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FISCAL NOTE

Drafting Number:	LLS 19-0538	Date:	March 28, 2019
Prime Sponsors:	Rep. Weissman Sen. Gonzales	Bill Status:	House Finance
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Bill Topic: AFFORDABLE HOUSING FUNDING FROM VENDOR FEE CHANGES

Summary of Fiscal Impact:

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

This bill increases the state vendor fee from 3.33 percent to 4.0 percent and caps monthly vendor fee allowance at \$1,000 per account. The additional funds generated from this cap are allocated for the development of affordable housing.

Appropriation Summary: For FY 2019-20, this bill requires an appropriation of \$356,158 to the Department of Revenue, and of \$711,491 to the Department of Local Affairs.

Fiscal Note Status: This preliminary fiscal note reflects the introduced bill. While all affected agencies were canvassed for this fiscal note, not all agencies were able to respond with complete information within the time frame provided. The fiscal note will be updated if more information becomes available.

**Table 1
State Fiscal Impacts Under HB 19-1245**

		FY 2019-20	FY 2020-21
Revenue	General Fund	\$23.1 million	\$47.9 million
Expenditures	General Fund	\$1,067,678	\$1,244,043
	Centrally Appropriated	\$151,543	\$297,062
	Total	\$1,219,221	\$1,541,105
	Total FTE	8.4 FTE	16.7 FTE
Transfers	General Fund	(\$22.1 million)	(\$47.9 million)
	Housing Development Grant Cash Fund	\$22.1 million	\$47.9 million
	Total	\$0	\$0
TABOR Refund		-	-

Summary of Legislation

This bill increases the state vendor fee allowance on sales tax accounts from the current rate of 3.33 percent to 4.0 percent starting on January 1, 2020. The vendor fee allowance is capped at \$1,000 per month per retailer. A retailer with multiple locations in the state is counted as one retailer for purposes of the vendor fee allowance cap.

The net revenue increase from the vendor fee change is allocated to the Housing Development Grant Fund. At least one-third of this revenue will be awarded to affordable housing projects directed towards households with incomes less than or equal to 30 percent of the area median household income. Any net revenue increase is not allocated to the state sales tax increment revenue for regional tourism zones.

This bill includes a General Fund appropriation of \$1.0 million to the Department of Revenue for GenTax programming changes.

Background

Vendor fee. The vendor fee is a service fee the state allows retailers to retain for their cost in collecting and remitting sales and use tax to state and local governments. Only on-time returns to the Department of Revenue are allowed to retain the vendor fee. Table 2 below includes a history of state vendor fee rates.

Table 2
Colorado Vendor Fee History

Dates	Vendor Fee
July 1, 1935 to June 30, 1965	5.00 percent
July 1, 1965 to June 30, 2003	3.33 percent
July 1, 2003 to June 30, 2005	2.33 percent
July 1, 2005 to February 28, 2009	3.33 percent
March 1, 2009 to June 30, 2009	1.35 percent
July 1, 2009 to June 30, 2011	0 percent
July 1, 2011 to June 30, 2014	2.22 percent
July 1, 2014 to current	3.33 percent

Housing Development Grant Fund. Under current law, the Housing Development Grant Fund consists of moneys appropriated by the General Assembly to acquire, rehabilitate, and construct affordable housing projects through a competitive grant process. The fund also covers the cost of acquiring economic data used to advise the State Housing Board on local housing conditions. The fund was created pursuant to House Bill 09-1213 and is administered by the Division of Housing in the Department of Local Affairs. In FY 2017-18, the Housing Development Grant Fund received a total of \$23.3 million from both the General Fund (\$8 million) and from marijuana sales tax revenue (\$15.3 million). The Division of Housing expects to obligate all of the funds available during this fiscal year. The typical funding amount per project is approximately \$500,000.

State Revenue

This bill will result in a General Fund revenue increase of \$23.1 million in FY 2019-20, which represents a half-year impact, and \$47.9 million in FY 2020-21. This increase in General Fund revenue is transferred to the Housing Development Grant Cash Fund. Revenue derived from the vendor fee cap is expected to increase in future years with changes in sales tax revenue. This revenue estimate assumes a similar distribution of sales by net taxable sales category and a similar number of returns filed on time as exists under current law.

