

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0814-01
Bill No.: HB 387
Subject: Economic Development; Brownfield Program; Demolition Tax Credit.
Type: Original
Date: March 2, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0 to (More than \$500,000)	\$0 to (More than \$600,000)	\$0 to (More than \$700,000)
County Foreign Insurance Tax	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0 to (More than \$500,000)	\$0 to (More than \$600,000)	\$0 to (More than \$700,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0 to (More than \$250,000)	\$0 to (More than \$300,000)	\$0 to (More than \$350,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal adds property adjacent to contaminated property to be eligible in the brownfield remediation program. "Allowable costs" can include demolition and reconstruction on eligible property even if the demolition and reconstruction are to a building other than one being remediated. The proposal specifically adds backfill as an allowable cost. DED must ("shall") grant demolition tax credit in cases where demolition is part of an approved plan. (Program is otherwise discretionary).

The DED assumes this proposal could possibly increase Brownfield costs for demolition about \$500,000 for FY2002, \$600,000 for FY 2003, and \$700,000 for FY2004. DED assumes that proposal will not require additional resources at this time. Should volumes increase and credits be granted, the DED may request additional resources at a later date.

Oversight assumes the amount of the new tax credits that may be utilized in any year could exceed the estimates provided by DED, and have therefore ranged the impact of the legislation from \$0 (no new tax credits issued) to (More than \$500,000) in FY 2002, and so forth. Oversight assumes that since the remediation and demolition tax credits could be taken against taxes authorized in Section 148 RSMo, including insurance premium taxes, one-half of the tax credit could be realized by the County Foreign Insurance Tax Fund (and ultimately the School Districts) as well as General Revenue.

Officials from the **Department of Natural Resources (DNR)** state 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. DNR would not have to provide oversight of the demolition of the structure; however, DNR 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 our expectations, there may be a need to request additional resources.

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 DNR to approve any tax credits authorized by this provision.

ASSUMPTION (continued)

Before DNR approves the demolition tax credit, the participant will have to demonstrate that hazardous substances are not contained within or beneath the structure. This demonstration could be made in the documents DNR reviews during a 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 DNR would ask that additional investigations be conducted.

DNR estimates 25 to 30 sites per year. DNR 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. DNR does not anticipate being significantly impacted by these provisions; however, if the number of sites exceeds our expectations, we may need to request additional resources.

DNR 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 \$411 (ES III salary \$3393 x 12 months/2080 annual hours = \$19.58 x 3.5 multiplier = \$68.53 hrly rate x 6 hours). The associated cost for a 16 hour review is approximately \$1,096 (ES III salary \$3393 x 12 months/2080 annual hours = \$19.58 x 3.5 multiplier = \$68.53 hrly rate x 16 hours). The 3.5 multiplier is used to recover overhead costs such as clerical and administrative staff as well as the cost of fringe benefits and indirect charges applied to personal services. The amount of increased revenues depends on the number of demolition tax credits the department 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. However the increased revenues are considered reimbursements and therefore they will not impact total state revenue.

Officials from the **Department of Revenue (DOR)** state this proposal increases the eligibility for brownfield remediation and increases the brownfield tax credit by authorizing demolition tax credits. DOR does not anticipate a significant increase in the number of new credits filed, therefore, will not request additional FTE at this time. However, if the DOR is incorrect in its assumption, they will need one Temporary Tax Season Employee for every 150,000 additional credits, one Tax Processing Tech I for every 10,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE will be requested during the normal budget process.

DESCRIPTION (continued)

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 government with jurisdiction in the area in which the project is located.

The proposal also 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 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 Revenue
Department of Economic Development
Department of Natural Resources



Jeanne Jarrett, CPA
Director

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