

Colorado's Competitiveness: The Challenge of Economic Recovery Under More than \$1.8 Billion in New Regulations, Taxes and Fees

March 2021

Prior to 2020 and the global economic and cultural upheaval caused by the COVID-19 pandemic, Colorado stood out for having strong economic growth and offering a desirable lifestyle. Coloradans had created the #1 state economy and enjoyed competitive advantages in attracting business growth and an educated workforce. In fact, in late 2019, US News World Report ranked Colorado's business climate as one of the best in the nation.

However, after two periods of negative economic shocks in 2020, in both late spring and through the holidays, the state of business in Colorado remains under duress.

- **There were 150,000 fewer jobs in Colorado in December 2020 relative to the start of the years, representing a 5.4% cut.ⁱ** While the statewide reduction is significant, it masks the disproportionate impacts across industries, as the leisure and hospitality industry was down 90,900 jobs by end of 2020, whereas professional and business services was up 7,100 jobs.ⁱⁱ
- **State taxable sales were down \$8.9B, or -1.35%, in 2020 relative to 2019.ⁱⁱⁱ** Small business suffered, especially. As of February 10th, small business revenue was down 29.5% from January 2020 levels.^{iv}
- **Colorado's unemployment rate increased by the 2nd-most among all states,** from 2.5% to 8.5%. The Colorado state unemployment ranking went from near first (4th) to almost last (48th).^v

With COVID-19 vaccinations quickly increasing there is an opportunity to be optimistic, however, public health experts warn that surges in cases and hospitalizations later in the years may require renewed restrictions. This uncertainty over the next year is coupled with significant unemployment insurance tax increases and other regulatory cost increases that will shape the ability of the Colorado economy to recover more quickly.

- **Unemployment insurance taxes are projected to increase by over \$500 million, or 84% within next two years.** This does not include the interest charges businesses will be assessed to repay loans the State of Colorado received from the federal government to keep Colorado's unemployment insurance program solvent. Colorado is one of only nineteen states with outstanding federal loans. And given the way premiums rates and the taxable wage base are scheduled to change, the UI tax increase will be even greater in years just beyond the current forecast.
- **The cumulative cost of new taxes and fees will be approximately \$1.8B per year within the next 3-5 years.** This does not include the costs to businesses and households to comply with new regulations and legislation which don't have full cost estimates yet: these measures include mandatory coverage of sick leave; increased health insurance benefit coverage; full costs of oil and gas regulations, and multiple layers of mandates to reduce emissions under HB19-1261. Below is a summary of costs of new regulations, taxes and fees.

Table of Recent Legislation and Policy Changes Which Will Impact the Costs of Doing Business and Living in Colorado

