

**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 11-0196
Prime Sponsor(s): Rep. Kerr A.

Date: February 22, 2011
Bill Status: House Finance
Fiscal Analyst: Marc Carey (303-866-4102)

TITLE: CONCERNING TAX INCENTIVES FOR DISTRIBUTED ELECTRICAL GENERATION WIND TURBINE SYSTEMS.

| Fiscal Impact Summary | FY 2011-2012 | FY 2012-2013 | FY 2013-2014 |
|--|---------------------|----------------------|----------------------|
| State Revenue General Fund | | at least (\$382,644) | at least (\$847,932) |
| State Expenditures | | | |
| FTE Position Change | | | |
| Effective Date: Upon signature of the Governor, or upon becoming law without his signature. | | | |
| Appropriation Summary for FY 2011-2012: None required. | | | |
| Local Government Impact: None | | | |

Summary of Legislation

This bill creates a series of tax incentives to promote electrical generation through the use of distributed generation (DG) wind turbine systems. The bill defines such systems as those with a capacity of between 100 and 700 kilowatts per hour that are installed behind the meter or a residential or commercial building.

Sales and Use Tax Exemption. For calendar years 2013 through 2016, the bill creates a sales and use tax exemption for the sales, storage, and use of such systems and the components used to build these systems. This means that neither the parts used to build a system, nor the system as a whole, would be subject to state sales and use tax.

Income Tax Credit. For income tax years 2013, 2014, and 2015, the bill creates an income tax credit equal to 20 percent of the total installed costs of a new DG wind turbine system.

Business Investment Tax Credit. For income tax years 2013, 2014, and 2015, the bill creates a business investment tax credit for taxpayers who invest in a Colorado small business that:

- is involved in the manufacturing of DG wind turbine systems; and
- will bring a net job growth of at least 100 jobs during the 2012 income tax year.

The credit equals 20 percent of a qualified investment made in a qualified small business.

Exemption from Income Tax Withholding Requirement. For income tax years 2013, 2014, and 2015, the bill exempts any business that manufactures DG wind turbine systems and has a net job growth of 100 or more new jobs during the 2012 income tax year from the income tax withholding requirement.

Background

According to the American Wind Energy Association, there are currently 41 wind turbines of qualified size (capacity between 100 kw and 700 kw) operating in the United States, with none operating in Colorado. New Millenium Wind Energy is raising \$35 million in capital to open production for turbines of a qualified size in Colorado, and would be the primary beneficiary of the tax incentives contained in this bill. Table 1 presents information on the projected production of turbines of a qualified size over the next 5 years.

| Capacity | Unit Price | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------|-------------------|-------------|-------------|-------------|-------------|-------------|
| 120 kw | \$124,500 | 4 | 120 | 140 | 150 | 175 |
| 200 kw | \$185,000 | 14 | 85 | 160 | 175 | 200 |
| 500 kw | \$411,000 | 2 | 36 | 72 | 120 | 180 |
| 700 kw | \$601,000 | 0 | 6 | 48 | 84 | 110 |
| TOTAL | | 20 | 247 | 420 | 529 | 665 |

Source: New Millenium Wind Energy LLC.

State Revenue

General Fund. The provisions of HB 11-1103 would result in an estimated reduction in General Fund revenue of at least \$382,644 in FY 2012-13 and \$847,932 in FY 2013-14.

General Fund revenue losses would occur to the state from the sales and use tax exemption provision, the income tax credit provision, and the business investment tax credit provision of the bill. Specifically, Table 2 presents information on individual types of revenue losses based on the following assumptions:

- New Millennium Wind Energy would produce qualified units according to the production schedule contained in Table 1 above without passage of HB 11-1103;
- Based on current preorders for these units, four 200 kw systems would be sold in Colorado in 2013, eight 200 kw systems in 2014, eleven 200 kw systems in 2015, and fourteen 200 kw systems in 2016;
- \$3 million of the required \$35 million in venture capital investment would be from Colorado investors, beginning in 2013 and continuing in 2014 and 2015;

- 50 percent of the income tax credit revenue loss would occur in FY 2012-13 on an accrual accounting basis;
- five-twelfths of the sales and use tax exemption revenue loss would occur in FY 2012-13 on an accrual accounting basis; and
- because of patent protections, no other companies would produce or sell qualified wind turbine systems in Colorado during this period.

| Cost Components | 2013 | 2014 | 2015 |
|--------------------------------|-------------------|-------------------|-------------------|
| Sales and Use Tax Exemption | \$20,745 | \$41,491 | \$57,050 |
| Income Tax Credit | 148,000 | 296,000 | 407,000 |
| Business Investment Tax Credit | 600,000 | 600,000 | 600,000 |
| | FY 2012-13 | FY 2013-14 | FY 2014-15 |
| General Fund Revenue Loss | \$382,644 | \$847,932 | \$992,559 |

State Expenditures

Department of Revenue. Because only a small number of entities at most would qualify for the tax incentives contained in this bill, any additional administrative costs for the department can be absorbed within existing appropriations.

Local Government Impact

This bill will result in a revenue loss for local government due to the sales and use tax exemption contained in the bill. Because it's not known where the sales would occur, and thus which local governments would incur revenue losses, quantifying total local revenue losses is not possible.

Departments Contacted

Revenue