

Colorado Legislative Council Staff Fiscal Note
STATE and LOCAL
REVISED FISCAL IMPACT
 (replaces fiscal note dated February 14, 2009)

Drafting Number: LLS 09-0680
Prime Sponsor(s): Sen. Veiga
 Rep. Rice

Date: March 11, 2009
Bill Status: House Business Affairs & Labor
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 * | * \$15,000 | * \$15,000 |
| 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. | | |

* *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.*

This revised fiscal note reflects updated assumptions about the bill and more detailed information about its implementation by the Department of Revenue which was not available at the time the original fiscal note was prepared.

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, an established 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. 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 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. The EDC should be able to handle a reasonable number of applications within existing appropriations, but a large number of applications may require the 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. 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 **\$15,000** per year in costs based on the following assumptions:

- 3 new tourism zones are approved by the EDC each year;
- 2 of the 3 zones match existing taxing jurisdiction boundaries and 1 zone does not; and
- each zone has an average of 100 retailers.

The costs identified above include about \$14,500 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.

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 Local Affairs Revenue