HB11-1311

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number: LLS 11-1063
Prime Sponsor(s): Rep. Swerdfeger; Kerr A.
Sen. Giron

Date: April 28, 2011
Bill Status: House Economic and Business Development
Fiscal Analyst: Alex Schatz (303-866-4375)

TITLE: CONCERNING THE NUMBER OF PROJECT APPLICATIONS THAT THE COLORADO ECONOMIC DEVELOPMENT COMMISSION MAY APPROVE FOLLOWING APPROVAL OF TWO INITIAL PROJECTS PURSUANT TO THE "COLORADO REGIONAL TOURISM ACT".

Fiscal Impact Summary	FY 2011-12	FY 2012-13 *	FY 2013-14 *
State Revenue		See State Revenue section.	
State Expenditures			
General Fund		$28,679	$26,798
Cash Funds **		** 10,000	** 10,000
FTE Position Change		0.4 FTE	0.4 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: None required.			
Local Government Impact: See Local Government Impact section.			

* *Fiscal impacts of the bill are presumed to commence in FY 2012-13. See further discussion in the State Expenditures section.*

** *Cash funds costs are for the Department of Revenue to implement this bill. All Department of Revenue costs will be reimbursed by financing entities on whose behalf the department collects tax receipts.*

This fiscal note is preliminary. State and local agencies were canvassed for analysis but were not uniformly able to respond, or respond with comprehensive analysis, by the time of this writing. The fiscal note will be revised as new information becomes available.

Summary of Legislation

Under current law, the Economic Development Commission (EDC) may approve up to two regional tourism projects in the state, including, for each, designation of a regional tourism zone, the creation of a regional tourism authority, and designation of a financing entity to receive and use state sales tax increment revenue for eligible costs.

The bill specifies that two initial regional tourism projects may be approved by the EDC. In the two calendar years following the approval of the initial projects, two additional regional tourism projects may be approved by the EDC in each calendar year, up to four additional projects under the bill.

Background

Tax increment financing (TIF) is a tool used by government agencies to set aside a revenue stream for the repayment of bonds or for another specific purpose. Local governments in Colorado most commonly use TIF to generate capital for urban renewal projects. The tax increment is identified as the difference between the initial revenue base within the TIF district and the amount of additional tax collections after the TIF is established by a financing entity (e.g., an urban renewal district). Base revenues are unaffected by the TIF, but tax collections above the base are diverted to the financing entity.

Regional tourism authorities are the product of legislation passed in 2009. Since the enactment of SB09-173, numerous applications have been submitted to the EDC, but none have been given final review or approval.

Under current law, only two projects may be approved by the EDC as a regional tourism authority, and no project may be approved if it would cause a cumulative state sales tax increment exceeding $50 million. Delays in project review are due in part to a shortage of resources in the Office of Economic Development and International Trade (OEDIT, as staff to the EDC) and the Governor's Office generally, relative to the rigor of analysis required by SB09-173 and the number of competitive projects submitted for review.

State Revenue

The net revenue effect of current law under the Colorado Regional Tourism Act is to grant local governments control over certain revenue otherwise deposited in the General Fund, effectively reducing state revenue. State sales tax collections within each regional tourism zone are diverted to a local government entity until the local financing entity's indebtedness for eligible regional tourism improvements is retired. Under current law, which provisions are not altered by this bill, the maximum amount of projected state sales tax increment money that may be lost in any given year is $50 million.

This bill affects state revenue, including the total impact on General Fund revenue, to the extent that two projects would not realistically reach the $50 million cap under current law, and to the extent that implementation of six projects over three successive years causes the $50 million cap to be reached sooner. The General Fund impact of the bill depends on the sales tax generating capacity of each approved regional tourism project, as well as the order and speed of their implementation.

