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Fiscal Note

Drafting Number:	LLS 24-0473	Date:	January 31, 2024
Prime Sponsors:	Rep. Lukens; Taggart Sen. Roberts; Simpson	Bill Status:	House Business & Labor
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Bill Topic: REAUTHORIZATION OF RURAL JUMP-START PROGRAM

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

This bill extends the income tax credits and grants available to businesses and their employees that participate in the Colorado Rural Jump-Start Zone Programs. It creates a General Fund diversion in the current FY 2023-24, increases state expenditures from FY 2024-25 to FY 2025-26, and decreases state revenue from FY 2024-25 to FY 2029-30

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of \$873,304 to the Office of Economic Development.

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

Table 1
State Fiscal Impacts Under HB 24-1001

		Current Year FY 2023-24	Budget Year FY 2024-25	Out Year FY 2025-26	Out Year FY 2026-27
Revenue	General Fund	-	(\$0.5 million)	(\$1.1 million)	(\$1.2 million)
	Total Revenue	-	(\$0.5 million)	(\$1.1 million)	(\$1.2 million)
Expenditures¹	Cash Funds	-	\$873,304	-	-
	Total Expenditure	-	\$873,304	-	-
Diversions¹	General Fund	(\$873,304)	-	-	-
	Cash Funds	\$873,304	-	-	-
	Net Diversion	\$0	-	-	-
Other Budget	TABOR Refund	-	(\$0.5 million)	(\$1.1 million)	not estimated

¹ Projected year-end balance of the Rural Jump-Start Zone Grant Fund Account as of June 30, 2024.

Summary of Legislation

This bill extends the income tax credits and grants available to businesses and their employees that participate in the Colorado Rural Jump-Start Zone Program and Grant Program.

Rural Jump-Start Zone Program. The new business income tax credit and the new hire income tax credit, which are benefits under the Rural Jump-Start Zone Program, currently expire on January 1, 2026. The bill extends the tax credits for 5 years, until January 1, 2031.

Under current law, the Colorado Economic Development Commission (EDC) may not approve of any new zones or new businesses eligible for the income tax credits under the program after tax year 2025. This bill allows the EDC to approve new zones and businesses through tax year 2030. The bill also increases the amount of income tax credits the EDC may approve from 300 to 500 credit certificates.

Rural Jump-Start Zone Grant Program. Under current law, the Rural Jump-Start Zone Grant Program is set to expire on June 30, 2024, and is required to revert any remaining funds from the Rural Jump-Start Zone Grant Fund Account to the General Fund on that date. The bill continues the grant program until June 30, 2026, changes the allowable administrative cost of the grant program from \$100,000 per fiscal year to \$300,000 total for all fiscal years that the grant program is in effect.

Background

Rural Jump-Start Zone Program. [Senate Bill 15-282](#) created the Rural Jump-Start Program. The bill provides tax benefits to approved new businesses that locate inside a rural jump-start zone and establish a relationship with a sponsoring entity. A rural jump-start zone is an area within a distressed county. The bill defines a distressed county as a county with a population less than 250,000 that exhibits certain indicators of economic distress, such as lower per capita income than the state average, lower gross domestic product than the state average, unemployment levels higher than the statewide average, a declining workforce, or a higher concentration of pupils eligible for free lunch compared to the statewide average.

The Colorado EDC is responsible for developing guidelines for the administration of the rural jump-start zone program and identifying eligible distressed counties. The program is optional for distressed counties and municipalities wholly or partially within the county. Distressed counties and municipalities that choose to join the program must adopt a resolution affirming that it will provide incentive payments, tax exemptions, or refunds to the new businesses that locate in a rural jump-start zone. As of June 30, 2023, 20 counties have formed rural jump-start zones and 21 counties were eligible to form zones but have not done so.

To receive tax benefits, a 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. A new business that establishes a relationship with a sponsoring entity in a rural jump-start zone receives the following state tax benefits in addition to county and municipal incentives:

- an income tax credit equal to 100 percent of the income taxes imposed on the income derived from the new business activities in the rural jump-start zone; and
- a sales and use tax refund on the purchase of all tangible personal property acquired by the new business and used exclusively within the rural jump-start zone.

In addition, new employees of the business are entitled to receive an income tax credit equal to 100 percent of their wages.

The state credits and refunds are available for four years, beginning with the first income tax year the business has been approved to receive tax benefits. The bill also limits the number of new employees who are eligible to receive tax credits in a jump start zone to either 200, or 300 under certain circumstances.

Under current law, the program may not approve of any new zones or new businesses after December 31, 2025.

