



## Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

# Fiscal Note

**Drafting Number:** LLS 22-0592  
**Prime Sponsors:** Rep. Lynch

**Date:** March 21, 2022  
**Bill Status:** House Energy & Environment  
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**Bill Topic:** INCENTIVES TO PROMOTE THE COLORADO TIMBER INDUSTRY

**Summary of Fiscal Impact:**

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

The bill creates a timber industry workforce development program, expands the current state sales and use tax exemption for beetle-kill wood products to all products from wood harvested in the state, and creates an income tax credit for equipment infrastructure used in the timber industry and wood product manufacturing. The bill decreases state revenue, increases state expenditures, and decreases local government revenue on an ongoing basis.

**Appropriation Summary:** For FY 2022-23, the bill requires total appropriations of \$195,734 to multiple state agencies.

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

**Table 1**  
**State Fiscal Impacts Under HB 22-1166**

		Current Year FY 2021-22	Budget Year FY 2022-23	Out Year FY 2023-24
<b>Revenue</b>	General Fund	(\$2.7 million)	(\$9.3 million)	(\$9.5 million)
	<b>Total Revenue</b>	<b>(\$2.7 million)</b>	<b>(\$9.3 million)</b>	<b>(\$9.5 million)</b>
<b>Expenditures</b>	General Fund		\$195,734	\$113,134
	Centrally Appropriated		\$6,095	\$7,794
	<b>Total Expenditures</b>		<b>\$201,829</b>	<b>\$120,928</b>
	<b>Total FTE</b>		<b>0.4 FTE</b>	<b>0.5 FTE</b>
<b>Transfers</b>			-	-
<b>Other Budget Impacts</b>	TABOR Refund	(\$2.7 million)	(\$9.3 million)	(\$9.5 million)
	General Fund Reserve		\$29,360	\$16,970

## Summary of Legislation

The bill creates the Timber Industry Workforce Development Program in the Colorado State Forest Service (CSFS) to provide incentives to timber businesses to hire interns through partial reimbursement of the cost to employ the intern. The CSFS must adopt rules and procedures for administering the grant program. The bill sets minimum criteria for the CSFS to use in selecting qualified business and internships to support with grant funds. The grant program may reimburse a qualified timber business up to 50 percent of the actual cost to employ the intern.

Beginning July 1, 2022, the bill expands the state's existing sales and use tax exemption for wood from salvaged trees that were killed or infested by mountain pine beetles or spruce beetles, to all wood harvested in Colorado. The expanded exemption remains in effect until July 1, 2026.

Lastly, the bill creates a nonrefundable income tax credit for tax years 2021 through 2026 for businesses involved in forestry, logging, timber, and wood product manufacturing. The tax credit applies to purchases of the following:

- mechanized equipment that is used for harvesting, skidding, processing, and loading trees;
- trucks and trailers used for hauling logs; and
- equipment used to manufacture wood products and structures necessary to enclose logging or other operations.

The tax credit is valued at 20 percent of the purchase cost for qualifying items, capped at \$10,000. The credit may be carried forward for up to five years.

## State Revenue

The bill is expected to decrease General Fund revenue by \$2.6 million in FY 2021-22, \$9.3 million in FY 2022-23, and \$9.5 million in FY 2023-24, with similar impacts in subsequent years.

**Sales and use tax exemption Colorado-harvested wood products.** In 2021, the CSFS estimated the taxable retail value of wood products sourced from Colorado's forests was \$123.3 million.<sup>1</sup> The majority of these were for primary products such as lumber, wood energy and biochar, mulch and sawdust, and roundwood. Based on the estimate and assuming the value of wood products grows in line with the Legislative Council Staff March 2022 forecast for the Denver-Aurora-Lakewood consumer price index, the retail value of wood products is estimated to total \$134.4 million in FY 2022-23 and \$138.6 million in FY 2023-24. Based on the state's 2.9 percent sales tax rate, the reduction in General Fund revenue will total an estimated \$3.9 million in FY 2022-23 and \$4.0 million in FY 2023-24.

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<sup>1</sup> Mackes, Kurt; Gaetani, Maria; and Reader, Tim. "Estimating Taxable Retail Value of Wood Products Sourced from Colorado Forests in 2021." Colorado State Forest Service, 2022. Contact the CSFS at: <https://csfs.colostate.edu/cowood/>

**Income tax credit for equipment and structures related to forestry, logging, timber, and wood product manufacturing.** In 2020, there were an estimated 500 employer firms involved in logging, sawmills, and wood product manufacturing based on data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, the U.S. Census Bureau’s Economic Census. The number of employers in the state has fluctuated between 486 establishments and 524 establishments since 2011, with little growth through the last economic expansion. Based on data from the Economic Census, employer firms engaged in wood product manufacturing spent an average of \$127,000 each year for capital expenditures on structures, machinery, and vehicles. This analysis assumes that 100 percent of employer firms claim the maximum tax credit each year.

Taxpayers eligible under the bill could include firms without employees. In 2019, there were 415 sole proprietors based on data from the Department of Revenue. Based on business receipts statistics for proprietors from the Internal Revenue Service compared with employer firms, and assuming capital expenditures represent a similar proportion of expenses for proprietors, each proprietor is estimated to claim 20 percent of qualifying purchases, or about \$1,100 each tax year.

