HB 24-1325

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Revised Fiscal Note

(replaces fiscal note dated March 4, 2024)

Drafting Number:	LLS 24-0997	**Date:**	April 10, 2024
Prime Sponsors:	Rep. Valdez; Soper Sen. Bridges; Baisley	**Bill Status:**	House Appropriations
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Bill Topic: **TAX CREDITS FOR QUANTUM INDUSTRY SUPPORT**

Summary of Fiscal Impact:

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

The bill creates two income tax credits to support the quantum industry. The bill conditionally: increases expenditures beginning in FY 2024-25; increases revenue in FY 2024-25; and decreases revenue beginning in FY 2025-26.

Appropriation Summary: For FY 2024-25, the bill may require an appropriation of $90,255 to the Office of Economic Development and International Trade. See State Appropriations section.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Table 1
Conditional State Fiscal Impacts Under HB 24-1325

		Budget Year FY 2024-25	Out Year FY 2025-26	Out Year FY 2026-27
Revenue	General Fund	-	(up to $3.9 million)	(up to $7.8 million)
	Cash Fund	$0.1 million	$0.1 million	$0.1 million
	Total Revenue	**$0.1 million**	**(up to $3.8 million)**	**(up to $7.7 million)**
Expenditures	General Fund	$90,255	$80,529	$135,757
	Cash Fund	$90,254	$92,032	$92,033
	Centrally Approp.	$26,599	$33,249	$28,815
	Total Expenditures	**$207,108**	**$205,810**	**$256,605**
	Total FTE	**1.2 FTE**	**1.5 FTE**	**1.3 FTE**
Transfers		-	-	-
Other Budget Impacts	GF Reserve	$13,538	$12,079	$20,364
	TABOR Refund	$0.1 million	(up to $3.8 million)	not estimated

Summary of Legislation

The bill creates two tax credits related to the quantum industry, each of which may only be administered if a Colorado-based entity receives a multimillion dollar federal grant from the Regional Technology and Innovation Program or a comparable federal grant program.

Fixed capital assets investments tax credit. Applicants may receive the fixed capital assets investments tax credit if they invest in fixed capital (such as land, buildings, tangible personal property, or computer software) for the purpose of creating a shared quantum facility. The tax credit amount may be up to the amount of the qualified investment.

Applicants may apply for a tax credit reservation from the Office of Economic Development and International Trade (OEDIT) and, if granted, receive a tax credit certificate when the project is placed in service. OEDIT may not issue more than $44 million in reservations. The tax credits may be claimed in tax years 2026 through 2032.

Quantum business loan loss reserve income tax credit. Applicants, such as banks or other lenders, may receive the quantum business loan loss reserve income tax credit if they incur losses on a loan that was issued to an early stage quantum company in Colorado. The tax credit is equal to the loss incurred on the loan, up to the amount of the tax credit certificate.

Applicants may apply for a tax credit certificate and request that the loan be registered with OEDIT before the loan has incurred any losses. The amount of tax credit certificate can be up to 15 percent of the size of the loan, but being issued a tax credit certificate is not sufficient to claim the tax credit. OEDIT may charge an issuance fee of up to 8 percent of the size of the tax credit certificate. Revenue from the fee is deposited into the newly created Quantum Business Loan Loss Reserve cash fund, which is continuously appropriated to the office to administer the tax credit. OEDIT may not issue more than $30 million in tax credit certificates.

Once the applicant has incurred a loss on the registered loan, they may apply for a registered loan loss certificate. The registered loan loss certificate amount is equal to the amount of the losses incurred on the loan, except that it may not exceed the tax credit certificate amount. The size of the tax credit is equal to the registered loan loss certificate amount. Tax credits may be claimed in tax years 2026 through 2045.

Background

The Regional Technology and Innovation Program is administered by the U.S. Economic Development Administration with the stated goal of strengthening the nation's economic and national security. In phase 1 of the program, 31 Tech Hubs Designees were announced nationwide, including one in Colorado. Colorado's designee, Elevate Quantum Colorado, aims to advance the quantum hardware supply chain and improve infrastructure.

In phase 2 of the program, Tech Hubs Designees may apply for implementation grants. About 5 to 10 Tech Hubs Designees are expected to receive funding, with each hub expected to receive between $50 and $75 million. The deadline to apply for these grants was February 29, 2024. The date by which the federal government will announce the recipients of the grants is not known.

State Revenue

Conditional upon receipt of a multimillion dollar federal grant, the bill is expected to increase state revenue by $100,000 in FY 2024-25, and decrease state revenue by up to $3.7 million in FY 2025-26 (half-year impact) and up to $7.6 million in FY 2026-27.

Table 2
Revenue Changes Under HB 24-1325

	Fund	FY 2024-25	FY 2025-26	FY 2026-27
Fixed Capital Assets Investments Tax Credit	General Fund	-	($3.1 million)	($6.3 million)
Loan Loss Reserve Income Tax Credit	General Fund	-	(up to $0.8 million)	(up to $1.5 million)
Issuance Fee	Cash Fund	$0.1 million	$0.1 million	$0.1 million
	Total Revenue	**$0.1 million**	**(up to $3.8 million)**	**(up to $7.7 million)**

Fixed capital assets investments tax credit. A maximum of $44 million of tax reservations may be issued for this credit, and the corresponding tax credits may be claimed in tax years 2025 through 2032 as the capital assets are placed into service. The fiscal note assumes that the tax credits will start being claimed in tax year 2026, as it will take time receive the results of the grant program, review applications and issue reservations, and place the assets in service. The fiscal note also assumes that the total amount of credits issued will equal the maximum of $44 million, and they will be claimed in equal amounts in tax years 2026 through 2032.

