SB15-282

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL CONDITIONAL FISCAL IMPACT

Drafting Number: LLS 15-0957
Prime Sponsor(s): Sen. Scott; Johnston
Rep. Duran; Willett

Date: April 29, 2015
Bill Status: Senate SVMA
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BILL TOPIC: JUMP-START PROG ECON DEV DISTRESSED COUNTIES

Fiscal Impact Summary*	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
State Revenue	**(at least $145,409**	**(at least $678,578)**	**(at least $1.4 million)**	**(at least $2.1 million)**
General Fund	(at least $145,409)	(at least $675,578)	(at least $1.4 million)	(at least $2.1 million)
State Expenditures		**$58,035**		
General Fund		$58,035		
School Finance		Potential increase	Potential increase	Potential increase
FTE Position Change				
Tabor Set-Aside	(at least $145,409)	(at least $678,578)	*unknown*	*unknown*
Appropriation Required: None.				

* *This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.*

Summary of Legislation

Senate Bill 15-282 provides tax benefits to approved new businesses that locate inside a distressed county and establish a relationship with a state institution of higher education located in the distressed county.

The business must be new to the state, hire at least eight new employees, and not directly compete with the core function of a business that is already operating in the state.

The bill defines a distressed county as a county that meets two of the three following criteria:

1. the county's annual percent change in employment is less than the state's annual percent change in employment;
2. the county's annual percent change in total assessed value of property is less than the state's annual percent change in assessed value; or
3. the county's percentage of pupils eligible for free lunch is greater the statewide average.

Counties that meet the above criteria are then ranked from lowest to highest based on the sum of each county's annual percentage change in population, employment, weekly wage, and number of establishments. Each highly distressed county retains its designation for three years.

The Colorado Economic Commission is responsible for developing guidelines for the administration of the tax-friendly zone program. By December 1, 2015, the Commission shall determine which of the state's counties are highly distressed.

In order to be designated a tax-friendly zone, the highly distressed county and the municipalities with boundaries wholly or partially within the highly distressed county must adopt a resolution affirming that it will provide incentive payments, exemptions, or refunds to new businesses to eliminate the business personal property tax, but not the real property tax, and eliminate any other tax liability imposed on the new businesses. The commission will ensure the counties and municipalities qualify as a tax-friendly zone.

A new business that establishes a relationship with a state institution in a tax friendly zone will receive the following state tax benefits in addition to county and municipality incentives:

- a refundable income tax credit equal to 100 percent of the income taxes imposed on the income derived from the new business activities in the tax-friendly zone; and
- a sales and use tax refund on the purchase of all tangible personal property acquired by the new business and used exclusively within the tax-friendly zone.

In addition, new employees of the new business are entitled to receive a 100 percent refundable income tax credit on their wages.

The state credits and refunds are available for five years, beginning with the first income tax year the business has been approved to receive tax benefits. The business may request a five year extension from the Commission, but may not receive benefits for more than 10 years.

State Revenue

General Fund revenue will decrease by at least$145,409 in FY 2015-16, $678,578 in FY 2016-17, $1.4 million in FY 2017-18, and $2.1 million in FY 2018-19. Table 1 shows counties that would currently qualify as a highly distressed county as defined under Senate Bill 15-282 and the state institutions of higher education located inside the county.

The fiscal note assumes that six new companies would qualify for the tax credits in this bill and these companies would have been created or relocated to Colorado under current law without the tax benefits offered in this bill. The number of qualifying companies is expected to increase in subsequent years. In 2013, Colorado had gross job gains of about 550,000. These job gains are expected to continue under current law and are derived from new business creation, existing business expansions, and businesses relocating to Colorado. The fiscal notes assumes that a small subset of these companies will change their original business plans and locate inside a tax-friendly zone instead of other areas in the state. In FY 2013-14, an average Colorado business and its employees paid a total of $48,470 in state sales, use, and income taxes. To the extent businesses are incentivized to locate in Colorado exclusively because of the bill, the revenue impact will be offset.

The fiscal notes does not reflect any positive economic impacts if the bill incentivizes new businesses to relocate or establish a new business inside Colorado that would not have occurred otherwise.

Table 1. Highly Distressed Counties with a State Institution of Higher Education*

County	State Institution of Higher Education
Las Animas	Trinidad State Junior College
Gunnison	Western State Colorado University
Prowers	Lamar Community College
Otero	Otero Junior College
Mesa	Colorado Mesa University
Morgan	Morgan Community College
Boulder	University of Colorado Boulder

* Counties are subject to change based on the latest data

State Expenditures

Expenditures will increase by $58,035 in FY 2016-17. New expenditures are for one-time programming costs to update the GenTax system. It is estimated this will require 265 hours of programming at $219 per hour. In addition, the state may incur additional school finance expenditures when local governments grant business personal property tax exemptions to businesses that qualify for the tax credits in the bill. A portion of business personal property taxes contribute to the local share of school finance, which may need to be backfilled by the state. If the state decides not to backfill the reduced local share of school finance, school districts will lose total program funding.

Local Government Impact

Participation by municipalities would be voluntary under this bill. If the municipality elects to participate in the tax-friendly zone, it would be required to offer exemptions, refunds or incentive payments in connection with all municipal taxes paid. The amount of lost revenue to the municipality would vary with the magnitude of the business receiving the benefit.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Counties
OEDIT
Revenue
Municipal League
Personnel
Higher Education
DOLA