

**STATE
FISCAL IMPACT**

Note: This fiscal note is provided pursuant to Joint Rule 22 (b)(2) and reflects strike-below Amendment L.001.

Drafting Number: LLS 11-0692

Date: February 22, 2011

Prime Sponsor(s): Rep. Duran

Bill Status: House Economic and Business Development

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TITLE: CONCERNING THE CREATION OF JOB QUALITY STANDARDS FOR BUSINESSES THAT RECEIVE CERTAIN FORMS OF STATE ASSISTANCE.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue General Fund	at least \$10,000	at least \$10,000
State Expenditures General Fund	at least \$47,758	at least \$34,458
FTE Position Change	1.0 FTE	1.0 FTE
Effective Date: August 10, 2011, if the General Assembly adjourns on May 11, 2011, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2011-2012: See State Appropriations section.		
Local Government Impact: None.		

Summary of Legislation

With amendment L.001, this bill disqualifies companies that have violated the state or federal wage or labor law two or more times from receiving more than \$10,000 in state sales tax exemptions, tax credits, certain grants and loans, or procurement contracts. It also disqualifies companies from receiving these benefits if the company has a full-time employee, or a child of a full-time employee, who receives public assistance due to the employee's income. The bill also requires relevant agencies to identify each company receiving assistance from that agency, and post the information online. This information will include the company name, chief executive officer's name and amount of assistance.

State Revenue

This bill will increase state revenue by prohibiting certain tax benefits and incentives for companies that have violated state or federal labor laws two or more times, or are in violation of the public assistance aspect of this bill. The actual increase is unknown but is expected to exceed \$10,000 annually.

For income tax year 2008, there were 164 corporations that claimed tax credits over \$10,000, but the number of wage violations for these companies, if any, is unknown. Further, it is unknown whether these companies employ staff, or have children, receiving public assistance. Available data indicate that hundreds of companies receive sales tax exemptions worth \$10,000 or more, such as manufacturers taking advantage of the sales tax exemption for either purchases of machinery or tangible property that becomes a component of a manufactured good. Currently, no central resource tracks compliance with wage-law infractions, nor links private-company employees with public assistance, although the U.S. Department of Labor tracks Fair Labor Standards Act violations among the companies in which it procures goods and services. Most violations of wage law are settled through civil action.

State Expenditures

For FY 2011-12, this bill will increase state expenditures by at least \$47,758 and 1.0 FTE. Beginning in FY 2012-13, costs will be at least \$34,458 and 1.0 FTE. These costs will be paid from a variety of funds, but mainly from the General Fund.

Verifying compliance. Assuming the burden to demonstrate compliance with this bill is shouldered by companies seeking tax credits, exemptions, grants, and procurement contracts, the cost for state agencies is limited to identifying the companies receiving assistance and posting this information online. These tasks, divided among the major agencies providing benefits, amount to approximately 1.0 FTE at a yearly cost of \$34,458. This staff will be responsible for using existing in-house databases to identify beneficiaries and post this information online. If agencies shoulder any burden to investigate, verify or ensure compliance in any manner above the representations made by the company, state expenditures would rise significantly. The state provides assistance, as defined by the bill, to at least 9,000 individual companies. It is estimated that due diligence would require eight hours per company, resulting in a need for at least 36 FTE.

The Department of Personnel and Administration, the lead agency responsible for state procurement for goods and services, executed approximately 3,000 non-construction awards in FY 2009-10, totaling \$300 million, most of which are over \$10,000. The Department of Transportation issued approximately 1,000 contracts worth more than \$10,000 in FY 2009-10. The Department of Health Care Policy and Financing issued 8,000 payments to private companies, with approximately 5,000 exceeding \$10,000 in value. The total value of all state assistance is at least \$3.6 billion, including tax credits, sales tax exemptions, and procurement contracts for goods and services.

Department of Revenue (DOR). The DOR will require software programming to modify its income tax computer system to block non-compliant companies in the event such companies filed for a tax credit at the end of each year. These one-time programming costs are estimated at \$13,300 in FY 2011-12.

Procurement Costs. Finally, because the state purchases millions of dollars of goods and services from private companies, the bill will potentially prevent some companies from contracting with the state. The state would still require the good or service and would presumably engage with another company for this purpose. It is unknown whether the cost of a new contract with another company would be increased, but it can be assumed that the non-compliant company was selected to minimize state costs. Thus, an alternative bid will likely cost more or the good or service provided may be of lower quality.

Expenditures Not Included

Certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills. The costs subject to this policy are summarized in Table 1.

Table 1. Expenditures Not Included Under HB11-1238*		
Cost Components	FY 2011-12	FY 2012-13
Supplemental Employee Retirement Payments	7,413	7,413
TOTAL	\$7,413	\$7,413

**More information is available at: <http://colorado.gov/fiscalnotes>*

State Appropriations

In FY 2011-12, the Department of Revenue will require a General Fund appropriation of \$13,300. Other agencies will require appropriations totaling at least \$34,458 and 1.0 FTE. Further detail on these additional appropriations will be provided in a revised fiscal note as further information becomes available.

Departments Contacted

Governor's Office
Health Care Policy and Financing
Personnel

Local Affairs
Public Health and Environment
Revenue