HB 20-1003

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FINAL FISCAL NOTE

Drafting Number:	LLS 20-0077	**Date:**	October 8, 2020
Prime Sponsors:	Rep. Roberts; Rich Sen. Donovan; Scott	**Bill Status:**	Signed into Law
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Bill Topic: **RURAL JUMP-START ZONE ACT MODIFICATIONS**

Summary of Fiscal Impact:

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

This bill makes modifications to the Rural Jump-Start program and extends the program for an additional five years. The bill decreases state revenue and increases state expenditures beginning in FY 2020-21 through at least FY 2028-29.

Appropriation Summary: For FY 2020-21, the bill requires an appropriation of $45,563 to the Office of Economic Development and International Trade; however, no appropriation is included. See State Appropriations section.

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

Table 1
State Fiscal Impacts Under HB 20-1003

		FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenue	General Fund	($164,500)	($783,875)	($1.4 million)	($1.8 million)
	Total	**($164,500)**	**($783,875)**	**($1.4 million)**	**($1.8 million)**
Expenditures	General Fund	$45,563	$91,127	$91,127	$91,127
	Centrally Approp.	$8,862	$17,724	$17,724	$17,724
	Total	**$54,425**	**$108,851**	**$108,851**	**$108,851**
	Total FTE	**0.5 FTE**	**1.0 FTE**	**1.0 FTE**	**1.0 FTE**
Transfers		-	-	-	-
TABOR	General Fund	($164,500)	($783,875)	*not estimated*	*not estimated*

Summary of Legislation

This bill extends the Rural Jump-Start program for an additional five years. Under current law, the Colorado Economic Development Commission (EDC) may not approve additional zones or businesses after December 31, 2020.

In addition, the bill changes the competition clause to specify that a new business applying for the Rural Jump-Start program cannot compete with an existing business in the rural jump-start zone in which the new business will be located or in any distressed county that is contiguous to the zone. Under current law, the new business applying for the Rural Jump-Start program cannot directly compete with the core function of a business that is already operating in the state.

Finally, the bill allows defined economic development organizations to be authorized entities that the new business can establish a relationship with in order to apply for the Rural Jump-Start program. Under current law, the business can only submit its application to a state institution of higher education to participate in the program.

Background

The Rural Jump-Start program was created by Senate Bill 15-282. The program provides tax benefits to approved businesses that locate inside a rural jump-start zone and establish a relationship with a state institution of higher education, junior college, or an area vocational school. A rural jump start zone is an area within the distressed county. The Colorado EDC is responsible for developing guidelines for the administration of the rural jump-start zone program and identifying eligible distressed countries. The EDC may not approve additional zones or businesses after December 31, 2020.

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

Distressed Counties. A distressed county is defined as a county with a population less than 250,000 and meets certain indicators of economic distress, such as lower per capita income than the state average, lower gross domestic product than the statewide average, unemployment levels higher than the statewide average, a declining workforce, or a higher concentration of pupils eligible for free lunch compared to the statewide average.

The program is optional for distressed counties and municipalities wholly or partially within the highly distressed county. Distressed counties and municipalities that choose to join the program must adopt a resolution affirming that it will provide incentive payments, tax exemptions, or refunds to the new businesses that locate in a rural jump-start zone.

The following counties have formed a rural jump-start zone as of August 2019: Archuleta, Clear Creek, Delta, Dolores, Las Animas, Logan, Mesa, Moffat, Montezuma, Montrose, Otero, Prowers, Rio Blanco, Routt and San Juan.

The following counties have been designated by the EDC as a distressed county and are eligible to apply for the rural jump-start program as of June 30, 2019: Alamosa, Baca, Bent, Cheyenne, Clear Creek, Conejos, Costilla, Crowley, Custer, Fremont, Hinsdale, Huerfano, Jackson, Kiowa, Kit Carson, Lake, Lincoln, Mineral, Morgan, Phillips, Pueblo, Rio Grande, Saguache, Sedgwick, Washington, and Yuma.

Program Benefits. A new business that establishes a relationship with a state institution in a rural jump start zone will receive the following state tax benefits in addition to county and municipality incentives:

- an 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 business are entitled to receive an income tax credit equal to 100 percent of their wages.

The state credits and refunds are available for four years, beginning with the first income tax year the business has been approved to receive tax benefits. A new business may request from the EDC a four-year extension of the tax benefits. The EDC may limit the number of new employees who are eligible to receive tax credits in a jump start zone to either 200 or 300 under certain circumstances.

State Revenue

This bill is expected to decrease General Fund revenue by $164,500 (half-year impact) in FY 2020-21, $783,875 in FY 2021-22, $1.4 million in FY 2022-23, $1.8 million in FY 2023-24, $2.2 million in FY 2024-25, and by similar amounts each year through FY 2027-28. These estimates are based on the assumptions below. If the EDC approves a four-year extension of the tax benefits, General Fund revenue decreases will be extended through FY 2031-32. Revenue estimates are presented on a tax year basis in Table 2 and on a fiscal year basis in Table 3. The bill decreases income, sales and use tax revenue, which is subject to TABOR.

