HB 24-1295

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 24-0658	**Date:**	February 26, 2024
Prime Sponsors:	Rep. Titone; Herod Sen. Fenberg	**Bill Status:**	House Business Affairs & Labor
		Fiscal Analyst:	Brendan Fung | 303-866-4781 Emily Dohrman | 303-866-3687

Bill Topic: **CREATIVE INDUSTRIES COMMUNITY REVITALIZATION INCENTIVES**

Summary of Fiscal Impact:

☒ State Revenue ☐ State Transfer ☐ Local Government
☒ State Expenditure ☒ TABOR Refund ☐ Statutory Public Entity

The bill updates the Community Revitalization Grant Program and creates a new income tax credit for creative industry capital improvement projects in tax years 2026 through 2032. The bill decreases state revenue on net and increases state expenditures starting in FY 2024-25.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of $102,498 to the Office of Economic Development and International Trade.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 24-1295

		Budget Year FY 2024-25	Out Year FY 2025-26	Out Year FY 2026-27
Revenue	General Fund	-	($8,000,000)	($16,000,000)
	Cash Funds	$10,750	$133,500	$133,500
	Total Revenue	**$10,750**	**($7,866,500)**	**($15,866,500)**
Expenditures	General Fund	$102,498	-	$50,109
	Cash Funds	$10,750	$104,472	$104,472
	Centrally Appropriated	$17,741	$22,177	$22,177
	Total Expenditures	**$130,989**	**$126,649**	**$176,758**
	Total FTE	**0.8 FTE**	**1.0 FTE**	**1.0 FTE**
Transfers		-	-	
Other Budget Impacts	TABOR Refund	$10,750	($7,866,500)	Not estimated
	General Fund Reserve	$15,375	-	$7,516

Summary of Legislation

The bill modifies the Community Revitalization Grant Program in the Office of Economic Development (OEDIT) and creates a new community revitalization income tax credit for capital improvement projects that support creative industries and workers.

Grant program. The bill expands eligible grant recipients in the Community Revitalization Grant Program to include projects that are qualified for funding under the Space to Create Colorado Program, which assists rural communities with the development of affordable live-work and commercial spaces. Additionally, the bill extends deadlines for the Division of Colorado Creative Industries in OEDIT to adopt program-related policies and publish reports, and updates the program repeal date from January 1, 2025, to the date when all funds transferred to the Community Revitalization Cash Fund have been used.

Community Revitalization Tax Credit. The bill creates a state income tax credit for tax years 2026 through 2032 for expenses for capital improvement projects that support creative industries and mixed-use and creative-use spaces for the general public. The credit is equal to 25 percent of the project’s eligible expenses, with a maximum credit of $3 million per project. Additionally, the total amount of tax credit reservations cannot exceed $16 million per year, except that if less than $16 million is reserved in one year, the unreserved amount can be rolled forward into later years.

Applicants must apply for a tax credit reservation from OEDIT, and, once the project is completed, submit evidence of compliance and certification of expenditures to receive a tax credit certificate. Additionally, the bill authorizes OEDIT to levy an application and issuance fee to cover program implementation and administration.

Background

The Community Revitalization Program provides funding through grants for projects in historic, main street, and creative districts to further community economic development. The program is currently funded by federal dollars and has awarded approximately $98 million to 59 capital projects over two years.

State Revenue

The bill increases cash fund revenue beginning in FY 2024-25 and decreases General Fund revenue beginning in FY 2025-26. All impacted revenue is subject to the state TABOR limit. Revenue changes are shown in Table 2 and discussed below.

Table 2
Revenue Changes Under HB 24-1295

	Fund	FY 2024-25	FY 2025-26	FY 2026-27
Community Revitalization Tax Credit	General Fund	-	($8,000,000)	($16,000,000)
Issuance Fee	Cash Fund	-	$112,000	$112,000
Application Fee	Cash Fund	$10,750	$21,500	$21,500
	Total Revenue	**$10,750**	**($7,866,500)**	**($15,866,500)**

Community Revitalization Tax Credit. Based on the number of applications received for the current Community Revitalization Program, this fiscal note assumes that the amount reserved and issued each year will reach the $16 million cap. Tax credit certificates may be issued beginning in tax year 2026. The credit is expected to reduce General Fund revenue from the income tax by $8 million in FY 2025-26, representing an accrued half-year impact for tax year 2026, and $16 million in FY 2026-27, the first full year.

Issuance fees. OEDIT may impose an issuance fee of up to three percent of the amount of the tax credit certificate at the time that the tax credit certificate is issued to the applicant. The fiscal note assumes that OEDIT will impose a fee of 1.4 percent in FY 2025-26 and 0.7 percent in FY 2026-27 and later years, to approximate their costs.