Rural Jump-Start Zone Grant Program. [Senate Bill 21-229](#) created the Rural Jump-Start Zone Grant Program within the Office of Economic Development and Trade (OEDIT). Under this program, the EDC may issue grants to new businesses that locate inside a rural jump-start zone or a tier-one transition community within a rural jump-start zone (as identified by the Just Transition Program), and establish a relationship with a sponsoring entity. 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 are available in addition to the current tax benefits available to new businesses through the rural jumpstart program. Additionally, the bill created 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. 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

Assumptions

The number of new businesses approved by the EDC for the program has been steadily increasing since the program was implemented in 2015. As of June 30, 2023, 28 companies are participating in the Rural Jump-Start Zone program, up from 11 businesses in FY 2019-20. The fiscal note assumes a similar growth rate for the number of new businesses that will participate in the program from tax years 2026 through 2030. By tax year 2030, it is assumed just over

100 new business will participate in the program, the last year before the program expires under the bill. Finally, under current law, the average benefit available to businesses is approximately \$9,311.

New Hire Income Tax Credit. The fiscal note assumes the new businesses approved by the EDC will, on average, vary between 4 and 5 new hires each year the credit is available, generating an annual average new hire income tax credit of \$2,471 each year after accounting for inflationary growth.

New Businesses Income Tax Credit. Since 2019, new businesses in rural jump-start zones claimed an average of \$4,200 in business income tax credits. The fiscal note assumes that each new business will generate about \$5,100 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 \$3,000 in sales and use tax exemptions each year, accounting for inflationary growth and spending trends.

Grant Program. The fiscal note assumes any remaining money in the Rural Jump-Start program will be spent by June 30, 2026, as remaining funds revert back to the General Fund on that date.

State Revenue

The bill is expected to decrease General Fund revenue by approximately \$0.5 million in FY 2024-25, \$1.1 million in FY 2025-26, \$1.2 million in FY 2025-26, and by similar amounts through FY 2029-30. If the EDC approves a four-year extension of the tax benefits, General Fund revenue decreases will be extended through FY 2032-33. The bill decreases income, sales, and use taxes, all of 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.

Table 3
Estimated Revenue Impacts of HB 24-1001—Tax Year Basis
Dollars in Millions

Tax Year	2025	2026	2027	2028	2029
New Businesses	61	74	85	97	102
Average New Hires	4	5	4	5	4
Total Employees	245	368	338	486	408
New Hire Income Tax Credit	Average Employee Income Tax Credit: \$2,417				

Table 3
Estimated Revenue Impacts of HB 24-1001 (Cont.)
Dollars in Millions

Tax Year	2025	2026	2027	2028	2029
New Hires Claiming Credit ¹	245	368	338	486	408
Total of New Hire Tax Credit	(\$0.6)	(\$0.9)	(\$0.8)	(\$1.2)	(\$1.0)
New Business Income Tax Credit	Average Business Income Tax Credit: \$990				
Total Value of Business Tax Credit	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
New Business Sales and Use Tax Refund	Average Sales and Use Refund: \$3,000				
Total Estimated Value of Refund	(\$0.3)	(\$0.2)	(\$0.3)	(\$0.3)	(\$0.3)
General Fund Revenue Impact	(\$0.2)	(\$0.8)	(\$1.1)	(\$1.1)	(\$0.7)

Totals may not sum due to rounding.

Table 4
Estimated Fiscal Impacts of HB 24-1001—Fiscal Year Basis
Dollars in Millions

	FY 2024-25¹	FY 2025-26²	FY 2026-27	FY 2027-28	FY 2028-29³	FY 2030-31⁴
Fiscal Impact	(\$0.5)	(\$1.1)	(\$1.2)	(\$1.4)	(\$1.5)	(\$1.6)

Totals may not sum due to rounding.

² Represents a half-year impact for the first cohort of businesses receiving tax benefits.

³ Represents a half-impact for the second cohort of new businesses receiving tax benefits.

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

⁵ Represents a half-year impact for the second cohort of businesses.

State Diversions

This bill eliminates a diversion of approximately \$873,304 that would otherwise be made from the Rural Jump-Start Zone Grant Fund Account to the General Fund in FY 2023-24. Under current law, the remaining balance for the account as of June 30, 2024, is to be credited to the General Fund. Under the bill, the diversion will not occur and the money will remain in the account. This amount represents the projected year-end balance of the Rural Jump-Start Zone Grant Fund Account as of June 30, 2024.

State Expenditures

From FY 2024-25 through FY 2025-26, the bill increases state expenditures from the Rural Jump-Start Zone Grant Fund Account by \$873,304. The bill allows up to \$300,000 to be spent on administration costs over the two fiscal years, which OEDIT will use for 1.5 FTE program management staff at a cost of \$150,000 per year. The remainder of the funding, \$573,304, will be issued as grants.

The bill will also increase workload in the Department of Revenue and OEDIT by extending the tax credits and time period grants can be awarded. It is estimated that the number of new businesses applying for the program grants and claiming these credits is sufficiently small that both agencies can absorb the increased workload within existing appropriations.

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 December 2023 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26. 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.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2024-25, the bill requires an appropriation from the Rural Jump-Start Zone Grant Fund Account of \$873,304 to the Office of Economic Development, and 1.5 FTE. Any funds remaining at the end of the fiscal year require roll-forward spending authority through FY 2025-26.

State and Local Government Contacts

Information Technology
Revenue

OEDIT

Personnel

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).