The fixed capital assets investments tax credit is conditionally expected to reduce General Fund revenue by $3.1 million in FY 2025-26 (half-year impact) and $6.3 million in FY 2026-27 through FY 2031-32.

Quantum business loan loss reserve income tax credit. A maximum of $30 million in tax credit certificates may be issued between 2025 and 2036. Only applicants whose loan results in a loss will receive a registered loan loss certificate, and therefore are able to claim the credit. No data are available on default rates for loans to businesses in the quantum industry, so a default rate is not estimated here. The amount of tax credits claimed is expected to be between $0 and $30 million depending on the number of loans that incur losses over the span of the tax credit. If losses were incurred equally in each tax year, then General Fund revenue would be reduced by up to $1.5 million per tax year.

The quantum business loan loss reserve income tax credit is expected to reduce General Fund revenue by up to $750,000 in FY 2025-26 (half-year impact) and up to $1.5 million in FY 2026-27 through FY 2045-46. The actual timing and amount of any revenue reduction is unknown.

Quantum business loan loss issuance fee. The bill allows OEDIT to charge an issuance fee of up to 8 percent of the amount on the tax credit certificate, due at the time the loan is registered. Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. These fee amounts are estimates only, actual fees will be set administratively by OEDIT based on cash fund balance, program costs, and the amount of the loan registrations subject to the fee.

The fiscal note assumes OEDIT will charge a fee of 8 percent in FY 2024-25 and a fee of about 4 percent in future years to approximate the cost of administering the loan loss reserve income tax credit. The issuance fee is expected increase cash fund revenue subject to TABOR by $100,000 per year beginning in FY 2024-25.

State Expenditures

Conditional upon receipt of a multimillion dollar federal grant, the bill increases state expenditures in OEDIT by $207,108 in FY 2024-25, $205,810 in FY 2025-26, and $173,368 in FY 2026-27, paid from the General Fund and the Quantum Business Loan Loss Reserve cash fund, and in the DOR by $78,237 in FY 2026-27 paid from the General Fund. Expenditures are shown in Table 3 and detailed below.

Table 3
Expenditures Under HB 24-1325

	FY 2024-25	FY 2025-26	FY 2026-27
Office of Economic Development and International Trade			
Personal Services	$136,513	$170,641	$147,889
Operating Expenses	$1,536	$1,920	$1,664
Capital Outlay Costs	$13,340	-	-
Salesforce	$29,120	-	-
Centrally Appropriated Costs[1]	$26,599	$33,249	$28,815
FTE – Personal Services	1.2 FTE	1.5 FTE	1.3 FTE
OEDIT Subtotal	**$207,108**	**$205,810**	**$178,368**
Department of Revenue			
GenTax Programming	-	-	$37,080
Systems Support Office	-	-	$21,035
Office of Research and Analysis	-	-	$7,392
User Acceptance Testing	-	-	$9,632
Document Management	-	-	$3,098
DOR Subtotal	**-**	**-**	**$78,237**
Total Cost	**$207,108**	**$205,810**	**$256,605**
Total FTE	**0.8 FTE**	**1.5 FTE**	**1.3 FTE**

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

Office of Economic Development and International Trade. OEDIT requires staff and computer programming to manage the tax credit programs.

- **Staffing.** Starting in FY 2024-25, OEDIT requires 1.5 FTE to evaluate tax credit applications, administer the credit, manage program continuation, develop program materials, and communicate the tax incentive program. Staff costs and FTE are prorated in the first year, assuming the new staff will begin in September 2024. OEDIT will only need 1.3 FTE beginning on January 1, 2026, after applications for the fixed capital assets investments tax credit have been reviewed.

- **Salesforce development**. OEDIT uses the management software Salesforce to oversee program applicants, analytics, and application development. In FY 2024-25, OEDIT requires an estimated $29,000 to integrate the new tax credit program into Salesforce.

Department of Revenue. Starting in FY 2026-27, expenditures will increase in DOR to update existing tax forms, test programming changes, and evaluate the new tax credit.

- **Computer programming and testing.** In FY 2026-27 only, this bill requires expenditures of $67,747 to program, test, and update database fields in DOR's GenTax software system. Programming costs are estimated at $37,080, representing 160 hours of contract programming at a rate of $231.75 per hour. Costs for testing at the department include $21,035 for 601 hours of innovation, strategy, and delivery programming support at a rate of $35 per hour, and $9,632 for 301 hours of user acceptance testing at a rate of $32 per hour.

- **Data reporting.** Expenditures in the Office of Research and Analysis are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at $7,392, representing 231 hours for data management and reporting at $32 per hour.

- **Document management.** In FY 2026-27 only, workload in DOR will increase to update tax forms for paper filings. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated funds.

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. 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.

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. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Effective Date

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

State Appropriations

Conditional upon the receipt of a multimillion dollar federal grant, the bill requires a FY 2024-25 General Fund appropriation of $90,255 to the Office of Economic Development and International Trade, and 0.6 FTE. Appropriations are for only the General Fund portion of the expenditures shown in Table 2, as the Quantum Business Loan Loss Reserve Cash Fund created in the bill is continuously appropriated.

State and Local Government Contacts

Office of Economic Development	Personnel	Revenue
State Auditor		