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Revised Fiscal Note

(replaces fiscal note dated April 13, 2021)

Drafting Number:	LLS 21-0886	Date:	April 30, 2021
Prime Sponsors:	Sen. Danielson; Story Rep. Amabile; McKean	Bill Status:	Senate Finance
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Bill Topic: RURAL JUMP-START ZONE GRANT PROGRAM

Summary of Fiscal Impact:	<input checked="" type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
	<input checked="" type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill creates the Rural Jump-Start Zone Grant Program to issue grants to new businesses that establish inside a rural jump-start zone and tier one transition communities, and to institutions of higher education or economic development organizations. The bill decreases state revenue through at least FY 2026-27, makes a one-time transfer of General Fund to a cash fund, and increases state expenditures beginning in FY 2021-22.

Appropriation Summary: For FY 2021-22, the bill includes a General Fund appropriation of \$3,000,000 to the Rural Jump-Start Zone Grant Fund and corresponding appropriation from the cash fund to the Office of Economic Development and International Trade.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the Senate Local Government Committee.

**Table 1
State Fiscal Impacts Under SB 21-229**

		Budget Year FY 2021-22	Out Year FY 2022-23
Revenue¹	General Fund	(\$98,835)	(\$476,715)
	Total	(\$98,835)	(\$476,715)
Expenditures	Cash Funds	\$1,009,283	\$1,990,633
	Centrally Appropriated	\$9,063	\$16,495
	Total	\$1,018,346	\$2,007,128
	Total FTE	0.5 FTE	1.0 FTE
Transfers	General Fund	(\$3,000,000)	-
	Cash Fund	\$3,000,000	-
		\$0	-
TABOR Refund		-	-

¹ See State Revenue section for additional revenue impacts through FY 2026-27.

Summary of Legislation

The bill creates the Rural Jump-Start Zone Grant program within the Office of Economic Development and Trade (OEDIT). Under this new program, the Colorado Economic Development Commission (EDC) may issue grants to new businesses that locate inside a rural jump-start zone (as identified through the rural jump-start program) or a tier-one transition community within a rural jump-start zone (as identified by Just Transition program), and establish a relationship with a state institution of higher education or economic development organization. Potential grant amounts for new businesses are detailed below in Table 2. The bill also allows the EDC to award grants of up to \$30,000 per applicant to institutions of higher education or economic development organizations to support the new businesses that they have collaborated with. The new benefits under the grant program would be available in addition to the current tax benefits available to new businesses through the rural jump-start program, which is discussed further in the Background section.

Additionally, the bill creates the Rural-Jump Start Grant Fund account. Any money not expended or encumbered in the fund at the end of a fiscal year remains available for expenditure in the next fiscal year without further appropriation.

To qualify for the grants, businesses must meet the eligibility requirements for the tax benefits as detailed in Section 39-30.5-104, C.R.S., including that 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. Grant amounts are based on the number of new hires and business location, as shown in Table 2.

Table 2
Grant Amounts for Qualified Businesses

Grant Purpose	Rural Jump-Start Zone	Tier One Transition Community
Establish Operations	Up to \$20,000	Up to \$40,000
New Hires	Up to \$2,500/hire	Up to \$5,000/hire

Background

Rural Jump-Start Program. The rural jump-start program was created by Senate Bill 15-282. The program provides tax benefits to approved businesses and their employees that locate inside a rural jump-start zone and establish a relationship with a state institution of higher education or economic development organization. Eligible businesses locating in a rural jump-start zone may receive tax benefits, including a tax credit equal to 100 percent of the income taxes imposed on a new business for income generated within a rural jump-start zone, and a full sales and use tax refund for purchases of any tangible personal property acquired by the new business and used exclusively within the rural jump-start zone. Additionally, new employees of eligible businesses may also receive a 100 percent income tax credit for work performed in a rural jump-start zone. The EDC is responsible for developing guidelines for the administration of the rural jump-start zone program and identifying eligible distressed countries. A rural jump-start zone is a designated area within a distressed county.

As of June 30, 2020, there are 14 companies participating in the rural jump-start zone program. To date, 16 counties have formed rural jump-start zones, including: Archuleta, Clear Creek, Delta, Dolores, Fremont, Las Animas, Logan, Mesa, Moffat, Montezuma, Montrose, Otero, Prowers, Rio Blanco, Routt, and San Juan counties. An additional 24 counties are eligible to form zones but have not done so, including: Alamosa, Baca, Bent, Cheyenne, Conejos, Costilla, Crowley, Custer, Hinsdale, Huerfano, Jackson, Kiowa, Kit Carson, Lake, Lincoln, Mineral, Morgan, Phillips, Pueblo, Rio Grande, Saguache, Sedgwick, Washington, and Yuma counties.

