

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

Drafting Number: LLS 11-0186

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Prime Sponsor(s): Rep. Tyler

Bill Status: House Economic and Business Development

Fiscal Analyst: Jonathan Senft (303-866-3523)

TITLE: CONCERNING BUSINESS DEVELOPMENT IN THE STATE.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue		
General Fund	\$1,878,392	\$3,756,784
Technical Assistance Program Cash Fund	Gifts, Grants and Donations	Gifts, Grants and Donations
Self Employment Assistance Cash Fund	Gifts, Grants and Donations	Gifts, Grants and Donations
State Expenditures		
General Fund	\$231,259	\$231,259
FTE Position Change	4.0 FTE	4.0 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2011-2012: See State Appropriations section.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

This bill creates a program to provide small businesses with consulting, marketing, and legal services. It also creates another program for unemployment insurance recipients, which provides capital and advice to start their own business. Two cash funds are established for these programs respectively. Finally, this bill reduces two tax credits provided under the enterprise zone program: the investment tax credit and the credit for employees hired at a new business facility.

Background

The enterprise zone program provides tax incentives to encourage businesses to locate and expand in designated economically distressed areas of the state. There are 16 enterprise zones and 2 sub-zones in Colorado. Businesses located in an enterprise zone may qualify for up to nine enterprise zone tax credits that encourage job creation and investment in the enterprise zone.

This bill reduces the amount of tax credits available for two of these nine: the enterprise zone investment tax credit and the new business facility (NBF) jobs credit.

Enterprise Zone Investment Credit. Businesses making investments in equipment used exclusively in an enterprise zone may claim a credit against their Colorado income taxes equal to 3 percent of the amount of the investment per year. This primarily applies to investments in tangible personal property. For income tax years starting on or after January 1, 2012, this bill reduces the amount that can be claimed from 3 percent to 2.7 percent.

New Business Facility (NBF) Jobs Credit. Businesses hiring new employees in connection with a new business facility located in an enterprise zone may claim a tax credit against state income taxes equal to \$500 for each new employee. For income tax years starting on or after January 1, 2012, this bill reduces the credit from \$500 per employee to \$450.

State Revenue

In FY 2011-12, this bill increases state General Fund revenue by \$1,878,392 in tax incentives no longer issued. In FY 2012-13, this bill increases General Fund state revenue by \$3,756,784 in tax incentives no longer issued. This bill lowers the maximum amount of tax credit provided for enterprise zone total qualified investment in certain property from 3 percent to 2.7 percent. In FY 2011-12, corporations and individuals are projected to claim \$34,407,840 in enterprise zone investment credits, assuming the same level of investment for future years, \$30,967,056 in credits will be claimed. The resulting \$3,440,784 reflects impact of the bill, with FY 2011-12 reflecting the accrual for one half of the year.

In addition, this bill reduces the per employee tax credit given to employers engaged in the enterprise zone program. Under current law, a tax credit of \$500 is given to such employers, per employee. This bill reduces the credit to \$450. There are currently 6,320 claimed employees under the enterprise zone program, therefore the reduction produces \$316,000 in additional revenue. The revenue identified in FY 2011-12 represents a half-year impact.

State Expenditures

In FY 2011-12 and each year thereafter, the Governor's Office will require \$50,731 (1.0 FTE); the Department of Higher Education will require \$50,731 (1.0 FTE); and the Department of Labor and Employment will require \$101,462 (2.0 FTE).

Governor's Office. The technical assistance program administered by the Office of Economic Development and International Trade (OEDIT) requires 1.0 FTE and \$50,731. The program is designed to provide small businesses with consulting, marketing and legal services which will be provided by OEDIT. Many of the responsibilities specified in this bill are currently performed by OEDIT under the Small Business Development Centers (SBDC) program, a program of the Small Business Administration. This program currently receives up to \$1.5 million per year

in federal funding, which must be matched by state funds. The bill requires OEDIT to seek proposals and ultimately hire a contractor, or contracted entity, to manage the program. Under the SBDC this may not be necessary, as the office currently performs the bulk of the tasks defined by the bill. At minimum, one additional FTE is required to perform database acquisition and marketing of the project statewide. These duties are in addition to those outlined below to represent OEDIT in the Self-Employment Assistance program. Although the costs for program may be paid from the Technical Assistance Program Cash Fund, no funds are expected to be available. Consequently, this expense is represented as a General Fund expense.

Higher Education and Department of Labor and Employment. The Self Employment Assistance Program requires 3.0 FTE; 1.0 allocated to the Department of Education and 2.0 to the Department of Labor and Employment. This program is designed to support unemployment insurance recipients by providing grants for training and business support services. The additional FTE will establish an advisory committee to delineate key roles among the three relevant agencies, the Department of Labor, Higher Education and the Colorado Workforce Council, in addition to the OEDIT staff mentioned above. Each staff member will serve as an agency liaison for this project. This will be an ongoing responsibility that involves setting up processes, recommending program design and training, and reviewing RFP submissions, at a minimum. Although staff costs may be drawn from the cash fund created by this bill, no funds are expected to be available. Consequently, this expense is represented as a General Fund expense.

This program also allows for a grant to be awarded to qualifying recipients of unemployment insurance, each of which will amount to no more than \$2,500. Since there are many thousands of recipients of Colorado unemployment insurance, and it is unknown how many would enroll in the program, the costs of these grants to the state is impossible to determine. In addition, funding for the program is identified as gifts, grants and donations, which may or may not be available.

Expenditures Not Included

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

Table 1. Expenditures Not Included Under HB11-1147*		
Cost Components	FY 2011-12	FY 2012-13
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$28,400	\$28,400
Supplemental Employee Retirement Payments	9,441	9,441
TOTAL	\$37,841	\$37,841

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

Local Government Impact

Costs to administer the assistance of the unemployment insurance recipients will be incurred at the local level. There are nine workforce regions; eight are run by counties and the ninth region is the Colorado Rural Workforce Consortium, run by the state. At the workforce centers, staff will provide information regarding the entrepreneurial program to claimants who go to the workforce center for services. Staff at workforce centers may refer the unemployed individual to OEDIT to participate in the self employment assistance program or staff might be expected to recruit, counsel, and approve training for the individuals willing to enter the program. This bill will require more work by staff in these workforce centers.

State Appropriations

In FY 2011-12, the following General Funds appropriations are required:

- \$50,731 and 1.0 FTE to the Governor's Office;
- \$50,731 and 1.0 FTE to the Department of Higher Education; and
- \$101,462 and 2.0 FTE to the Department of Labor and Employment.

Departments Contacted

Governor's Office Labor and Employment Revenue Treasury