

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3221-05
BILL NO.: SCS for HB 1706
SUBJECT: Economic Development; Brownfield Program; Demolition Tax Credit
TYPE: Original
DATE: April 25, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
County Foreign Insurance Tax Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Treasurer** assume their agency would be not fiscally impacted by this proposed legislation.

Officials from the **Office of Administration - Budget and Planning** assume they would not be fiscally impacted by this proposed legislation. Officials did note that this would impact total state revenue.

Officials from the **Department of Economic Development (DED)** assume that this proposal changes the definition of “allowable costs”, as such activities are currently allowed, if approved by DED and DNR (447.700 (2)) and adds adjacent property as allowable (447.700 (4)). The proposed change to 447.708.3.(2) requires DED, with approval of DNR, to grant a credit of 0 to 100% if the proposal is in a plan approved by the DED. The DED assumes this will create more applications for the credit. Since there could be new credits, of an undeterminable amount, the costs will be \$0 to (Unknown).

DED assumes that the proposal will not require additional resources at this time. However, should volumes increase and credits be granted, the DED may request additional resources at a later date.

Oversight assumes credits could be taken against taxes due under Chapters 143, 147 and 148, RSMo. Therefore, Oversight has reflected such in the fiscal impact section of this fiscal note.

Assumptions in reference to the component of the proposal addressing St. Louis City Commissioners

Oversight assumes this component of the proposal would result in unknown savings to the City of St. Louis as a result of reducing the number of commissioners from fifteen to five. Since the expenses that would be reimbursed to the commissioners would be reduced, unknown savings would result. Oversight has not reflected this savings in the fiscal impact because the savings per year are assumed to be minimal.

Assumptions in reference to the component of the proposal addressing the Brownfield Program

Officials from the **Department of Revenue** assume they would not be fiscally impacted by this proposed legislation.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** (DNR) assumes this legislation expands the property reuse fund to include brownfield site investigations by municipalities and counties. If contamination was found after conducting Phase I or Phase II site assessments, the applicant may choose to enroll in the DED brownfield program. The proposed legislation could potentially result in additional sites per year enrolling in the DNR Voluntary Cleanup Program (VCP).

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There is not a requirement to enroll with the VCP in the section of the brownfield law relating to grants found in section 447.706. Therefore, eligibility for the grant for the Phase I and II site assessment would not require enrollment with the VCP.

The proposed legislation would allow for demolition and remediation of buildings and areas not directly part of a brownfield, but adjacent to a brownfield, to be included in the project. The proposed changes apply to uncontaminated structures. The department would not have to provide oversight of the demolition of the structure; however, the program would do a preliminary review of the site to verify the site is not contaminated.

The department assumes there would not be a significant number of brownfield sites expanding their projects to include adjacent properties. At this time, the department does not anticipate the need to request additional resources as a result of this proposal. If the number of brownfield sites expanding their projects exceeds the department's expectations, there may be a need to request additional resources.

The **City of St. Louis - St. Louis Development Corporation** (in response to a similar proposal - HB 1706) assumes fiscal impact to the city from this proposed legislation would be impossible for them to quantify. They stated that the economic impact will be tangible and will come in the form of revitalized vacant and underutilized properties as well as the creation of new jobs from these developments.

The economic impact locally as well as to the state will include increased revenue streams in such areas as the following: property taxes, sales taxes, corporate/business income taxes and personal income taxes.

ASSUMPTION (continued)

The City of St. Louis also stated that brownfields redevelopment comes in many sizes and shapes and it is this variability (e.g., size of the project, amount of contamination, type of development and its ripple effect, number of jobs created, type of jobs, etc.) that makes the fiscal impact of the proposed legislation to the city very difficult to measure. Since the proposed changes in the statute only expand the definition of items that are considered “eligible” costs, the tax and financial incentives available will continue to be limited to the project’s net state economic benefit as determined by the DED.

Assumptions in reference to the component of the proposal addressing demolition tax credits

DNR assumes the proposed legislation would allow for demolition tax credits for up to one hundred percent of the costs of demolition that are not part of the voluntary remediation activities. The proposed legislation requires the department to approve any tax credits authorized by this provision.

