HB10-1190

Colorado Legislative Council Staff Fiscal Note

STATE
FISCAL IMPACT

Drafting Number:	LLS 10-0736	**Date:**	January 26, 2010
Prime Sponsor(s):	Rep. Pommer Sen. Heath	**Bill Status:**	House Appropriations
		Fiscal Analyst:	Marc Carey (303 866-4102)

TITLE: CONCERNING THE SUSPENSION OF THE EXEMPTION FROM THE STATE SALES AND USE TAXES FOR FUELS USED FOR INDUSTRIAL PURPOSES.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012
State Revenue General Fund	$10.0 million	$56.7 million	$60.8 million
State Expenditures General Fund	$95,892*		
FTE Position Change	0.9 FTE		
Effective Date: Upon signature of the Governor, or upon becoming law without his signature. Effective for sales occurring on or after March 1, 2010.			
Appropriation Summary for FY 2010-2011: See the State Appropriation Section.			
Local Government Impact: See the Local Government Impact Section.			

* *No separate appropriation for $1,570 of these funds is required because of ongoing appropriations to the Department of Revenue for computer programming provided in the Long Bill for new legislation.*

Summary of Legislation

This bill temporarily eliminates the sales and use tax exemption for storage, use, or consumption of energy used for industrial purposes. From March 1, 2010, until June 30, 2012, the sales and use tax will apply to electricity, coal, coke, fuel oil, steam, nuclear fuel, or gas for use in processing, manufacturing, mining, refining, irrigation, construction, telephone and radio communication, and street and railroad transportation services.

The elimination of the sales and use tax exemption for energy used for industrial purposes does not affect any local government's sales or use tax exemption for industrial energy usage, unless the local government expressly subjects fuels used for industrial purposes to its sales tax, at the time of adoption of its initial sales tax ordinance.

State Revenue

This bill temporarily suspends the existing tax exemption for energy used for industrial purposes. The bill will result ***in additional General Fund revenue to the state of $10.0 million in FY 2009-10, $56.7 million in FY 2010-11, and $60.8 million in FY 2011-12.*** The revenue estimate for FY 2009-10 represents a partial-year impact. The revenue impact grows at a slower rate than expectations for growth industrial energy use in FY 2011-12 because, under current law, vendors will begin retaining 3.33 percent of the taxes they collect starting July 1, 2011.

The revenue estimates were developed using 2007 fuel-specific data for the Colorado industrial sector from the federal Energy Information Administration (EIA). The data included price and consumption information for coal, natural gas, distillate fuel oil, liquified petroleum gas, motor gasoline, and other petroleum products. Price data was updated through the forecast period using commodity price forecasts from the Short Term Energy Outlook, published by EIA. Colorado energy usage in the industrial sector is assumed to grow through 2010 at the same rate as U.S. industrial production, published by the Federal Reserve Board. For 2011 and 2012, industrial fuel consumption was assumed to grow by the same 1.9 percent that was seen in 2010.

State Expenditures

Department of Revenue: $95,892 and 0.9 FTE in FY 2009-10. The Department of Revenue will incur one-time expenses in FY 2009-10 to notify vendors of the elimination of the state sales tax exemption on industrial fuel usage. The department anticipates personnel costs to answer questions from vendors regarding the change. The department will also incur additional information technology costs to adjust the state's computer systems. No appropriation for these information technology costs is necessary because of ongoing appropriations to the department for computer programming provided in the Long Bill for new legislation. Table 1 summarizes costs incurred by the Department of Revenue.

It should be noted that there are several pieces of legislation currently proposed that, if enacted, would affect sales and use tax account holders. If multiple bills are enacted, these expenditures may not be required by this bill. The department will send one letter to each sales and use tax account holder advising them of all enacted changes, rather than sending one notification for each legislative change. Therefore, the department is assuming that one notice, two pages in length, will be sent out to all sales and use tax account holders.

Table 1. Expenditures Under HB 10-1190

Cost Components	FY 2009-2010
Information Technology Services	$1,570
Personal Services	36,239
FTE	*0.9*
Operating Expenses	
Printing	5,999
Postage	52,084
TOTAL	**$95,892**

Economies of Scale. It should be noted that there are several pieces of legislation currently proposed that, if enacted, would affect sales and use tax account holders. If multiple bills are enacted, no separate appropriation may be required by this bill. The department will send one letter, two pages in length, to each sales and use tax account holder advising them of all enacted changes, rather than sending one notification for each legislative change.

Local Government Impact

Energy used for industrial purposes will remain exempt from local sales and use tax, unless local governments or political subdivisions of the state choose to eliminate the exemption.

State Appropriations

For FY 2009-10, the bill requires a General Fund appropriation of $94,322 and 0.9 FTE to the Department of Revenue. If multiple sales and use tax bills are enacted, no separate appropriation may be necessary for this bill.

Departments Contacted

Natural Resources   Regulatory Agencies   Revenue