State Expenditures

State expenditures will increase by \$1,219,221 and 8.4 FTE in FY 2019-20, and \$1,541,105 and 16.7 FTE in FY 2020-21 with similar ongoing expenditure impacts in subsequent years. To the extent that revenue differs from these expectations, state expenditures could be higher or lower. Administrative implementation costs of the vendor fee changes are designed to be funded by the revenue generated by the vendor fee changes; however, there will be a lag between initial required costs and the incoming tax revenue. These impacts are described below.

**Table 2
 Expenditures Under HB 19-1245**

Cost Components	FY 2019-20	FY 2020-21
Department of Local Affairs (DOLA)		
Personal Services	\$564,835	\$1,129,668
Operating Expenses and Capital Outlay Costs	\$82,848	\$15,200
Other Costs (Computer System Modernization, Travel Mileage, Cell Phone Service)	\$63,808	\$63,808
Centrally Appropriated Costs*	\$141,570	\$283,140
FTE – Personal Services	8.0	16.0
DOLA (Subtotal)	\$853,061	\$1,491,816
Department of Revenue (DOR)		
Personal Services	\$20,244	\$34,702
Operating Expenses and Capital Outlay Costs	\$5,368	\$665
Contractor Costs	\$166,192	\$0
GenTax Computer Programming & Testing	\$94,604	\$0
DRIVES Computer Programming	\$69,750	\$0
Centrally Appropriated Costs*	\$9,973	\$13,922
FTE – Personal Services	0.4	0.7
DOR (Subtotal)	\$366,131	\$49,289
Total	\$1,219,221	\$1,541,105
Total FTE	8.4	16.7

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

Department of Local Affairs. Under the bill, for FY 2019-20, 8.0 FTE (half-year impact) and 16.0 FTE in FY 2020-21 are required to manage the additional revenue allocated to the Housing Development Grant Fund. The FTE will provide technical assistance to local communities to help determine applicant need and evaluate projects for funding. Additionally, these FTE will manage grant and loan contracts, as well as ensure regulatory and contractual compliance. Of the 16.0 FTE, 8.0 are expected to be located outside of the Front Range to assess and manage affordable housing needs in more rural areas. Additional funding is required to modernize DOLA's software system to handle the larger workload, as well as to cover travel and cell phone expenses.

The revenue generated by this bill for allocation to the Housing Development Grant Fund managed by DOLA more than doubles the funding the department currently manages, which totaled \$36 million in FY 2017-18. A team of 20.5 FTE manages the program under current law.

Department of Revenue. The changes to the vendor fee require computer programming changes to the GenTax and DRIVES software systems within DOR. The GenTax system programming hourly rate is \$250 and 317 hours are required to make the changes to implement the bill for a total of \$79,250 in FY 2019-20. Additional costs for internal testing of the software are required for \$15,354. The DRIVES programming hourly rate is \$225 and 310 hours are required to implement the changes under this bill for a total of \$69,750 in FY 2019-20. It is assumed that the programming changes will need to be made before the change in the vendor fee takes effect. This fiscal note assumes that these expenditures will be appropriated from the General Fund because a system must be in place before additional tax revenues can be collected.

Beginning in FY 2019-20, the Department of Revenue requires 0.4 FTE (seven-month impact) in the Taxpayer Services call center and for examining returns and managing taxpayer protests and correspondence. In FY 2020-21 and future years, a total of 0.7 FTE are required in these same positions.

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 \$151,543 in FY 2019-20 and \$297,062 in FY 2020-21.

State Transfer

This bill requires General Fund transfers to the Housing Development Grant Fund equal to the amount of the additional revenue collected from the vendor fee change. Out of the estimated total revenue of \$23.1 million in FY 2019-20, \$22.1 will be transferred to the Housing Development Grant Fund and \$1.0 million will be retained in the General Fund for the Department of Revenue. All of the additional revenue in FY 2020-21, \$47.9 million, will be transferred to the Housing Development Grant Fund.

Effective Date

The bill takes effect August 2, 2019, if the General Assembly adjourns on May 3, 2019, as scheduled, and no referendum petition is filed.

State Appropriations

This bill includes a General Fund appropriation of \$1.0 million; however, the bill is expected to require the following General Fund appropriations in FY 2019-20:

- \$356,158 to the Department of Revenue; and
- \$711,491 to the Department of Local Affairs.

State and Local Government Contacts

Information Technology
Personnel

Local Affairs
Revenue

Municipalities