Just Transition Program. HB 19-1314 created the Office of Just Transition and its advisory committee. The office was created to assist communities and workers whose coal-related industries and jobs are subject to significant economic transition, and to develop an actionable plan to assist those communities and workers.

As defined in HB 19-1314, a coal transition community is a municipality, county, or region that has been or will be affected by the loss of 50 or more jobs in total from a coal mine, coal-fueled power plant, or the manufacturing and transportation supply chains of either. The Colorado Just Transition Action Plan identified all or portions of 11 counties in Colorado that meet this definition. Among these communities, the plan identified four “tier one transition communities” where these negative economic consequences will be most concentrated. The tier one transition communities include: the west end of Montrose County, the Yampa Valley, Morgan County, and Pueblo County.

Assumptions

The fiscal note assumes that all businesses awarded cash grants by the EDC in the rural jump-start grant program will also be approved for four years of the tax benefits included under the rural jump-start program by the EDC.

Tax Benefits

The fiscal note assumes that the EDC will approve 26 new businesses for the rural jump start program tax benefits for the 2022 tax year and 52 new businesses for the 2023 tax year. Data from the OEDIT shows that there were 14 active new businesses with 219 employees in a rural jump-start zone in 2019. Using the assumptions outlined in this fiscal note, the average benefit available to businesses under current law is approximately \$19,680 over four years. Under the new grant program, combined with the existing tax benefits, the average benefits available increase to approximately \$50,050 over four years in rural jump-start zones and \$71,138 over four years in a tier one transition community. Given the increase in benefits available, the number of businesses participating in the program is expected to increase significantly from current levels.

New Hire Income Tax Credit. The fiscal note assumes the new businesses approved by the EDC will, on average, have 16 new hires each. However, only 30 percent of the new hires will qualify for the new hire income tax credit in the first year that the business has been approved to receive tax benefits. Data from OEDIT shows that there is a “phase-in” for when new hires become 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.

New Business Income Tax Credit. In 2019, new businesses in rural jump-start zones claimed an average of \$3,000 in business income tax credits. The fiscal note assumes that each new business will generate about \$3,300 in corporate income tax credits each year accounting for inflationary growth.

Sales and Use Tax Refund. In 2019, new businesses in rural jump-start zones claimed an average of \$1,475 in state sales and use tax exemptions. The fiscal note assumes each new business will generate approximately \$1,620 in sales and use tax exemptions each year accounting for inflationary growth and spending trends.

Grant Program

At the beginning of 2022, the fiscal note assumes that the EDC will award grants of \$20,000 to 18 new businesses operating in a rural jump-start zone, and grants of \$40,000 to 8 new businesses operating in tier-one transition communities, in addition to the tax benefits outlined above. Additionally, these new businesses in rural jump start zones will on average be awarded about four grants of \$2,500 for new hires (a total of 75 new hire grants), and businesses in tier one transition communities will on average be awarded about two grants of \$5,000 for new hires (a total of 18 new hire grants).

At the beginning of 2023, the fiscal note assumes that the EDC will award grants of \$20,000 to 36 new businesses operating in a rural jump-start zone, and grants of \$40,000 to 16 new businesses operating in tier-one transition communities, in addition to the tax benefits outlined above. Additionally, the new businesses in rural jump start zones will on average be awarded about four grants of \$2,500 for new hires (a total of 149 new hire grants), and businesses in tier-one transition communities will on average be awarded about two grants of \$5,000 for new hires (a total of 37 new hire grants).

State Revenue

The bill is expected to decrease General Fund revenue by approximately \$98,835 in FY 2021-22, \$476,715 in FY 2022-23, \$918,510 in FY 2023-24, \$1,081,260 in FY 2024-25, \$901,050 in FY 2025-26, and \$360,420 in FY 2026-27. If the EDC approves a four-year extension of the tax benefits, General Fund revenue decreases will be extended through FY 2029-30. The bill decreases income, and sales and use taxes, which are subject to TABOR. Revenue estimates are presented on a tax year basis in Table 3 and on a fiscal year basis in Table 4.

These figures are an estimate and actual amounts will vary depending on business participation and employment numbers in the rural jump-start grant program. Additionally, if the EDC chooses to award some portion of the grant funding to either state institutions of higher education or economic development organizations, the estimated reductions in revenue will decrease as those organizations are not eligible for the tax benefits included within the rural jump start zone program.

