of certain residential components with energy-efficient models. The components shall include natural gas furnaces or boilers, propane and oil furnaces or boilers, heating, ventilation and air conditioning systems, lighting, windows, insulation, zone heating products, and weatherization systems. No rebate shall exceed the actual purchase and installation cost. Total rebates issued shall not exceed \$5 million. Rebate amounts shall vary according to Missouri adjusted gross income levels as described in the legislation. The Department shall issue a report to the General Assembly by January 1, 2011 regarding the cost-effectiveness of the rebate program. The program shall sunset in 6 years unless reauthorized.

The legislation creates the Residential Lighting Rebate program, to be administered by the Department of Natural Resources. The Department shall provide rebate coupons to participating retailers who shall make the coupons available to customers who purchase certain energy efficient light bulbs and lighting fixtures. The rebate coupons shall be worth up to \$2 for light bulbs and up to \$12 for lighting fixtures. The Department shall reimburse the retailers for the amount of rebate coupons redeemed at their stores. The program shall sunset in 6 years unless reauthorized.

FISCAL DESCRIPTION (continued)

The legislation creates minimum energy efficiency standards for certain new appliances and products sold or installed within the state. Exceptions are provided for certain products that are intended to be sold outside the state, installed in manufactured homes, or designed expressly for use in recreational vehicles. The Department of Natural Resources shall promulgate the energy efficiency standards for such products, which shall be at least as stringent as the standards described in the legislation. The Appliance Energy Efficiency Advisory Group, created in the act, shall advise the Department on the development of the standards. The composition of the advisory group is listed in the legislation.

In consultation with the advisory group, the Department shall update the minimum energy efficiency standards for the appliances and products at least once every 3 years to keep current with technological advancements.

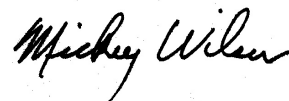
Manufacturers of the appliances and products for which the energy efficiency standards apply shall certify to the Department that their products meet the standards. Manufacturers who knowingly certify a product that does not meet the standards shall be subject to a civil penalty up to \$10,000 per violation and up to \$10,000 per day for a continuing violation. Manufacturers are also required to mark their products as meeting the energy efficiency standards.

The Department is given authority to enforce the provisions of the energy efficiency standards for appliances and products. The Department may test and inspect appliances and products and may charge a manufacturer for the cost of such testing if a product is found not to be in compliance with the standards. Violations of the energy efficiency standards may be referred to the Attorney General for prosecution. First-time violators shall receive a warning and subsequent violations shall be subject to a civil penalty up to \$250 per violation.

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-AHC
Office of Administration-FMDC
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Revenue
Department of Public Safety - Directors Office
Department of Public Safety - Alcohol and Tobacco Control
Department of Public Safety - Capitol Police
Department of Public Safety - SEMA
Department of Public Safety - Missouri Gaming Commission
Department of Public Safety - Missouri State Water Patrol
Department of Public Safety - Missouri Veterans Commission
Office of the Secretary of State
City of Centralia
West Plains
University of Missouri
Metropolitan Community College
City of Columbia
Linn State Technical College
Department of Conservation



Mickey Wilson, CPA
Director
March 5, 2008