



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Revised Fiscal Note

(replaces fiscal note dated March 21, 2022)

Drafting Number: LLS 22-0592
Prime Sponsors: Rep. Lynch; Weissman
 Sen. Rankin; Woodward

Date: April 8, 2022
Bill Status: House Finance
Fiscal Analyst: David Hansen | 303-866-2633
 David.Hansen@state.co.us
 Josh Abram | 303-866-3561
 Josh.Abram@state.co.us

Bill Topic: INCENTIVES PROMOTE 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 type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill creates the Timber, Forest Health, and Wildfire Mitigation Industries Workforce Development Program and creates an income tax credit for equipment used in the timber, wood product manufacturing, forest health, and wildfire mitigation industries. The bill decreases state revenue and increases state expenditures, on an ongoing basis.

Appropriation Summary: For FY 2022-23, the bill requires total appropriations of \$203,526 to multiple state agencies.

Fiscal Note Status: The fiscal note reflects the introduced bill, as amended by the House Energy and Environment Committee.

Table 1
State Fiscal Impacts Under HB 22-1166

		Current Year FY 2021-22	Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	(\$3.2 million)	(\$6.5 million)	(\$6.5 million)
	Total Revenue	(\$3.2 million)	(\$6.5 million)	(\$6.5 million)
Expenditures	General Fund		\$203,526	\$118,208
	Centrally Appropriated		\$8,772	\$9,223
	Total Expenditures		\$212,298	\$127,431
	Total FTE		0.6 FTE	0.6 FTE
Transfers			-	-
Other Budget Impacts	TABOR Refund	(\$3.2 million)	(\$6.5 million)	(\$6.5 million)
	General Fund Reserve		\$30,529	\$17,731

Summary of Legislation

The bill creates the Timber, Forest Health, and Wildfire Mitigation Industries Workforce Development Program in the Colorado State Forest Service (CSFS) to provide incentives to businesses and non-profit entities to hire interns through partial reimbursement of the cost to employ the intern. 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.

The bill creates a nonrefundable income tax credit for tax years 2022 through 2026 for businesses involved in forestry, logging, timber, wood product manufacturing, forest health, and wildfire mitigation. 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;
- equipment used to manufacture wood products;
- equipment used in small-diameter tree removal and processing; and
- equipment used in prescribed burning.

The tax credit is valued at 20 percent of the purchase cost for qualifying items, capped at \$10,000. The bill places preference on equipment and vehicles produced in Colorado or that are electric powered. The credit may be carried forward for up to five years.

State Revenue

The bill is expected to decrease General Fund revenue by \$3.2 million in FY 2021-22, and \$6.5 million in FY 2022-23, with similar impacts in subsequent years as explained below.

Income tax credit for equipment related to forestry, logging, timber, wood product manufacturing, forest health, and wildfire mitigation. In 2020, there were an estimated 500 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 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 \$3.2 million in FY 2021-22 (half-year impact), and \$6.5 million in FY 2022-23, 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 \$212,298 in FY 2022-23 and \$127,431 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
Colorado State Forest Service		
Personal Services	\$23,295	\$31,059
Operating Expenses	\$675	\$675
Capital Outlay Costs	\$6,200	-
Timber Industry Internship Reimbursements	\$75,000	\$75,000
Centrally Appropriated Costs ¹	\$6,095	\$7,794
FTE – Personal Services	0.4 FTE	0.5 FTE
CSFS Subtotal	\$111,265	\$114,528
Department of Revenue		
Personal Services	\$7,523	\$4,770
Operating Expenses	-	-
Capital Outlay Costs	-	-
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	\$12,465	\$304
Centrally Appropriated Costs ¹	\$2,677	\$1,429
FTE – Personal Services	0.2	0.1
DOR Subtotal	\$101,033	\$12,903
Total Cost	\$212,298	\$127,431
Total FTE	0.6 FTE	0.6 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 15 reimbursements annually at \$5,000 each, reimbursements from the program are \$75,000.

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 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 \$30,529 in FY 2022-23 and \$17,731 in FY 2023-24, which will decrease 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, except the income tax credit takes effect January 1, 2022.

State Appropriations

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

- \$105,170 to the Colorado State Forest Service and 0.4 FTE; and
- \$98,356 to the Department of Revenue and 0.2 FTE. Of this amount, \$12,465 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Counties	Forest Service
Information Technology	Municipalities
Natural Resources	Personnel
Public Safety	Regional Transportation District
Revenue	Special Districts
State Auditor	