Bill 8

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number: LLS 24-0426
Prime Sponsors:

Date: October 30, 2023
Bill Status: Bill Request
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Bill Topic: **INCENTIVES PROMOTE COLORADO TIMBER INDUSTRY**

Summary of Fiscal Impact:

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

The bill creates the Timber Industry Workforce Development Program and a state income tax credit for the purchase of equipment used in the production of wood products. The bill also expands and extends the state sales and use tax exemption to include all sales, storage, and any equipment infrastructure used in the manufacturing of wood products. The bill will decrease state revenue through FY 2028-29 and increase state expenditures on an ongoing basis.

Appropriation Summary: For FY 2024-25, the bill requires appropriations of $174,931 to multiple state agencies.

Fiscal Note Status: The fiscal note reflects the bill draft requested by the Wildfire Matters Review Committee.

Table 1
State Fiscal Impacts Under Bill 8

		Current Year FY 2023-24	Budget Year FY 2024-25	Out Year FY 2025-26
Revenue	General Fund	($2.7 million)	($9.7 million)	($9.7 million)
	Total Revenue	**($2.7 million)**	**($9.7 million)**	**($9.7 million)**
Expenditures	General Fund	-	$174,931	$92,737
	Centrally Appropriated	-	$10,864	$9,013
	Total Expenditures	**-**	**$185,795**	**$101,750**
	Total FTE	**-**	**0.6 FTE**	**0.5 FTE**
Transfers			-	-
Other Budget Impacts	TABOR Refund	($2.7 million)	($9.7 million)	($9.7 million)
	General Fund Reserve	-	$26,240	$13,911

Summary of Legislation

The bill creates the Timber Industry Workforce Development Program to provide incentives to timber businesses to hire interns, and a state income tax credit for the purchase of mechanized equipment, certain vehicles, and equipment infrastructure used in the production of wood products. The bill also expands and extends the state sales and use tax exemption to include all sales, storage, and any equipment infrastructure used in the manufacturing of wood products as described below.

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

Income tax credit. For income tax years 2024 through 2028, the bill creates a state income tax credit for a business involved with:

- forestry;
- logging;
- the timber trade; or
- the production of wood products such as furniture and secondary products such as wood pulp and paper industry.

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, and the taxpayer must submit any required documentation to the Department of Revenue.

Sales tax exemption. Finally, the bill expands and extends the state sales and use tax exemption to include all sales, storage, and use of wood harvested in Colorado, including but not limited to products such as lumber, furniture built from such wood, wood chips or wood pellets generated from such wood, and wood from salvaged trees in Colorado that were killed or infested by mountain pine beetles or spruce beetles. Under current law, the sales and use tax exemption applies only to beetle kill wood and is set to expire on July 1, 2026.

Assumptions

Internship program. Based on a similar internship program in the Colorado Department of Agriculture, the fiscal note assumes the timber industry workforce development program created in the bill will support 10 interns per year. The cost per year for supporting 10 interns is estimated at $50,000 per year, totaling $150,000 for a three-year program.

Income tax credit. In 2020, there were 900 employer firms in Colorado 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 (QCEW), the U.S. Census Bureau's Economic Census. Additionally, another 100 employer firms involved in tree removal services for wildfire mitigation may claim the tax credit based on QCEW data and industry research. The number of employers in the state has fluctuated little through the last economic expansion and is assumed to remain constant through the analysis period. 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 revenue by $2.7 million in FY 2023-24 (half-year impact), and $5.5 million in FY 2024-25, 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.

Sales tax exemption. The Office of the State Auditor estimates $3.6 million in sales tax was generated from goods sourced from Colorado wood in 2021. This estimate was adjusted using the Denver-Aurora Lakewood inflation rate expected in the September 2023 LCS Economic and Revenue Forecast.

State Revenue

The bill is expected to decrease General Fund revenue by $2.7 million (half-year impact) in the current FY 2023-24, and $9.7 million in FY 2024-25, with similar impacts through FY 2027-28, and a half year impact in FY 2028-29, when the credit is set to expire. The revenue estimates are based on the assumptions described above. The revenue impact of the bill will be higher than estimated if there are more qualified taxpayers estimated, or conversely, lower if the number of taxpayers claiming the credit is less. Table 2 shows the fiscal revenue impacts from the by source.

Table 2
Fiscal Year Revenue Impacts of Bill 8 by Source

	Current Year FY 2023-24	FY 2024-25 to FY 2027-28	FY 2028-29
Income Tax Credit	($2.7 million)*	($5.5 million)	($3.0 million)*
Sales Tax Exemption	-	($4.2 million)	-
Total	**($2.7 million)**	**($9.7 million)**	**($3.0 million)**

** Fiscal year impacts comprise half-year impacts for each of the two component tax years.*

State Expenditures

The bill increases state General Fund expenditures by $185,795 in FY 2024-25 and $101,750 in FY 2025-25, with similar impacts in future years. These costs, which are incurred in the Colorado State Forest System and the Department of Revenue, are summarized in Table 3 and described below.

Table 3
Expenditures Under Bill 8

	FY 2024-25	FY 2025-26
Colorado State Forest Service (CSFS)		
Personal Services	$42,227	$34,769
Operating Expenses	$768	$640
Intern Reimbursements	$50,000	$50,000
Centrally Appropriated Costs[1]	$10,864	$9,013
FTE – Personal Services	0.6 FTE	0.5 FTE
CSFS Subtotal	**$103,859**	**$94,422**
Department of Revenue		
GenTax Programming and Testing	$72,477	-
Data Reporting	$7,392	$7,328
Document Management and Tax Form Changes	$2,067	-
DOR Subtotal	**$81,936**	**$7,328**
Total	**$185,795**	**$101,750**
Total FTE	**0.6 FTE**	**0.5 FTE**

[1] 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 internship reimbursement requests, and to manage and track reimbursements for program accountability. Total reimbursement funding is at the discretion of the General Assembly. Assuming that the CSFS awards 10 reimbursements annually at $5,000 each, reimbursements from the program will be $50,000.

Department of Revenue. The Department of Revenue will require personal services to review and process returns claiming the new income tax credit and to resolve errors in returns. The credit will require one-time GenTax computer programming changes that will require 64 hours of work billed at a contractor rate of $231.75 per hour in FY 2024-25. Computer and user acceptance testing associated with the programming changes will result in an additional cost of $34,047 in FY 2024-25. The Office of Research and Analysis will also incur additional costs, an estimated $7,392 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 3.

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 above for the current FY 2023-24, FY 2024-25, and FY 2025-26. This estimate assumes the September 2023 LCS revenue forecast. 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 2023-24. Based on this fiscal note, the bill is expected to decrease the amount of General Fund held in reserve by the amounts shown in Table 1, which will increase the amount of General Fund available for other purposes.

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 the following General Fund appropriations:

- $92,995 to the Department of Higher Education for use by the Colorado State Forest Service at the Colorado State University and 0.6 FTE; and
- $81,936 to the Department of Revenue and 0.2 FTE; of which $2,067 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Forest Service	Higher Education	Information Technology
Natural Resources	Personnel	Revenue