

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

Drafting Number: LLS 09-0131	Date: January 18, 2009
Prime Sponsor(s): Sen. Kopp; Penry Rep. King S.; Scanlan	Bill Status: Senate Finance Fiscal Analyst: David Porter (303-866-4375)

TITLE: CONCERNING MEASURES TO ENCOURAGE THE RESTORATION OF FOREST AREAS AFFECTED BY BARK BEETLE INFESTATION.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011
State Revenue		
State Expenditures		
General Fund	\$ 784,781	\$ 782,167
FTE Position Change	2.1 FTE	2.1 FTE
Effective Date: Upon signature of the governor or becoming law without his signature.		
Appropriation Summary for FY 2009-2010: See State Appropriations section.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

SB09-016, approved by the Interim Committee on Wildfire issues in Wild Land-Urban Interface Areas, provides a five-year property tax exemption for business personal property used to harvest, transport, process, or market timber killed by bark beetles. The applicant must meet the following criteria to qualify for the tax exemption:

- ▶ the applicant must be either a sole proprietor living in Colorado or a corporation whose principle place of business is in Colorado;
- ▶ the business must earn a profit in at least two of the five years between 2009 and 2014; and
- ▶ the business must participate in forest reseedling or other restoration efforts.

The bill also establishes the continuously appropriated Bark-beetle Mitigation Revolving Fund for a new revolving loan program. The loan program is required to provide start-up capital to businesses that purchase facilities or equipment used for the harvest, removal, or use of beetle-killed timber. Loans will be granted by the Colorado State Forest Service based on the extent to which the applicant helps the job opportunities and prosperity of the area, the expertise of the applicant, and the applicant's ability to promote bark-beetle mitigation efforts and the business community. The loan program is repealed July 1, 2014.

Finally, the bill requires the state forester to identify areas in Colorado where the bark beetle infestation has resulted in an imminent fire danger. The forest service is to provide a designated staff member, acting as an ombudsman, to aid property owners and businesses in navigating obstacles faced when harvesting beetle-killed timber in different jurisdictions.

State Expenditures

State expenditures for SB09-016 are \$784,781 and 2.1 FTE in FY 2009-10 and \$782,167 and 2.1 FTE in FY 2010-11. Costs are within the Department of Higher Education. The bill's tax exemption for business personal property may impact the School Finance Act.

Department of Higher Education (\$784,781 and 2.1 FTE)– The department's workload depends on two factors: (1) the amount of money provided for grants, and (2) the degree to which the ombudsman is used by local governments. This fiscal note assumes that 2.1 FTE (total) will be required for these tasks. Table 1 identifies the components of these costs.

Table 1. Expenditures under SB09-016		
Cost Components	FY 2009-10	FY 2010-11
<i>Loan Program Costs</i>		
Personal Services	\$111,300	\$111,300
<i>FTE</i>	1.6	1.6
Operating Expenses and Capital Outlay	9,885	1,520
Funds Available for Loans	<u>628,815</u>	<u>637,180</u>
Loan Program Subtotal	\$750,000	\$750,000
<i>Ombudsman Costs</i>		
Personal Services	\$31,692	\$31,692
<i>FTE</i>	0.5	0.5
Operating Expenses and Capital Outlay	<u>3,089</u>	<u>475</u>
Ombudsman Subtotal	\$34,781	\$32,167
GRAND TOTAL	\$784,781	\$782,167
TOTAL FTE	2.1	2.1

Bark Beetle Mitigation Loan Program – Loan program oversight consists of two components that each require 0.8 FTE (1.6 FTE total). One employee will provide technical oversight and business assistance to loan applicants and recipients. This person will help businesses to develop or modify business plans, will help with feasibility studies, and will provide forestry expertise. A second employee will be responsible for the administration of the loan program. This includes establishing an application process, evaluating applications, providing funds to recipients, and maintaining the loans that are granted. Both employees will be involved in generating the required July 1, 2010, progress report for the governor.

As the bill does not identify a funding source or amount, this fiscal note is based on a loan program operating with \$750,000 from the General Fund on an annual basis. Moneys are appropriated to the newly created Bark-beetle Mitigation Revolving Fund. Actual staffing requirements will depend on the number of applicants and the amount of money available for loans. The bill allows 20 percent of the appropriated amount, or \$150,000, to be applied to administration costs with the remainder available for loans.

Ombudsman – Among other things, the ombudsman assists property owners and businesses in navigating federal, state, and local governments in order to get permits for harvesting beetle-killed timber. It is expected that 0.5 FTE will be able to assist with approximately 30 permit applications. The ombudsman will also work with industry representatives to improve permitting processes for harvesting beetle-killed timber.

Identification of beetle-killed areas – The state forester is currently working to identify areas where beetle-killed timber has created an imminent danger of fire. This activity is currently underway and will not require any additional resources.

School Finance Act. The bill could increase state expenditures under the School Finance Act starting in FY 2010-11, but the impact is expected to be minimal. The state's share of public school funding could increase by the amount of school operating property taxes foregone due to the bill's exemption of business personal property used to harvest or remove beetle-killed timber. Since the bill specifies that only equipment first used in 2009 or subsequent years qualifies for the exemption, FY 2010-11 is the first year of any potential impact. Equipment initially placed in service in 2009 is assessed as of January 1, 2010, with property taxes due in the first half of 2011.

In addition, data compiled by county assessors revealed that only five counties had businesses engaged in this type of activity. The assessed value of equipment already in service in these counties amounted to about \$182,000, with a total property tax liability of \$11,300. However, because the exemption is only allowed for equipment placed in service in 2009 or following years, the note makes the following assumptions:

- ▶ assessed value growth for businesses that could potentially qualify for the exemption would match the 2008 Legislative Council Staff forecast for nonresidential assessed value, excluding oil and gas properties; and
- ▶ the assessed value growth represents the new value of equipment placed in service.

Under these assumptions, the potential loss in school district property taxes amounts to less than \$1,000 in each of first four years of the bill. Since the bill also establishes other criteria for taking the business personal property tax exemption, such as the business participating in forest reseeded or restoration efforts, it is expected that only a small number of businesses will qualify for the exemption.

However, it should also be noted that if existing equipment is replaced in 2009 and subsequent years, it will qualify for the exemption. These impacts have not been incorporated into the fiscal note at this time.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included under SB09-016*		
Cost Components	FY 2009-10	FY 2010-11
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$14,377	\$14,377
Supplemental Employee Retirement Payments	3,876	4,950
TOTAL	\$18,253	\$19,327

**More information is available at: http://www.state.co.us/gov_dir/leg_dir/lcsstaff/2009/comsched/CommonPolicies2009.pdf*

Local Government Impact

Local governments may lose property tax revenue because of the bill's provision to provide a property tax exemption for equipment used to transport or remove beetle-killed timber. For local governments that consistently reach their revenue limit due to high assessed value growth, the impact of the bill will be felt through smaller decreases in the mill levy. A portion of the money that would have been received from business personal property taxpayers will instead be spread out over the remaining tax bills in the form of higher mill levies than would have occurred without the bill. For local governments that do not reach their revenue limit, the bill will reduce property taxes. The loss in local property taxes is expected to be minimal.

State Appropriations

In FY 2009-10, the fiscal note indicates a General Fund appropriation of \$750,000 to the Bark-beetle Mitigation Revolving Fund. Moneys in the fund are continuously appropriated to the Department of Higher Education for the loan program; however, the department requires authorization for 1.6 FTE. The department also requires a General Fund appropriation of \$34,781 and 0.5 FTE for the ombudsman.

Departments Contacted

Local Affairs Higher Education