Table 3
Estimated Revenue Impacts of SB 21-229
Dollars in Millions

Tax Year	2022	2023	2024	2025	2026
New Businesses	26	78	78	78	52
Average New Hires	16	16	16	16	16
Total Employees	416	1,248	1,248	1,248	832
<i>New Hire Income Tax Credit</i>		Average Employee Income Tax Credit: \$2,500			
New Hires Claiming Credit ¹	28	149	279	279	186
Total of New Hire Tax Credit	\$0.06	\$0.4	\$0.7	\$0.7	\$0.5
<i>New Business Income Tax Credit</i>		Average Business Income Tax Credit: \$3,300			
Total Value of Business Tax Credit	\$0.09	\$0.3	\$0.3	\$0.3	\$0.2
<i>New Business Sales and Use Tax Refund</i>		Average Sales and Use Refund: \$1,620			
Total Estimated Value of Refund	\$0.04	\$0.1	\$0.1	\$0.1	\$0.08
General Fund Revenue Impact	(\$0.2)	(\$0.8)	(\$1.1)	(\$1.1)	(\$0.7)

Totals may not sum due to rounding.

¹Only 30 percent of new hires are eligible in the first year after the business receives approval from the EDC, 100 percent are eligible in years after that.

Table 4
Estimated Revenue Impacts of SB 21-229
Dollars in Millions

	FY 2021-22¹	FY2022-23²	FY2023-24	FY2024-25	FY2025-26³	FY2026-27⁴
Fiscal Impact	\$0.1	\$0.5	\$0.9	\$1.1	\$0.9	\$0.4

Totals may not sum due to rounding.

¹Represents a half-year impact for the first cohort of businesses receiving tax benefits.

²Represents a half-impact for the second cohort of new businesses receiving tax benefits.

³Represents a half-year impact for the first cohort of businesses and a full-year impact for the second cohort of businesses.

⁴Represents a half-year impact for the second cohort of businesses.

State Transfers

This bill appropriates \$3 million in FY 2021-22 from the General Fund to the Rural Jump-Start Grant Fund, which effectively transfers money to the fund so it can be used by OEDIT over a two-year period for making grants to businesses in rural jump-start zones and transition communities.

State Expenditures

The bill is expected to increase expenditures from the Rural Jump-Start Zone Grant Fund by \$1,018,346 and 0.5 FTE in FY 2021-22, and \$2,007,128 and 1.0 FTE in FY 2022-23. Expenditures are shown below in Table 5.

**Table 5
 Expenditures Under SB 21-229**

	FY 2021-22	FY 2022-23
OEDIT		
Personal Services	\$44,908	\$71,783
Operating Expenses	\$675	\$1,350
Capital Outlay Costs	\$6,200	-
Grants	\$957,500	\$1,917,500
Centrally Appropriated Costs ¹	\$9,063	\$16,495
Total Cost	\$1,018,346	\$2,007,128
Total FTE	0.5 FTE	1.0 FTE

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

Personal services. OEDIT will hire a full-time Project Manager (prorated to 0.5 FTE in FY 2021-22) to administer the newly created grant program, based on staffing requirements of other grant programs administered by OEDIT. It is assumed that this staff will be needed on an ongoing basis to handle tax credit related issues. Beginning in FY 2023-24, costs for this staff will require General Fund. It is assumed OEDIT will request funding for this staff through the annual budget process once funding in the Rural Jump-Start Zone Grant Fund is exhausted.

Rural jump-start grants. After accounting for administrative expenses, \$2,875,000 are available for grants to businesses over FY 2021-22 and FY 2022-23.

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 \$9,063 in FY 2021-22 and \$16,495 in FY 2022-23.

Local Government

Participation by counties and municipalities in the rural jump-start program is voluntary. If a county or municipality elects to participate in the jump start zone, it would be required to offer sales tax exemptions, refunds or incentive payments in connection with all county or municipal taxes paid. The reduction in revenue to the local government 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 Appropriations

For FY 2021-22, the bill includes an appropriation of \$3,000,000 from the General Fund to the Rural-Jump Start Grant Fund account and a corresponding appropriation in the same amount from the Rural-Jump Start Grant Fund account to the OEDIT for administration and grants. Any portion of the appropriation from the Rural-Jump Start Grant Fund account that is not spent in FY 2021-22 may be used in the following fiscal year without further appropriation.

State and Local Government Contacts

Counties	Higher Education
Information Technology	Local Affairs
Municipalities	Office of Economic Development and International Trade
Personnel	Revenue