Assumptions. Data from the Office of Economic Development and International Trade (OEDIT) shows that there were 13 active new businesses with 215 new hire employees in a rural jump-start zone in 2019.

New Hire Income Tax Credit. The fiscal note assumes the EDC will approve 20 new businesses in 2021 and approximately 15 new businesses each year from 2022 through 2025. All the businesses will, on average, have 18 new hires each. However, only 30 percent of the new hires will qualify for the income tax credit in the first tax year the business has been approved to receive tax benefits. Data from the OEDIT shows that there is a "phase-in" of when new hires are eligible for the income tax credit as the employee must work at the business for more than six months to qualify. It is assumed that all employees will be eligible for the income tax credit by the second year the new business has been approved by the EDC.

New Business Income Tax Credit. In 2019, new businesses in rural jump-start zones claimed an average of $3,000 in corporate income tax credits. This fiscal note assumes that each new business will generate about $3,300 in corporate income tax credits each year from 2021 to 2025.

Sales and Use Tax Refund. Data from the OEDIT shows new businesses in a jump-start zone generated about $1,035 in state sales and use tax exemptions in 2018. The fiscal note assumes each new business will generate approximately $1,300 in sales and use tax exemptions in each year the business has been approved to receive the benefit.

Table 2
Estimated Revenue Impacts of HB 20-1003 by Tax Year
Dollars in Millions

Tax Year	2021	2022	2023	2024	2025	2026	2027	2028
New Businesses	20	15	15	15	15	-	-	-
Average New Hire	18	18	18	18	18	-	-	-
Total Employees	360	270	270	270	270	-	-	-
New Hire Income Tax Credit						Average Income Tax Credit: $2,500		
New Hires Claiming Credit *	108	441	527	735	799	782	576	304
Total of New Hire Tax Credit	$0.3	$1.1	$ 1.3	$1.8	$ 2.0	$2.0	$1.4	$0.8
New Business Income Tax Credit						Average Business Credit: $3,300		
Total Value of Business Tax Credit	$0.03	$0.09	$0.14	$0.19	$0.17	$0.15	$0.10	$0.05
New Business Sales and Use Tax Refund						Average Sale and Use Refund: $1,300		
Total Estimated Value of Refund	$0.03	$0.05	$0.07	$0.08	$0.06	$0.04	$0.04	$0.02
General Fund Revenue Impact	**($0.3)**	**($1.2)**	**($1.5)**	**($2.1)**	**($2.2)**	**($2.2)**	**($1.6)**	**($0.8)**

Totals may not sum due to rounding
** 30 percent in year one and 100 percent in years two, three, and four.*

Table 3
Estimated Revenue Impacts of HB 20-1003 by Fiscal Year
Dollars in Millions

	FY 20-21*	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 26-27	FY 27-28	FY 28-29*
Fiscal Impact	($0.2)	($0.8)	($1.4)	($1.8)	($2.2)	($2.2)	($1.9)	($0.4)

**Half-year impacts.*

State Expenditures

This bill will increase General Fund expenditures by $54,425 and 0.5 FTE in FY 2020-21 and by $108,851 and 1.0 FTE each year after through FY 2028-29. General Fund expenditures may be required through FY 2031-32 if companies ask for and receive a four-year extension of the credits. Expenditures are summarized in Table 4 and detailed below. This represents costs consistent with a continuation of current staffing levels.

Table 4
Expenditures Under HB 20-1003

	FY 2020-21	FY 2021-22
OEDIT		
Personal Services	$44,888	$89,777
Operating Expenses	$675	$1,350
Centrally Appropriated Costs*	$8,862	$17,724
FTE – Personal Services	0.5 FTE	1.0 FTE
Total Cost	**$54,425**	**$108,851**
Total FTE	**0.5 FTE**	**1.0 FTE**

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

Office of Economic Development and International Trade (OEDIT). The OEDIT will incur costs of $54,425 and 0.5 FTE in FY 2020-21 and $108,851 and 1.0 FTE through at least FY 2028-29. The costs are for a full-time manager to administer and monitor the program. The 0.5 FTE for FY 2020-21 reflects a January 1, 2021 start date, the date of the extension for the credits under this bill.

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 estimated to be $8,862 in FY 2020-21 and $17,724 in FY 2021-22.

TABOR refunds. Under the June 2020 LCS Economic and Revenue Forecast, the state is not expected to collect revenue above the TABOR limit in either FY 2020-21 or FY 2021-22, and refund obligations are not anticipated for these years. This bill does not change these expectations concerning refunds to taxpayers.

Local Government

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

Effective Date

The bill was signed into law by the Governor on July 6, 2020, and it took effect on September 14, 2020.

State Appropriations

For FY 2020-21, the bill requires a General Fund appropriation of $45,563 to the OEDIT, and an allocation of 0.5 FTE; however, the General Assembly passed the bill without an appropriation.

State and Local Government Contacts

Counties	Higher Education	Information Technology
Municipalities	OEDIT	Personnel
Revenue		