Before the department approves the demolition tax credit, the participant will have to demonstrate to the department that hazardous substances are not contained within or beneath the structure. This demonstration could be made in the documents the DNR reviews during our preliminary review, if the documents are comprehensive enough. However, if the initially reviewed documents are not comprehensive and leave some doubt as to whether hazardous substances are within or beneath the structure, then the department would ask that additional investigations be conducted.

The department estimates 25 to 30 sites per year. The department also estimates the review time to approve the tax credit, as illustrated above, is apt to vary depending on the adequacy of the data submitted. If only a preliminary review is necessary, the review time would be approximately 6 hours. If review beyond the preliminary review is needed, the review time could increase to approximately 16 hours. The department does not anticipate being significantly impacted by these provisions. However, if the number of sites exceeds our expectations, the DNR may need to request additional resources.

The department has the authority to cost recover any cost associated with reviewing the demolition tax credit. The associated cost for a six hour review is approximately \$400 (ES III salary $\$3308 \times 12 \text{ months} / 2080 \text{ annual hours} = \$19.08 \times 3.5 \text{ multiplier} = \$66.78 \text{ hourly rate} \times 6 \text{ hours}$). The associated cost for a 16 hour review is approximately \$1,068 (ES III salary $\$3308 \times 12 \text{ months} / 2080 \text{ annual hours} = \$19.08 \times 3.5 \text{ multiplier} = \$66.78 \text{ hourly rate} \times 16 \text{ hours}$). The amount of increased revenues depends on the number of demolition tax credits the department

ASSUMPTION (continued)

reviews and the amount of time to review each. Since the department does not know the number of applications that would be submitted or the amount of time it would take to review, the amount of increased revenues would be unknown.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Loss - Demolition Tax Credits</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

**COUNTY FOREIGN INSURANCE
 TAX FUND**

<u>Savings - Decreased Distributions to School Districts</u>	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Loss - Demolition Tax Credits</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
Estimated Net Effect on COUNTY FOREIGN INSURANCE TAX FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
SCHOOL DISTRICTS			
<u>Loss - Reduced Distributions from County Foreign Insurance Tax Fund</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

FISCAL IMPACT - Small Business

DNR noted that if a small business owns a contaminated site that would be eligible for the VCP program under these new criteria, they would be able to receive a letter at the conclusion of the clean up from the state that certifies specific standards have been achieved.

Additionally, as DNR noted, small businesses may make application for demolition tax credits.

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DESCRIPTION

This proposal allows the demolition and reconstruction of buildings or structures which are not the object of remediation to count as allowable costs under the Brownfield remediation program if (1) the buildings or structures are located on an abandoned or underutilized property which is approved for financial assistance through the program; and (2) the demolition is part of a redevelopment plan approved by the Director of the Department of Economic Development and by the local county government with jurisdiction in the area in which the project is located. Also, this adds backfill to the definition of allowable cost.

Additionally, the proposal allows properties immediately adjacent to any abandoned or underutilized property to qualify as an "eligible project" under the Brownfield remediation program if the abandoned or underutilized property meets program requirements.

This substitute adds language stating that beginning August 28, 2000, the number of commissioners in St. Louis City shall be five. The number of commissioners shall be reduced from fifteen to five through the process of attrition.

This substitute adds a section stating that a municipal or county government shall not be required to identify a prospective private purchaser if the grant issued for an eligible project is given for the sole purpose of assisting a municipal or county government in conducting a phase I site assessment and phase II environmental site assessments.

This substitute adds another section that states the Director of DED, with approval of the Director of DNR, shall grant a demolition tax credit to the applicant for up to 100% of the costs of demolition that are not part of the voluntary remediation activities, provided that the demolition is part of a redevelopment plan approved by the local county government entity and the DED.

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

Department of Economic Development
Department of Natural Resources
Department of Revenue
Office of Administration - Budget and Planning

AK:LR:OD:005 (9-94)

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SOURCES OF INFORMATION (continued)

Office of State Treasurer
City of St. Louis

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is cursive and somewhat stylized, with the first name "Jeanne" written in a larger, more prominent script than the last name "Jarrett".

Jeanne Jarrett, CPA
Director
April 25, 2000