SB13-273

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 13-0877	**Date:**	April 18, 2013
Prime Sponsor(s):	Sen. Schwartz; Nicholson Rep. Hamner	**Bill Status:**	Senate Agriculture
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TITLE: CONCERNING INCENTIVES FOR THE BENEFICIAL USE OF FOREST BIOMASS.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue General Fund	($12,000)	($149,000)
State Expenditures		
FTE Position Change		
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2013-2014: None required		
Local Government Impact:		

Summary of Legislation

This bill provides a variety of incentives for the use of forest biomass within "red zones". The bill defines a "red zone" as a wildland-urban interface area of high wildfire risk in Colorado, identified by the Colorado Forest Service's (CSFS) updated red zone map. Specifically, the bill:

- directs the CSFS to collaborate with federal agencies to facilitate the use of forest biomass as feedstock for timber mills;
- authorizes the CSFS to assist communities in high risk areas with their community wildfire protection plans;
- directs the Office of Economic Development (OED) to apply economic development tax credits and incentives to entities in the forest products industry and owners of biomass energy businesses located in red zones;
- authorizes the Department of Revenue to evaluate and apply such economic development tax credits and incentives to forest, agriculture and biomass industries;
- authorizes the Air Quality Control Commission to analyze equipment fueled by biomass for compliance with air emissions standards; and
- requires the Colorado Public Utilities Commission, when evaluating the use of biomass in electricity generation, to consider the contribution of this fuel source to wildfire risk mitigation.

Background

The Enterprise Zone program consists of several tax credits that are available to corporations, business partnerships, and individuals who locate, invest, or make contributions to qualifying activities within a zone. Table 1 summarizes the tax credits available under Colorado's existing Enterprise Zone program.

Table 1: State Enterprise Zone Income Tax Credits

Statutory Section	State Enterprise Zone Income Tax Credits
39-30-103.5	***Contributions to Enterprise Zone Administrators to Implement Economic Development Plans -*** 25 percent of the contribution up to $100,000 for economic development, including assistance for homeless persons or a non-profit or government-funded community development project (5-year carry forward for unused credits)
39-30-105 (1)	***New Business Facility Employees -*** $500 for each new employee hired plus $200 for each employee paid with a health insurance policy (5-year carry forward for unused credits)
39-30-104 (1)	***Investment -*** 3 percent of investment (up to a 12-year carry forward and 3-year carry back period for unused credits)
39-30-104 (4)	***Job Training -*** 10 percent of training costs (12-year carry forward for unused credits)
39-30-105 (3)	***New Business Agricultural Processing Facility -*** $1,000 for each new employee hired (5-year carry forward for unused credits)
39-30-105.5	***Research and Development -*** 3 percent of increased research and development costs (no limit on carry forward for unused credits)
39-30-105.6	***Rehabilitation of Vacant Buildings -*** 25 percent of the cost up to $50,000 per building at least 20 years old and vacant for two years (5-year carry forward for unused credits)

Additional enterprise zone incentives. A sales and use tax exemption is available for purchases of certain machinery, such as machine tools valued at over $500 used in mining or oil and gas operations in an enterprise zone (Section 39-30-106, C.R.S.).

A municipality or county may also negotiate a property tax and/or sales tax incentive payment with any taxpayer who establishes a new business facility or expands an existing new business facility within an enterprise zone (Sections 39-30-107.5 (1) and (2), C.R.S.). The property tax incentive payment is capped at the lesser of: the taxes owed on real and personal property; or the difference between the current property taxes owed and the taxes owed for the same property one year before the enterprise zone was approved. The sales tax incentive payment is capped at the sales taxes levied by the taxing authority for the purchase of equipment, machinery, machine tools, or supplies used in the taxpayer's business in the enterprise zone.

State Revenue

General Fund. This bill will result in an estimated reduction of General Fund revenue of $500,000 in FY 2013-14 and $1.1 million in FY 2014-15. The FY 2013-14 impact is for one-half year on an accrual accounting basis.

Senate Bill 13-273 extends existing tax credits and incentives within enterprise zones to forest product and biomass energy businesses located within designated red zone areas. Table 2 shows the estimated revenue impact of the bill based on the following assumptions:

- $2 million of new capital investment annually in which 40 percent of the authorized credit will be claimed;
- $500,000 in contribution credits for FY 2014-15 (If no projects are approved by the Enterprise Zone administrator there will not be a fiscal impact);
- the investment tax credit and the contribution tax credit will provide the largest share of credits claimed by qualified businesses in red zone areas;
- initially, the majority of investments and contributions will be at lower levels (less than $500,000). Investments and contributions (and the number of claimed credits associated with them) will accelerate over time as affected businesses become aware of the extended availability.

Table 2. State Revenue Impact Under Senate Bill 13-273

Credit or Incentive	FY 2013-14	FY 2014-15
Investment Tax Credit	$12,000	$24,000
Contribution Credit	$0	$125,000
Other Credits and Incentives	Indeterminate	Indeterminate
TOTAL	**$12,000**	**$149,000**

State Expenditures

Office of Economic Development. The bill requires the OED to apply economic development tax credits and incentives to forest products and biomass energy businesses located within designated red zones, outside of exiting enterprise zone boundaries. The bill specifies that the OED must apply the credits and incentives using substantially the same procedures as are employed in enterprise zones. This fiscal note assumes that the credits and incentives will be the same as are currently utilized within existing enterprise zones, and that the required extension may be accomplished within existing appropriations.

Departments Contacted

Higher Education	Public Health and Environment	Revenue
Regulatory Agencies	Office of Economic Development	

Departmental Differences

Office of Economic Development. The office interprets the bill to require that they will need to develop and administer a wholly new system of tax credits and incentives for qualified businesses in red zone areas. Required personnel expenditures would total $89,353 and 1.0 FTE in FY 2013-14 and beyond. In addition, the office would require one-time expenses of $20,000 for an expert consultant to develop the details of the program and the processes for administering the program. In addition, the office understands these credits to be fully transferrable, and as such would require an automated tracking system and database to monitor, track and report on incentives awarded through this new program. This fiscal note assumes that the bill merely extends the existing credits and incentives within enterprise zones to specified businesses within red zones but outside existing enterprise zone boundaries. In addition, the fiscal note assumes the credits to be transferrable only among investors within a qualified project, and not generally so. Thus, these identified costs were not included within the fiscal note.