HB06-1017

Colorado Legislative Council Staff

STATE FISCAL IMPACT

Drafting Number:	LLS 06-0489	**Date:**	February 1, 2006
Prime Sponsor(s):	Rep. Hall	**Bill Status:**	House Business Affairs & Labor
		Fiscal Analyst:	Josh Harwood (303-866-4796)

TITLE: CONCERNING THE CREATION OF A PERFORMANCE-BASED INCENTIVE FOR EMPLOYERS THAT CREATE HIGH QUALITY NEW JOBS IN THE STATE.

Fiscal Impact Summary	FY 2006/07	FY 2007/08
State Revenues General Fund*		
State Expenditures General Fund*	$8,300,000	$16,600,000
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: Upon signature of the Governor.		
Appropriation Summary for FY 2006/07: Office of the Governor: $8,300,000, General Fund.		
Local Government Impact: None.		

** Note: Please see Other State Impact section for information concerning jobs created through the implementation of the bill that would not have otherwise occurred.*

Summary of Legislation

The bill provides an incentive for companies that create a certain number and type of new job in Colorado. The qualifications that an employer must meet in order to receive the incentive payment are:

- in a given month, they must create at least ten new jobs if the employer is located in an urban area and five if they are in a rural area in a given month, and retain the employees for at least a year;
- the new jobs must increase the employer's workforce over the previous three-year average; and,
- the employer must earn at least 50 percent of its gross receipts from products produced in Colorado from persons outside of Colorado, or the average wage of the new employees must be at least 110 percent of the average county wage.

An urban area is defined as a county or municipality with at least 50,000 people, or an unincorporated part of a county within ten miles of a municipality with at least 50,000 people. If the employer is claiming an incentive payment based on the fact that it receives 50 percent of its gross receipts from outside Colorado, the incentive payment would be $1,000 per employee. For an

employer claiming an incentive payment based on the wages of its new employees, the incentive amounts would be as follows:

- $1,000 per new employee if the average wage is between 110 percent and 115 percent of the average county wage;
- $1,250 per new employee if the average wage is between 115 percent and 120 percent of the average county wage; or,
- $1,500 per new employee if the average wage is over 120 percent of the average county wage.

To claim the incentive, an employer must submit an application to the Economic Development Commission. The commission will develop procedures and include information regarding the program in its annual report to the General Assembly. Any incentive payment claimed would be in addition to any enterprise zone credit for a new business facility for which an employer could qualify.

This act is repealed effective July 1, 2017.

State Expenditures

State expenditures would be increased by the amount of credits received by companies that would have added employees regardless of the bill. Based on data compiled by the Bureau of Labor Statistics' Local Employment Dynamics program, over the course of a year, jobs created through business openings and expansions of existing businesses in Colorado total roughly 290,000. It should be noted that this annualized number already excludes temporary and contract employees whose term is under one-year. Table 1 summarizes the assumptions used to calculate the impact of this bill from the base of 290,000 new jobs. The result is that approximately 13,300 jobs would be eligible for this credit each year. Assuming that 80 percent of eligible credits are claimed and using an average credit level of $1,250, this bill would result in an increased expenditure of $16.6 million annually. Because the credit can only be received after the employee has spent a year on the job, the impact would begin in 2007, and would result in a half-year impact for the second half of FY 2006-07.

Table 1. Assumptions Used in Determining Fiscal Impact

Factor	Eligible Jobs/Impacts
Annual Gross Job Gains (Base Figure)	290,000
No. Full-time Employees (76.5%)	221,850
No. Qualifying under Wage *or* 50% Restriction (40%)	88,740
No. Added in 10 or 5 Employee Increments (25%)	22,185
No. in Companies Above Prior 3-year Average (75%)	16,639
No. of Eligible Claims Made (80%)	13,311
Average Amount Claimed	$1,250
Estimated Annual Expenditure	*$16,600,000*

Other State Impact

Jobs Created by the Bill. Because the degree to which jobs may be created expressly due to the bill is unknown, the fiscal impact stated above does not incorporate increased revenue from potential job creation. To the extent that the bill creates additional jobs *above what is expected under current law*, the sales and income tax revenue received from those jobs would serve to partially offset the expenditures specified above. The Office of Economic Development (OED) estimates that additional direct state tax revenue created per job would equal approximately $1,376 annually. It should be noted that the amount of new revenue associated with these jobs would grow over time to the extent that the jobs receiving the one-time credit remain after the year in which the credit is claimed. Also, the figure presented from OED summarizes only the direct state revenue impact, and does not include any expected local revenue collections or secondary impacts of increased employment. To the extent that any jobs are filled by people who move into the state, rather than those currently living in Colorado, the increase in population would serve to offset revenue increases, as the increased population would require additional government services.

State Appropriations

For FY 2006-07, the fiscal note implies that an appropriation of $8,300,000 General Fund to the Office of the Governor is necessary to implement the provisions of the bill.

Departments Contacted

Office of the Governor Labor Revenue Legislative Council Staff