


Colorado Legislative Council Staff Fiscal Note
STATE
REVISED FISCAL IMPACT
(replaces fiscal note dated February 18, 2010)

Drafting Number: LLS 10-0410 **Date:** March 30, 2010
Prime Sponsor(s): Sen. Heath **Bill Status:** House Finance
 Rep. Hullinghorst; May **Fiscal Analyst:** Ron Kirk (303-866-4785)

TITLE: CONCERNING MODIFICATIONS TO THE "URBAN AND RURAL ENTERPRISE ZONE ACT" TO IMPROVE THE ACCOUNTABILITY OF INCOME TAX CREDITS ALLOWED BY THE ACT.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue General Fund			Potential Increase (See State Revenue section)
State Expenditures General Fund			\$18,046
FTE Position Change			
Effective Date: January 1, 2012, assuming no referendum petition is filed.			
Appropriation Summary for FY 2010-2011: None.			
Local Government Impact: None.			

Summary of Legislation

This **reengrossed bill** alters the Colorado Enterprise Zone Program in several ways. It increases the population limit to qualify as an enterprise zone from 80,000 people to 115,000 people for urban zones and from 100,000 people to 150,000 people for rural zones. The bill also requires that the population of an enterprise zone be calculated using data from the most recent federal decennial census at the county, municipal, or block levels. For tax years 2012 and afterwards, this bill requires taxpayers who claim enterprise zone credits to file electronically and submit information that pertains to enterprise zone carry over schedules to the Department of Revenue.

Current law requires the State Auditor to evaluate the program no less than every five years using six broad economic indicators. This bill eliminates the requirement that the auditor use the six indicators and creates a pre-certification process that taxpayers must follow if they intend to claim any of the state income tax credits in place for activities in enterprise zones.

Current law does not limit the fees that some enterprise zone administrators charge for programs or projects that have been approved by the Colorado Economic Development Commission. This bill requires each administrator that charges a fee to create a policy regarding the fee to submit to the commission for approval.

Taxpayers, whether individuals or corporations, may be qualified to claim state income tax credits for certain business activities or investments made in Colorado enterprise zones. Taxpayers are required to provide information to the Department of Revenue using forms DR0074 and DR0076 to claim enterprise zone credits. This bill expands the department's reporting requirements and will require more information from taxpayers to comply with the new pre-certification process. This bill also changes the process by which taxpayers claim enterprise zone credits. However, it does not change the **qualifying criteria** that authorizes a taxpayer to claim a state enterprise zone income tax credit.

Background

The General Assembly created Colorado's Enterprise Zone Program in 1986 to promote economic development. Currently, there are 16 enterprise zones in Colorado that encompass about 70 percent of the state's land area. State law limits the number of zones to 16. To be designated as a zone, an area must have a population of less than 80,000 people or 100,000 people for urban and rural areas respectively, and meet one of the following criteria:

- an unemployment rate at least 25 percent above the state average;
- a population growth rate less than 25 percent of the state average; and
- a per capita income less than 75 percent of the state average.

State Revenue

For tax years 2012 and afterwards, this bill changes the process by which taxpayers claim enterprise zone credits which could cause the state to give out less in tax credits, thereby increasing state revenue. Eventually, the amount of state revenue provided for tax credits is not expected to change from current law.

Currently, taxpayers who make investments in enterprise zones are not required to have zone administrators certify investments prior to making the investment. This bill requires a taxpayer to have the Office of Economic Development and International Trade (OEDIT) certify an investment **prior to making an investment** in an enterprise zone to be eligible to claim a state income tax credit under the program. If the certification requirement is not met, state income tax credits will not be authorized for the taxpayer claiming the credit.

OEDIT will contact taxpayers who have claimed enterprise zone state income tax credits in the past three years to notify them of this process change that takes effect in the 2012 tax year. However, even with this outreach, it is assumed that some taxpayers will be unaware of this process change to the program and make investments without obtaining prior certification from OEDIT. Since these taxpayers would be ineligible to claim a credit under the program, state revenue would be higher than under current law, although the amount is unknown and expected to be minimal.

State Expenditures

Department of Revenue. The Department of Revenue will incur costs of \$18,046 in FY 2012-13 to comply with the reporting requirements in SB 10-162. Specifically, these costs are to process and edit enterprise zone carry over schedules. Expenditures are based on programming changes of 460 hours by an IT Professional III to modify the state's income tax system called GenTax, at a rate of \$39.23 per hour. No appropriation is necessary in FY 2010-11. This fiscal note assumes that the Department of Revenue's cost would be paid from the General Fund in FY 2012-13.

Departments Contacted

Revenue Local Affairs Governor Colorado Counties