Assuming that tax liability for each business claiming the income tax credit exceeds the value of the credit, the bill will reduce General Fund expenditures by \$2.7 million in FY 2021-22 (half-year impact), \$5.4 million in FY 2022-23, and \$5.5 million in FY 2023-24, with similar impacts in subsequent years. To the extent that employer firms claim less than the maximum allowable credit or the credit is carried-forward and claimed against income tax in subsequent years, the timing and magnitude of the revenue impact will vary.

## State Expenditures

The bill increases state General Fund expenditures by \$201,829 in FY 2022-23 and \$120,928 in FY 2023-24, with similar impacts in future years. Expenditures are shown in Table 2 and detailed below.

**Table 2**  
**Expenditures Under HB 22-1166**

	FY 2022-23	FY 2023-24
<b>Colorado State Forest Service</b>		
Personal Services	\$23,295	\$31,059
Operating Expenses	\$675	\$675
Capital Outlay Costs	\$6,200	-
Timber Industry Grants	\$75,000	\$75,000
Centrally Appropriated Costs <sup>1</sup>	\$6,095	\$7,794
FTE – Personal Services	0.4 FTE	0.5 FTE
<b>CSFS Subtotal</b>	<b>\$111,265</b>	<b>\$114,528</b>

**Table 2**  
**Expenditures Under HB 22-1166 (Cont.)**

	FY 2022-23	FY 2023-24
<b>Department of Revenue</b>		
Computer and User Acceptance Testing	\$49,468	-
GenTax Computer Programming	\$22,500	-
Office of Research and Analysis	\$6,400	\$6,400
Postage and Document Management	\$12,196	-
<b>DOR Subtotal</b>	<b>\$90,564</b>	<b>\$6,400</b>
<b>Total Cost</b>	<b>\$201,829</b>	<b>\$120,928</b>
<b>Total FTE</b>	<b>0.4 FTE</b>	<b>0.5 FTE</b>

<sup>1</sup> Centrally appropriated costs are not included in the bill's appropriation.

**Colorado State Forest Service.** The bill requires the CSFS to adopt rules and administer an internship program in partnership with the timber industry. Creating the program will require new staff to develop application procedures, establish review and evaluation criteria for grant applicants, and to manage and track grant expenditures for program accountability. Total grant funding is at the discretion of the General Assembly. Assuming that the CSFS awards 15 grants annually at \$5,000 each, grant awards from the program are \$75,000.

**Department of Revenue.** The Department of Revenue will require one-time GenTax computer programming changes that will require 100 hours of work billed at a contractor rate of \$225 per hour in FY 2022-23. Computer and user acceptance testing associated with the programming changes will result in an additional cost of \$49,468 in FY 2022-23. The Office of Research and Analysis will also incur additional costs, an estimated \$6,400 in FY 2022-23 and subsequent years, to track and report on the new and expanded tax expenditures. Lastly the department will have an increase in expenditures for postage and document management, with funds reappropriated to the Department of Personnel and Administration.

**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 2.

### **Other Budget Impacts**

**TABOR refunds.** 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. This estimate assumes the March 2022 Legislative Council Staff revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

**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 beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$29,360 in FY 2022-23 and \$16,970 in FY 2023-24, which will decrease the amount of General Fund available for other purposes.

## Local Government

The bill will decrease revenue for state-collected city and county governments that currently exempt wood products from salvaged trees that were killed or infested by mountain pine beetles-kill or spruce beetles and conform to the state tax base. The bill modifies the existing exemption that can be adopted at the local level, resulting in lower tax revenue. Currently, the Department of Revenue reports that the Town of Larkspur has the exemption in addition to Conejos, Douglas, La Plata, Mesa, and Moffat counties. The distribution of the impact among the state's local districts cannot be estimated due to data availability.

The bill will also decrease revenue for state-collected special districts that conform to the state tax base. The distribution of the impact among the state's special districts cannot be estimated due to data availability.

## Technical Note

The expanded sales and use tax exemption takes effect on July 1, 2022 which may limit time for the Department of Revenue to implement forms and guidance.

The income tax credit in the bill as introduced takes effect January 1, 2021. This analysis assumes that the credit is not retroactive, but begins in tax year 2022. If the credit is determined to be retroactive, it will decrease revenue and increase costs for the Department of Revenue, beyond what is estimated in the fiscal note.

## Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed, except the expanded sales and use tax exemption takes effect July 1, 2022, and the income tax credit takes effect January 1, 2021.

## State Appropriations

For FY 2022-23, the bill requires the following General Fund appropriations:

- \$105,170 to the Colorado State Forest Service and 0.5 FTE; and
- \$90,564 to the Department of Revenue. Of this amount, \$12,196 is reappropriated to the Department of Personnel and Administration.

**State and Local Government Contacts**

Counties  
Information Technology  
Natural Resources  
Public Safety  
Revenue  
State Auditor

Forest Service  
Municipalities  
Personnel  
Regional Transportation District  
Special Districts