Regional tourism projects have the potential to positively impact state sales tax. By attracting spending from tourists and other out-of-state sources, these projects may create sales and property tax growth that would not otherwise occur. New state sales taxes may be generated in the vicinity of a regional tourism project but outside the TIF zone, and state sales taxes will increase inside the TIF zone once the local financing entity has retired its debt.

State Expenditures

The bill will impact state expenditures, but the actual impact will depend on the complexity and size of proposed projects, among other factors, as well as the schedule for approving the two initial regional tourism projects authorized under current law. Because this bill extends the regional tourism project in future fiscal years, no appropriation is necessary at this time and costs will be addressed in the annual budget process.

By expanding the regional tourism program to six potential projects, it is assumed that approximately 10 new applications will be received by the EDC; in any event, the EDC must evaluate all current and future applications and determine which additional projects will receive approval. The fiscal note assumes that the two initial projects authorized under current law are approved in FY 2011-12 and additional projects authorized by the bill are approved at a rate of two per year in FY 2012-13 and FY 2013-14. Summary tables in this note have been accordingly adjusted to focus on the future fiscal years affected by the bill.

Economic Development Commission (EDC). The Economic Development Commission requires staff experienced in program management and finance to perform various tasks under the Colorado Regional Tourism Act. The EDC and its staff must coordinate with the Department of Revenue (CDOR), ensure that applications are complete, provide substantive review of each application, and monitor and report on approved projects. **The EDC has not formally responded to the fiscal note process as of this writing.**

Based on the backlog of projects at existing staff levels and preliminary analysis of OEDIT strategies for implementing TIF programs, the EDC will require $28,679 General Fund and 0.4 FTE in the first year of additional projects and $26,798 and 0.4 FTE in the second year of additional projects. These costs, projected in FY 2012-13 and FY 2013-14, respectively, are shown in Table 1. EDC costs to monitor and report on approved projects extend to subsequent fiscal years and will be absorbed in existing resources or addressed through the budget process at that time.

Table 1. Costs to the EDC Under HB11-1311		
Cost Components	**FY 2012-13**	**FY 2013-14**
Personal Services	$26,418	$26,418
FTE	0.4	0.4
Operating Expenses	380	380
Capital Outlay	1881	0
TOTAL	**$ 28,679**	**$ 26,798**

Department of Revenue (CDOR). Under current law, CDOR is required to establish the sales tax base in a regional tourism zone, to collect and remit to the local financing entity the state sales tax increment, and to submit an annual report to OEDIT for review by the legislature. Costs associated with these responsibilities include programming and record-keeping to identify retailers inside a regional tourism zone. Assuming two projects are implemented in a fiscal year, the estimated cost of the bill to CDOR is $10,000 in cash funds received as reimbursements from local financing entities *after the fiscal year in which initial projects are approved*. No appropriation is required for CDOR until additional projects authorized by the bill have been approved by the EDC; these costs will be addressed through the budget process at the appropriate time.

Department of Transportation (CDOT). New regional, large-scale tourism projects may require modifications to the state transportation system to accommodate visits. Costs for transportation improvements will be paid or reimbursed to CDOT from revenue collected and allocated by the local financing entity.

School Finance. To the extent that additional regional tourism projects increase property values and property tax collections, this reduces some pressure on state funding of local school districts through the school finance act.

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 HB 11-1311*		
Cost Components	**FY 2012-13**	**FY 2013-14**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$2,840	$2,840
Supplemental Employee Retirement Payments	1,195	1,195
TOTAL	**$4,035**	**$4,035**

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

Local Government Impact

The bill will apply the local government impacts of SB09-173 to a possible four additional local project areas in the state. Under current law, local governments form financing entities and submit applications for a regional tourism authority. The application process and other costs to establish the project are paid prior to the collection of tax increment revenue. The state sales tax increment and a potential increase in both local sales tax and property tax collections results in increased revenue following the successful implementation of a regional tourism project.

Departments Contacted

Office of Economic Development and International Trade
Revenue
Governor's Office
Local Affairs
Transportation