Application fees. OEDIT may impose an application fee of up to $200 for applications requesting a tax credit of $250,000 or less, and a fee of up to $500 for applications requesting a tax credit of more than $250,000. The fiscal note assumes OEDIT will charge the maximum fee, and that the office will receive up to 10 applications requesting credits of less than $250,000 and up to 39 application requesting credits for more than $250,000. Actual revenue will vary depending on the number of applicants.

State Expenditures

The bill increases state expenditures in OEDIT and the Department of Revenue by about $131,000 in FY 2024-25, about $127,000 in FY 2025-26, and about $177,000 in FY 2026-27, paid from the General Fund and continuously appropriated cash funds in OEDIT. Expenditures are shown in Table 3 and detailed below.

Table 3
Expenditures Under HB 24-1295

	FY 2024-25	FY 2025-26	FY 2026-27
OEDIT			
Personal Services	$82,554	$103,192	$103,192
Operating Expenses	$1,024	$1,280	$1,280
Capital Outlay Costs	$6,670	-	-
Salesforce Development	$23,000	-	-
Centrally Appropriated Costs[1]	$17,741	$22,177	$22,177
FTE – Personal Services	0.8 FTE	1.0 FTE	1.0 FTE
OEDIT Subtotal	**$130,989**	**$126,649**	**$126,649**
Department of Revenue			
GenTax Programming	-	-	$18,540
Systems Support Office	-	-	$14,455
Office of Research and Analysis	-	-	$7,392
User Acceptance Testing	-	-	$6,624
Document Management	-	-	$3,098
Department of Revenue Subtotal	**$0**	**$0**	**$50,109**
Total Costs	**$130,989**	**$126,649**	**$176,758**
Total FTE	**0.8 FTE**	**1.0 FTE**	**1.0 FTE**

[1] *Centrally appropriated costs are not included in the bill's appropriation.*

Office of Economic Development and International Trade. In FY 2024-25, expenditures in OEDIT will increase by about $131,000 paid, in part, from tax credit application fee revenue in continuously appropriated cash funds. The remaining $120,000 will be paid from the General Fund. Beginning in FY 2025-26, expenditures will increase by about $127,000, paid entirely from continuously appropriated cash funds in OEDIT.

- **Staff.** Starting in FY 2024-25, OEDIT requires 1.0 FTE Program Management II to evaluate tax credit applications, administer the credit, manage program continuation, develop program materials, and communicate the tax incentive program. Staff costs and FTE are prorated in the first year based on the bill’s effective date.
- **Salesforce development.** OEDIT uses the management software Salesforce to oversee program applicants, analytics, and application development. In FY 2024-25, OEDIT requires an estimated $23,000 to integrate the new tax credit program into Salesforce.
- **Legal services.** OEDIT may require legal services, provided by the Department of Law, which can be accomplished within existing legal services appropriations. Legal counsel is related to rulemaking, implementation, and ongoing administration of the program.

Department of Revenue. Starting in FY 2026-27, expenditures will increase in DOR to update existing tax forms, test programming changes, and evaluate the new tax credit.

- **Computer programming and testing.** In FY 2026-27 only, workload in DOR will increase to update the GenTax software system and additional testing. Changes are programmed by a contractor at a cost of $231.75 per hour, for an estimated 80 hours. Additional computer and user acceptance testing are required to ensure programming changes function properly.
- **Data reporting.** Starting in FY 2026-27, workload in the Office of Research and Analysis will increase to collect and report data on the new tax credit.
- **Document management and tax form changes.** In FY 2026-27 only, workload in DOR will increase to update tax forms for paper filings. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated funds.

State Auditor. Starting in FY 2025-26, workload in the Office of the State Auditor will increase to measure the effectiveness of the tax credit in achieving the program's goals. This workload is expected to be minimal and no change in appropriation is required.

Department of Local Affairs. Starting in FY 2024-24, workload in the Department of Local Affairs will increase for the Division of Local Government to continue collaborating with OEDIT on grant application review and program development for the Community Revitalization Grant Program, and provide administrative support to the Space to Create Program. This workload is expected to be minimal and no change in appropriation is required.

Centrally appropriated costs. 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. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 3.

Other Budget Impacts

TABOR refunds. On net, the bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2023 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26.

The bill decreases General Fund subject to TABOR, which will decrease the amount of General Fund revenue required to be refunded to taxpayers with no net impact on the amount available for the General Fund budget.

The bill increases cash fund revenue subject to TABOR, which will increase the amount of General Fund revenue required to be refunded to taxpayers, correspondingly decreasing the amount available for the General Fund budget.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Technical Note

The bill states that fee revenue from applications and issuance must be used to cover expenses of administering the Community Revitalization Tax Credit, but does not specify into which fund the revenue should be deposited. The fiscal note assumes the revenue will be deposited into a cash fund that is continuously appropriated to OEDIT.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of $102,498 to the Office of Economic Development and International Trade, and 0.8 FTE.

State and Local Government Contacts

Local Affairs	Office of Economic Development	Personnel
Revenue	State Auditor	

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the General Assembly website.