HB10-1190

Colorado Legislative Council Staff Fiscal Note

FINAL FISCAL NOTE

Drafting Number:	LLS 10-0736	**Date:**	May 27, 2010
Prime Sponsor(s):	Rep. Pommer Sen. Heath	**Bill Status:**	Signed into Law
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TITLE: CONCERNING THE SUSPENSION OF THE EXEMPTION FROM THE STATE SALES AND USE TAXES FOR FUELS USED FOR INDUSTRIAL PURPOSES, AND MAKING AN APPROPRIATION THEREFOR.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012
State Revenue General Fund	$7.2 million	$37.6 million	$40.2 million
State Expenditures General Fund	$95,892*		
FTE Position Change	0.9 FTE		
Effective Date: The bill was signed by the Governor and became law on February 24, 2010. The bill is effective for sales occurring on or after March 1, 2010.			
Appropriation Summary for FY 2010-2011: See the State Appropriation section.			
Local Government Impact: None.			

* *No separate appropriation for $1,570 of these funds is required because of ongoing appropriations to the Department of Revenue for computer programming provided in the Long Bill for new legislation.*

Summary of Legislation

This bill temporarily eliminates the sales and use tax exemption for storage, use, or consumption of energy used for industrial purposes. From March 1, 2010, until June 30, 2012, the sales and use tax will apply to electricity, coal, coke, fuel oil, steam, nuclear fuel or natural gas for use in processing, manufacturing, mining, refining, irrigation, construction, telephone and radio communication, and street transportation services. The storage, use, or consumption of fuel purchased for railroad transportation services, diesel fuel purchased for off-road use, and fuel purchased for agricultural purposes or electricity generation is exempt from this bill.

The bill requires the Department of Revenue (DOR) to account for all revenue attributable to the bill, and to the extent information is available, make quarterly reports to the General Assembly regarding the net revenue gain. The bill prohibits the use of any additional money from this bill to fund additional state FTE.

State Revenue

This bill temporarily suspends the existing tax exemption for energy used for industrial purposes. The bill will result ***in additional General Fund revenue to the state of $7.2 million in FY 2009-10, $37.6 million in FY 2010-11, and $40.2 million in FY 2011-12.*** The revenue estimate for FY 2009-10 represents a partial-year impact. The revenue impact grows at a slower rate than expectations for growth in industrial energy use in FY 2011-12 because, under current law, vendors will begin retaining 3.33 percent of the taxes they collect starting July 1, 2011.

Revenue estimates were developed using region four, fuel-specific data for the industrial sector from the federal Energy Information Administration (EIA). Data included price and consumption forecasts for coal, natural gas, distillate fuel oil, liquified petroleum gas, motor gasoline, and other petroleum products by industry. Agriculture was excluded from the industrial sector. Region four data was apportioned for Colorado. For the transportation sector, Colorado-specific 2007 consumption data from the EIA was assumed to grow through 2012 at the same rate as U.S. industrial production, as published by the Federal Reserve Board. Railroads were excluded from the transportation sector, as well as all distillate fuel oil used in the transportation industry. Electricity generation is excluded from the bill and the estimate. The estimate does not include revenue generated from sales of fuel used by the telephone, radio and TV broadcasting sectors because these data are not available.

State Expenditures

Department of Revenue (DOR). The DOR will incur one-time expenses of $95,892 and 0.9 FTE in FY 2009-10 to notify vendors of the elimination of the state sales tax exemption on industrial fuel usage. The DOR will also incur personnel costs related to answering questions from vendors regarding the change and information technology costs to adjust the state's computer systems. No appropriation is necessary for the information technology costs as the DOR receives as separate appropriation in the Long Bill for computer programming related to new legislation. Table 1 summarizes the increased personnel costs for the DOR.

Table 1. Expenditures Under HB 10-1190

Cost Components	**FY 2009-2010**
Information Technology Services	$1,570
Personal Services	36,239
FTE	*0.9*
Operating Expenses	
Printing	5,999
Postage	52,084
TOTAL	**$95,892**

Economies of Scale. It should be noted that several pieces of legislation were enacted during the 2010 legislative session that affect sales and use tax account holders. The DOR will send one letter, two pages in length, to each sales and use tax account holder advising them of all enacted changes, rather than sending one notification for each legislative change.

State Appropriations

For FY 2009-10, the bill appropriates $94,322 General Fund and 0.9 FTE to the Department of Revenue. If multiple sales and use tax bills are enacted, no separate appropriation may be necessary for this bill.

Departments Contacted

Natural Resources Regulatory Agencies Revenue