Measure	Description	Estimated Annual Direct Cost to State Govt.	Estimated Annual Private-sector Cost
2020			
Unemployment Insurance Trust Fund Premium Increases Due to Depleted UI Trust Fund	Payroll taxes to replenish the unemployment insurance trust fund will increase significantly in coming years.	No increase to state costs.	FY 2023 estimate = \$501,000,000 increase from FY21 ^{vi} Est. \$1B+ fund deficit by end of FY21 will require increases in business of over 22% a year for next 3 years and even more afterward.
Proposition 118 – Paid Family and Medical Leave	Paid family leave premiums to be paid by both employees and employers	Administrative costs to establish and operate new department = \$3,200,000 in FY22 \$48,600,000 in FY23 ^{vii} Beginning FY23, Admin costs are covered by premiums	Total FY23 payroll fees/premiums = \$1,294,905,256 Employee share = \$724,914,237 Employer share = \$569,991,019 ^{viii}
HB20-1420 – Adjust Tax Expenditures for State Education Fund, Short-term Impacts	State approved roll-back of tax-exemptions included in 2020 Federal Cares Act	FY22 = \$700,000 ^{ix} Administrative costs	FY22 = \$32,000,000 Reversal of CARES Act deductions increases revenue through FY22.
HB20-1420 – Adjust Tax Expenditures for State Education Fund, Long-term Impacts	EITC expansion	FY24 = \$600,000 Administrative costs	FY24 = -\$58,000,000 EITC expansion decreases revenue beginning in FY23
SB20-215 – Health Insurance Affordability Enterprise	New enterprise to collect fees for new reinsurance program	FY24 = \$182,400,000 ^x Administrative costs and reinsurance funds	FY 24 = \$129,700,000 Expansion of reinsurance program collects more hospital and carrier fee revenue to distribute risks of high-cost health claims.
Proposition 116 – State Income Tax Cut	Income tax cut	FY22 = \$15,000 ^{vii} Administrative costs	FY22 = -\$154,000,000 Decreased income tax revenue resulting from lowering of income tax rate from 4.63% to 4.55%.
SB20-207 – Concerning Unemployment Insurance	Changes to unemployment insurance revenues including increase of taxable wage base	\$18,000,000 annually ^{xi} Increases benefit payments by increasing share of wage a claimant can earn.	Increased wage base for collection of UI Trust Fund premiums from employers. Higher net employer taxes from SB20-207 are included in increase in UI taxes included in first row. Stopped surcharge increase for 2021 and 2022.
Amendment B - Gallagher Amendment Repeal	Overhaul of property assessment rate-setting mechanism	Passage of Amendment B prevented an approximate \$700M revenue reduction as result of preventing the reduction in the residential assessment rate. ^{xii}	While residential property owners face higher taxes than under previous law, all property owners face a more uncertain future as they await a longer-term solution.
Utility Emissions-reduction Requirements	80% emissions reductions for utilities by 2030	Costs of rulemaking labor, enforcement, and administration of utilities' required clean power plans.	Increased utility prices due to investments, such as grid capacity expansion, fuel-mix upgrades, and adjusting to potential peak demand shifts caused by other policies, that utility companies will have to make in order to reduce their emissions by 80%.

Red = Costs have been quantified. Blue = Costs have not been quantified.

Measure	Description	Estimated Annual Direct Cost to State Govt.	Estimated Annual Private-sector Cost
2020 CONT.			
AQCC Zero Emission Vehicles Rule	Mandate for the sale of electric vehicles	Costs of AQCC rulemaking labor, enforcement, and administration.	Fuel and power costs due to requirements placed upon electric utilities to support electricity demand from a larger electric vehicle fleet, subsidies to create charging stations across the state to support the requirement that an increasing percentage of light-duty vehicles sold are zero-emission.
SB20-205 – Sick Leave for Employees	Employers required to provide paid sick leave to employees	FY22 = \$298,196 ^{xiii} Administrative costs and general centrally appropriated costs to enforce.	Imposes cost to employers for lost labor (up to 48 hours a year per employee). Short-term replacement labor costs could be incurred.
HB20-1158 – Insurance Cover Infertility Diagnosis Treatment Preserve	Health insurance coverage for multiple infertility treatments	FY22 = \$8,906 ^{xiv} State administrative costs to personal services and central appropriations.	Insurers and policyholders expect higher costs to include multiple infertility treatments their current services. Insurance rates are influenced by various third-party variables, and the impact of this bill on insurance premiums is not estimated.
2019			
SB19-181 – Protect Public Welfare Oil and Gas Operations	Original legislation authorized greater levels of new oil and gas restrictions. Examples of new rules to come from SB181 include increased setbacks from COGCC Oct 2020 rulemaking.	FY22 = \$2,589,431 ^{xv} Administrative and rulemaking costs	Static fiscal note estimated \$3,000,000 in higher permitting fees yet this does not account for any impacts of new rules on production. As of February 2021, very few new drilling permits have been filed under new COGCC Oct 2020 setback rules. Impacts to new production will have significant economic impacts in long-term. ^{xvi}
HB19-1245 – Affordable Housing Funding from Vendor Fee Changes	Increase in state vendor fee	FY22 = \$985,335 ^{xvii} Administrative costs and additional 8 FTE at Housing Development Grant Fund	FY22 = \$49,400,000 Additional fee revenue derived from an increase of the vendor fee, applied to some retailers upon remittance of their sales taxes, from 3.33% to 4%.
HB19-1231 – New Appliance Energy and Water Efficiency Standards	New appliance environmental standards	Administrative and enforcement costs [undefined by fiscal note]	Standards-compliant appliances are bound to be more expensive than the others; otherwise, there would hardly be a need for this law.
HB19-1210 – Local Government Minimum Wage	Local governments to increase minimum wage	FY22 = \$508,986 ^{xviii} Government administrative costs, and personal services	Costs to businesses to pay increased wages likely incurred resulting in potential layoffs. State minimum wage in 2021 is \$12.32/hour.
HB19-1262 – State Funding for Full-day Kindergarten	State Funding for Full-day Kindergarten	FY20 = \$198,300,000 ^{xix} State funding increase due to increase in the kindergarten funding rate and the number of funded pupils	No direct private cost; indirect costs may arise from possible crowding-out of other state spending priorities

