

Colorado Legislative Council Staff Fiscal Note

**FINAL
FISCAL NOTE**

Drafting Number: LLS 09-0680	Date: June 30, 2009
Prime Sponsor(s): Sen. Veiga Rep. Rice	Bill Status: Signed into Law
	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	Cannot be Quantified	
State Expenditures Cash Funds *	* \$5,000	* \$5,000
FTE Position Change		
Effective Date: The bill was signed by the Governor and became law on June 4, 2009.		
Appropriation Summary for FY 2009-2010: None required.		
Local Government Impact: See Local Government Impact section.		

* *These cost estimates are for the Department of Revenue (DOR) to implement the bill. All DOR costs will be reimbursed by financing entities on whose behalf the department collects money.*

Summary of Legislation

This bill allows local governments in Colorado to pursue up to 2 tourism-related capital improvement projects using up to \$50 million in state sales tax increment financing. To use this financing mechanism, local governments must designate a specific zone in which the tax increment will be collected and get approval from the state's Economic Development Commission. They must also designate a financing entity, which can include either an established urban renewal authority, an established metropolitan district, or a new regional tourism authority. The bill sets forth the information that a local government must include in its application and criteria the commission must consider before approving a project. Substantial work must commence within 5 years of a project being approved.

The bill was amended to limit approval to no more than 2 projects and to prohibit approval of any projects that would lead to a dedication of more than \$50 million in state sales tax revenue per year. Amendments also required that the commission set the percentage of state sales tax revenue to be dedicated to a project at the level that approximates the net new revenue to be created by the project. Applicants must submit a third party analysis calculating the percentage of state sales tax increment revenue that will be dedicated to the project.

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. Under TIF, any taxes collected above a base amount are dedicated 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. The bill defines the base as total state sales tax collections in the zone in the 12-month period immediately preceding the month in which a project is authorized.

State Revenue

The bill will affect state revenue, but the actual impact will depend on several factors that are currently unknown. The most important factor is the extent to which the bill will facilitate new tourism projects that would not have occurred without TIF funding. Presumably, new tourism projects will increase tourism activity in the state, but since TIF funding could conceivably be used for projects that would have occurred anyway, the impact on state revenue cannot be determined.

The bill requires that the percentage of state sales tax increment revenue that will be dedicated to the project be set at a level that dedicates only the net new revenue created by the project to the financing entity. Any sales tax revenue the state would have likely received without the project must be excluded. Despite these provisions, it is difficult to know for certain what development would have occurred anyway. Therefore, the following three scenarios illustrate the potential impact of the bill on state revenue.

Scenario 1: All new development is attributable to the TIF-funded tourism project. TIF-funded improvements that would not have occurred but for the bill will increase state revenue. The increase will depend on the following:

- the number and types of tourism projects that are approved by the Economic Development Commission to use TIF revenue from state sales taxes;
- the specific plans for TIF-funded improvements and the amount of tourism activity generated by the improvements;
- the amount of new sales tax revenue generated by tourism activity outside of the TIF zone; and
- the potential increase in income tax revenue from jobs created by the project.

Where all of the development in a zone is attributable to the project and no development was going to occur without the bill, there is no change to state sales tax revenue within the zone. For example, if the development increases sales tax revenue in the zone from \$0 to \$10 million, all \$10 million will be used to pay off bonds issued to pay for the improvements. But, outside the zone, state sales tax revenue will increase and, throughout the region, income tax revenue will increase from new jobs created by the project. After the TIF expires, state revenue from both sales and income taxes is higher than it would have otherwise been.

Scenario 2: The tourism project would have occurred anyway without TIF funding. TIF-funded projects that would have occurred anyway will reduce state revenue by the amount of the TIF. In this scenario, sales taxes outside the zone and income taxes from jobs created throughout the region also would have increased anyway, and, therefore, do not offset the loss in sales tax revenue within the zone. Using the same scale as in Scenario 1, state revenue is reduced by \$10 million per year until the TIF expires. At that time, the bill would be assessed as having no impact on state revenue.

Scenario 3: Some development is expected to occur anyway, but the TIF-funded project increases growth beyond that level. For zones established in areas that are growing and would have seen some limited development anyway, the impact on state revenue is mixed. For example, TIF-funded projects could increase the scale of development from one where sales taxes in the zone are expected to increase by \$5 million, to one where sales taxes reach \$10 million. In this scenario, the state would forego \$5 million in sales tax revenue within the zone, but this loss would be offset by other increases in sales taxes outside the zone and income tax increases throughout the region. The impact on state revenue while the TIF is in place will depend on the difference between revenue increases and revenue decreases. After the TIF expires, state revenue will be higher than it would have otherwise been.

State Expenditures

The bill will impact state expenditures, but the actual impact will depend on several factors that are currently unknown. Until an application for a regional tourism zone is actually submitted to the Economic Development Commission, 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 proposed by local governments. Since no more than two projects can be approved, the EDC should be able to handle the applications within existing appropriations. The EDC and the Department of Revenue are required to report to the legislature on September 1 each year on all tax expenditures for regional tourism economic development from the prior fiscal year, as well as specific details from each active project.

Department of Revenue (DOR). The DOR must establish the base level of sales taxes and collect the state sales tax increment on behalf of any financing entity approved by the EDC. Among other things, the DOR will need to modify its computer systems to reallocate incremental increases in state sales collections. It will also have to modify the forms used by vendors to remit state sales taxes so that it can track which retailers are within the zone. All direct and indirect costs of the DOR would be paid from fees charged to financing entities that receive revenue from the DOR. Because any costs are conditional on approval of TIF-funded projects, this fiscal note assumes that any need for appropriations will be addressed through the annual budget process.

As an example, the department would incur an estimated **\$5,000** per year in costs based on the following assumptions:

- 1 new tourism zone is approved in FY 2009-10 and a second zone is approved in FY 2010-11;
- 1 zone matches existing taxing jurisdiction boundaries and 1 zone does not; and
- each zone has an average of 100 retailers.

The annual costs identified above include about \$4,500 in computer programming costs and about \$500 in costs to distribute new sales tax remittance forms to retailers in the zone. Costs for mailing forms can be minimized if the TIF zone is implemented in January to coincide with the department's normal mailing of booklets. For computer programming, the department has traditionally received ongoing appropriations related to new legislation. However, depending on when the financing scheme is implemented, it may require modification to both the existing system and the DOR's new income tax system. Actual costs will depend on the boundaries of each zone; costs will be higher for zones that do not match existing sales tax boundaries.

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. Conversely, any increase in the use of property tax increment financing by urban renewal authorities will increase the need for state aid. State aid for schools comes primarily from the General Fund and the State Education Fund. The bill specifically requires that applicants include an analysis of the impact to local school districts and an estimate of the percentage of public school funding that the state will assume if property taxes are used to fund the project through an urban renewal authority.

Transportation. New large-scale tourism projects could require minor modifications to the state highway system to accommodate traffic. Costs for affected highway interchanges within the approved zone will be paid from TIF revenue.

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 authorized regional tourism projects. Local governments affected by a regional tourism may comment on applications.

Departments Contacted

Governor/Economic Development Commission	Local Affairs	Revenue
Transportation		