

Colorado Legislative Council Staff Fiscal Note

**FINAL
FISCAL NOTE**

Drafting Number: LLS 11-0182	Date: July 7, 2011
Prime Sponsor(s): Sen. Heath	Bill Status: Signed into Law
Rep. Gerou; Riesberg	Fiscal Analyst: Jonathan Senft (303-866-3523)

TITLE: CONCERNING FUNDING TO SUPPORT INNOVATIVE INDUSTRIES, AND, IN CONNECTION THEREWITH, CREATING THE "COLORADO BIOSCIENCE AND CLEAN TECHNOLOGY INNOVATION REINVESTMENT ACT".

Fiscal Impact Summary	FY 2011-12	FY 2012-13	FY 2013-14
State Revenue			
State Transfers and Diversions Transfer from the Income Tax Withholding Fund (Diversion from the General Fund)			(\$5,100,000)
State Expenditures General Fund Bioscience Discovery Evaluation Cash Fund Clean Technology Discovery Evaluation Cash Fund		\$11,733	\$2,550,000 \$2,550,000
FTE Position Change		0.2 FTE	0.5 FTE
Effective Date: The bill was signed into law by the Governor on May 26, 2011, and takes effect July 1, 2012, assuming no referendum petition is filed.			
Appropriation Summary for FY 2011-2012: See State Appropriations section.			
Local Government Impact: None.			

Summary of Legislation

This bill redirects 50 percent of the growth of state income tax withholdings from specific Colorado businesses toward two cash funds dedicated to the bioscience and clean technology industry. It also extends until 2024 the grant programs related to these industries.

Background

Under this bill, two programs with corresponding cash funds will receive revenue generated by the tax withholding. Both funds are operated under the Office of Economic Development and International Trade (OEDIT) and is summarized below:

Bioscience Discovery Evaluation Program. The program, created in 2007, intends to accelerate the development of new bioscience products and services. To achieve this goal, it provides grants to assist technology transfer offices and early-stage bioscience companies. Thirty percent of the fund is dedicated to activities in life sciences, engineering material sciences, computer sciences, photonics or nanotechnology. Another thirty percent is dedicated to therapeutic or diagnostic products to improve human health, bioscience technologies and biofuels. To date, approximately \$9 million has been expended from this fund towards these activities.

Clean Technology Research Program. The program, created in 2009, also dispenses grant money and is designed to mirror the Bioscience Discovery Evaluation Program to award grants specifically to companies in renewable energy, electric motors, and lighting, among other related areas. Grants can be awarded up to \$50,000 to an office of technology transfer, and up to \$150,000 for an early stage clean technology company.

State Revenue

The bill does not directly affect state revenue, but it allocates a portion of General Fund moneys to fund grants that may lead to expanded growth in the bioscience and clean technology industries and provide potentially higher tax revenue in the future. Given the limited data on past growth in these industries and the potential impact of grants on future growth, no estimate has been assigned to this amount.

State Transfers and Diversions

This bill transfers an estimated \$5.1 million per year from the Income Tax Withholding Fund to the cash fund beginning in FY 2013-14. The effect of this transfer is to divert money that would otherwise be credited to the General Fund. The transferred amount will be allocated to the Bioscience Discovery Evaluation Cash Fund and the Clean Technology Discovery Evaluation Cash Fund.

The initial transfer is estimated based on the three months from October 2010 to December 2010, during which the clean technology industry withheld approximately 3 percent of the income taxes withheld by all industries. On an annual basis, this industry is projected to currently withhold about \$140 million in estimated income taxes. Assuming an average growth rate of 3.4 percent, based on Colorado wage and income forecast rates, income tax withholding should be approximately \$10.2 million above the withholding base by 2014 when the first transfer occurs. The bill transfers one-half of this amount to the funds, or approximately \$5.1 million. This amount is then evenly divided with \$2.55 million going to each fund.

Estimated income taxes are withheld by employers on behalf of employees. These withholding payments are made regularly to the Department of Revenue and can vary with new employees, changes in the number of deductions claimed by employees, and changes in the withholding tables published by the department.

State Expenditures

The bill affects state expenditures in three ways. First, it provides a source of funding for grants to support bioscience and clean technology development beginning in FY 2013-14. Second, it reduces the amount of money in the General Fund available for other purposes. Finally, it requires some work to establish baseline data and modify computer systems. **For FY 2012-13, the bill increases state expenditures by \$11,733 General Fund and 0.2 FTE. For FY 2013-14, this bill increases state expenditures by \$5,100,000 cash fund and 0.5 FTE.** These impacts are described below.

The bioscience and clean technology grant programs. The bill provides an estimated \$5.1 million per year to support the grant programs beginning in FY 2013-14. It also extends the grant programs until 2024. The grant programs are administered by OEDIT based on criteria set in law, and outlined earlier in background section of this document.

General Fund impact. Beginning in FY 2013-14, the bill diverts an estimated \$5.1 million that would otherwise be available for appropriation from the General Fund.

One-time costs for implementation. The DoR must track and calculate both the withholding base and the withholding total, and classify and verify the businesses among the industries identified in the bill. This effort will require 429 hours of work by a tax examiner at a cost of \$8,773 and 0.2 FTE in FY 2012-13. The DoR must also modify the Colorado Integrated Tax Architecture software, including development, coding, testing, and validation. This effort will require approximately 40 hours of work by staff in the Office of Information Technology (OIT) at a cost of \$2,960 in FY 2012-13.

OEDIT. The department will develop application procedures, provide technical assistance with potential applicants, market the programs, evaluate submitted proposals, select awards, develop database and tracking processes, and complete other duties as needed. Under SB09-031, OEDIT is previously authorized to use 5 percent of moneys in the fund to administer the Clean Technology program. The Bioscience program will be administered within existing resources at OEDIT. Therefore, no appropriation is required for this administration. Costs are described in Table 1 below.

Table 1. Expenditures Under SB 11-047			
Cost Components	FY 2011-12	FY 2012-13	FY 2013-14
Personal Services (DoR)		\$8,773	
FTE		0.2	
Personal Services (OEDIT)			44,714
FTE			0.5
Personal Services (OIT)		2,960	
Contractual Services		40 hrs	
Grants*			5,046,897
TOTAL		\$11,733	\$5,100,000

*Approximately 31 awards per year, with an average grant award of \$100,000.

It should be noted that several unpredictable variables contribute to forecasting economic growth, particularly in innovative industries. Limited data exists on how these industries have performed in the past. Therefore, while this program is proposed for a ten-year time frame, this fiscal note is written to address the target date of June 30, 2014.

Expenditures Not Included

Table 2 indicates expenditures for this bill that are centrally appropriated in the Long Bill, under a policy of the Joint Budget Committee.

Table 2. Expenditures Not Included Under SB 11-047*			
Cost Components	FY 2011-12	FY 2012-13	FY 2013-14
Employee Insurance (Health, Life, Dental, and Short-term Disability)		\$1,420	\$3,550
Supplemental Employee Retirement Payments		388	970
TOTAL	\$0	\$1,808	\$4,520

**More information is available at: <http://colorado.gov/fiscalnotes>*

State Appropriations

The bill does not take effect until FY 2012-13, and so no appropriation is required for FY 2011-12. However, the Department of Revenue requires a General Fund appropriation of \$11,733 in FY 2012-13, of which \$2,960 should be reappropriated to the Office of Information Technology.

Departments Contacted

Governor Revenue Treasury