Red = Costs have been quantified. Blue = Costs have not been quantified.

Measure	Description	Estimated Annual Direct Cost to State Govt.	Estimated Annual Private-sector Cost
2018			
HB18-1400 – Increase Fees Stationary Sources Air Pollutants	Increased fees for permitting of stationary emission sources.	FY20 = \$1,555,293 ^{xx} Stationary Sources Program funding and rulemaking costs	FY20 = \$2,684,609 Additional ~25% of fee revenue from stationary sources of air pollution such as high-emitting factories, refineries, and power plants.
SB18-200 – Modifications to PERA Public Employees' Retirement Association to Eliminate Unfunded Liability	This SB created ongoing state revenue reductions through unfunded liabilities and created ongoing state and local government expenditures with PERA revenue increases.	FY21 = \$225,000,000 ^{xxi} In additional General Fund commitments.	Additional costs to this are under the public-sector as the employee and employer contribution increased.
Total costs to government and private sector		\$679M in additional state costs (3-5 years)	Approx. \$1.8B in new fees and taxes, not accounting for economic costs of compliance with new regulations

Red = Costs have been quantified. Blue = Costs have not been quantified.

End Notes

- ⁱ <https://www.bls.gov/data/>
- ⁱⁱ <https://www.bls.gov/data/>
- ⁱⁱⁱ <https://cdor.colorado.gov/retail-sales-reports>
- ^{iv} <https://tracktherecovery.org/>
- ^v <https://www.bls.gov/data/>
- ^{vi} <https://leg.colorado.gov/publications/forecast-december-2020>
- ^{vii} http://leg.colorado.gov/sites/default/files/blue_book_english_for_web_2020_1.pdf
- ^{viii} <https://commonsenseinstituteco.org/proposition-118-a-statewide-paid-family-and-medical-leave-program-for-colorado-but-at-what-cost/>
- ^{ix} https://leg.colorado.gov/sites/default/files/documents/2020A/bills/fn/2020a_hb1420_f1.pdf
- ^x https://leg.colorado.gov/sites/default/files/documents/2020A/bills/fn/2020a_sb215_f1.pdf
- ^{xi} https://leg.colorado.gov/sites/default/files/documents/2020A/bills/fn/2020a_sb207_f1.pdf
- ^{xii} <https://commonsenseinstituteco.org/the-inherent-tradeoffs-in-amendment-b/>
- ^{xiii} https://leg.colorado.gov/sites/default/files/documents/2020A/bills/fn/2020a_sb205_f1.pdf
- ^{xiv} https://leg.colorado.gov/sites/default/files/documents/2020A/bills/fn/2020a_hb1158_f1.pdf
- ^{xv} https://leg.colorado.gov/sites/default/files/documents/2019A/bills/fn/2019a_sb181_f1.pdf
- ^{xvi} <https://commonsenseinstituteco.org/senate-bill-181/>
- ^{xvii} http://leg.colorado.gov/sites/default/files/documents/2019A/bills/fn/2019a_hb1245_f1.pdf
- ^{xviii} https://leg.colorado.gov/sites/default/files/documents/2019A/bills/fn/2019a_hb1210_f1.p
- ^{xix} <https://coloradosun.com/2020/01/08/full-day-kindergarten-colorado-cost/#:~:text=That%20means%20the%20additional%20cost,8.4%25%20more%20than%20was%20budgeted>
- ^{xx} https://leg.colorado.gov/sites/default/files/documents/2018A/bills/fn/2018a_hb1400_f1.pdf
- ^{xxi} https://leg.colorado.gov/sites/default/files/documents/2018A/bills/fn/2018a_sb200_f1.pdf