

Colorado Legislative Council Staff Fiscal Note
STATE and LOCAL
CONDITIONAL FISCAL IMPACT

Drafting Number: LLS 09-0680

Date: February 14, 2009

Prime Sponsor(s): Sen. Veiga
 Rep. Rice

Bill Status: Senate Business Labor & Technology
Fiscal Analyst: Chris Ward (303-866-5834)

TITLE: CONCERNING THE ECONOMIC DEVELOPMENT OF LARGE-SCALE REGIONAL TOURISM PROJECTS TO BE PARTIALLY FINANCED WITH A PORTION OF STATE SALES TAX REVENUE ABOVE AN EXISTING BASE AMOUNT.

| Fiscal Impact Summary | FY 2009-2010 | FY 2010-2011 |
|---|--|--------------|
| State Revenue General Fund | Potential Reduction See State Revenue Section | |
| State Expenditures General Fund | See State Expenditures Section | |
| FTE Position Change | | |
| Effective Date: Upon signature of the Governor or upon becoming law without his signature. | | |
| Appropriation Summary for FY 2009-2010: None required. | | |
| Local Government Impact: See Local Government Impact section. | | |

Summary of Legislation

This bill allows one or more local governments to pursue tourism-related projects on a regional basis using state sales tax increment financing. Local governments that wish to utilize the financing mechanism must designate a specific zone in which the sales tax increment will be collected. They must also designate a financing entity, which can include either an established urban renewal authority or metropolitan district or a new regional tourism authority. Projects must first be approved by the Economic Development Commission. The bill sets forth the information that must be included in an application and the criteria that must be satisfied to approve the project. Substantial work must commence within 5 years of a project being approved.

Background. Tax increment financing (TIF) allows for the cost of public improvements in a region to be repaid from increased taxes generated by new or expanded business activity in the region. TIF dedicates any taxes collected above a base amount to repay the bonds that were issued to raise money to complete the improvement in the first place. In Colorado, TIF is used primarily by municipalities for urban renewal projects. This bill provides for the use of tax increment financing on state sales taxes for tourism-related projects.

State Revenue

The bill is assessed as having a conditional fiscal impact because any impact on state revenue depends on the Economic Development Commission (EDC) approving the use of tax increment financing on state sales taxes. The actual impact on state revenue would depend on several factors, including the portion of the state designated as a regional tourism zone.

The bill allows an authorized project to retain all state sales taxes above a base amount. That base amount is defined as total state sales tax collections in the zone in the 12-month period immediately preceding the month in which a project is authorized. If state sales taxes would not have increased without the tourism project, then the bill would be assessed as having no impact on state revenue. And, once the TIF expires, overall state sales taxes would presumably be higher with the project. It is likely, however, that some projects would include areas that have seen development without the creation of the tourism zone and that at least a portion of the tax revenue foregone by the state represents a revenue loss. The impact on state revenue is impossible to estimate without some detail about the nature of the projects, but an overall loss in state revenue is expected.

State Expenditures

The bill is assessed as having a conditional fiscal impact. Any impact on state expenditures depends on one or more local governments submitting applications to the Economic Development Commission (EDC). Until an application for a regional tourism zone is actually submitted, no new state appropriations are necessary. If an application is submitted, it is assumed that any necessary appropriations will be provided through the annual budget process.

Economic Development Commission (EDC). The bill requires the EDC to review each application and to approve or reject projects proposed by local governments. It is assumed that EDC would be able to do this within existing appropriations. But, a large number of applications may require EDC to seek additional appropriations through the annual budget process.

Department of Revenue (DOR). The DOR is responsible for establishing the base level of sales taxes and collecting the state sales tax increment on behalf of any financing entity approved by the EDC. The DOR is also authorized to create forms and promulgate rules as necessary to implement the bill. All direct and indirect costs of the DOR would be paid from fees charged to financing entities that receive revenue from the DOR. Among other things, the bill may require computer programming changes to reallocate incremental increases in state sales collections. Traditionally, the department has received ongoing appropriations for computer programming related to new legislation.

The DOR was asked to provide information for this fiscal note, but no response was received by the time the note was published. Any new information received from the DOR will be provided in a revised fiscal note.

School Finance. To the extent that an authorized regional tourism project increases property values and property tax collections for school districts that would not have otherwise occurred, it will also reduce the need for state funding under the school finance act.

Local Government Impact

The bill allows local governments to establish regional tourism authorities funded through state sales tax increment financing. Costs will be incurred by any local government that chooses to exercise the authority granted by the bill. These costs have not been estimated. Also, local governments may see an increase in property tax collections related to an authorized regional tourism project.

Departments Contacted

Governor/Economic Development Commission
Revenue

Local Affairs