

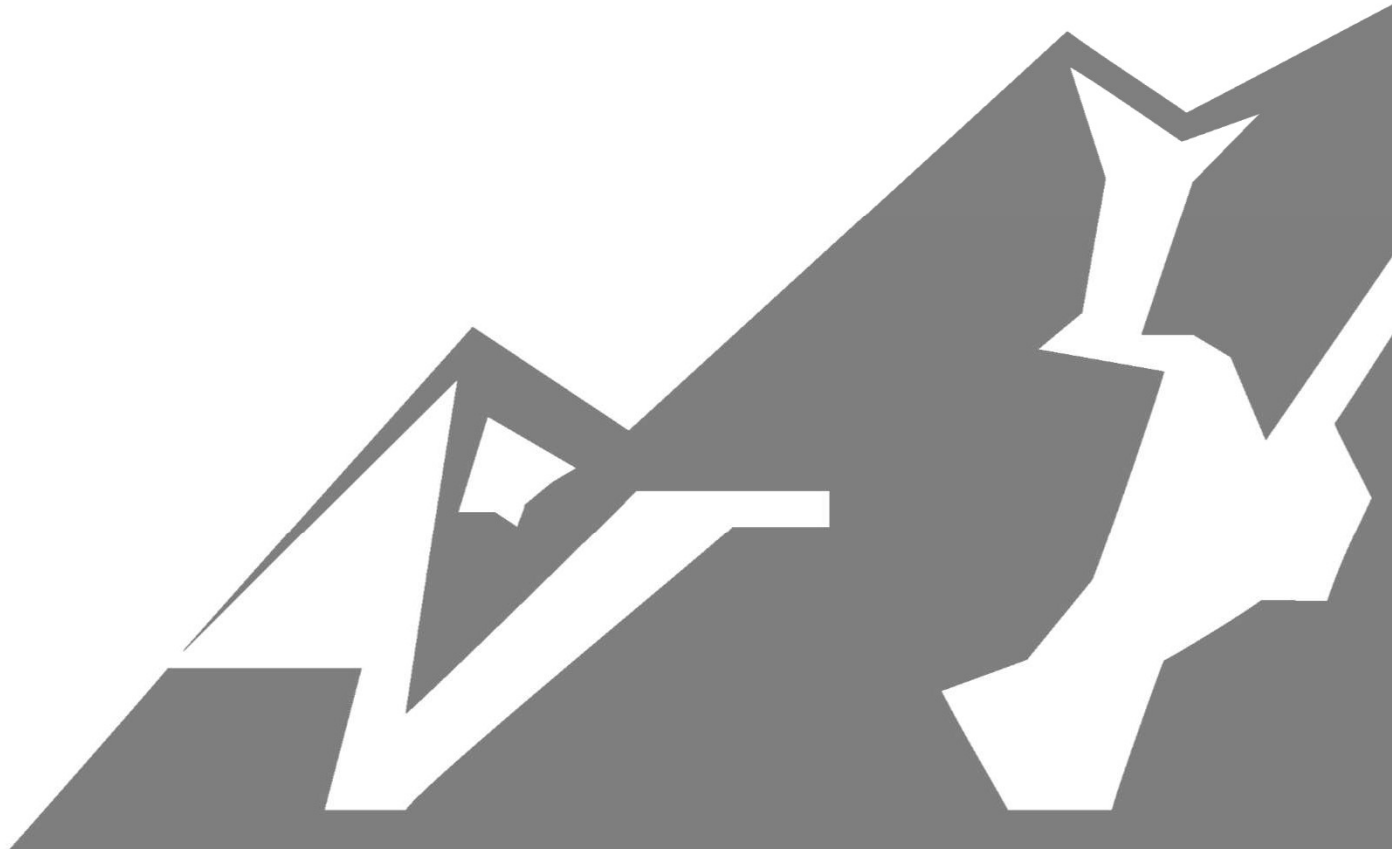
# Tax Expenditure Methodology

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# Statutory Scope of Review in Colorado

- Required to review all 232 tax expenditure provisions
- Both structural and preferential
- Timing: Oldest first and any expiring provisions in time for the legislative session during which they would need to be renewed.

# Key Evaluation Requirements

- A conclusion on whether the provision is meeting its purpose
- The economic costs and benefits of the expenditure
- Contact intended beneficiaries
- A comparison of the expenditure to other similar expenditures in other states
- Identify and review coordination with other programs or expenditures with similar purposes
- Identify data constraints and suggest changes to improve data collection

# Considerations When Developing Scope/Methodology

- What type of purpose does the expenditure have?
  - Structural vs. preferential
- What are the most relevant measures for determining whether and expenditure is meeting its purpose?

# Considerations When Developing Scope/Methodology

- What data are available?
  - Adapt performance measures to the data available
  - Report on data constraints
- What does a review of basic data on usage and cost (if available) show?

# Considerations When Developing Scope/Methodology

- How much time would further analysis take?
- Have other sources performed analyses that we can use?

# Typical Analyses Based on Purpose Type

Type of purpose	Key Approaches
Incentivize business activity	<ol style="list-style-type: none"><li>1. Compare benefit to other influencing factors</li><li>2. Survey/interview beneficiaries on decision-making</li><li>3. Perform a cost/benefit analysis and/or breakeven analysis</li></ol>
Provide social benefits	<ol style="list-style-type: none"><li>1. Compare benefit to costs of services for likely beneficiaries</li><li>2. Assess cost effectiveness compared to other available programs</li></ol>
Structural	<ol style="list-style-type: none"><li>1. Measure the usage rate</li><li>2. Review administration/structure</li><li>3. Review history</li></ol>

# Historic Preservation Credit: The long and winding road



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# Background

- Two similar credits in Colorado intended to incentivize renovation projects on historic properties: one is older and used less often, one is newer and more frequently used (more beneficial)
- Both were set to expire after 2019.

# Potential Performance Measures

- To what extent do the credits encourage historic property restoration by reducing taxpayers costs?
- To what extent have the credits caused increased economic activity and increased property values?
- Cost effectiveness: How does the economic activity caused by the credits compare to the impact of general state spending.

# Cost Effectiveness

- Estimated the revenue impact to the state
- Began researching information related to potential impact on taxpayer decision making
- Developed IMPLAN models to estimate economic activity caused by investments incentivized by credits vs. through state spending

# House Bill 18-1190

- The bill renewed only the newer credit and made substantial changes to it.



# Cost effectiveness: Breakeven analysis

**EXHIBIT 1.4.  
HISTORIC PROPERTY CREDIT  
COST-EFFECTIVENESS ANALYSIS BY  
INCENTIVIZATION LEVEL  
TAX YEARS 2016 AND 2017**

PERCENT OF QUALIFIED REHABILITATION EXPENDITURES INCENTIVIZED BY CREDIT	QUALIFIED REHABILITATION EXPENDITURES ATTRIBUTABLE TO CREDIT	ESTIMATED CREDITS CLAIMED	COST TO STATE PER DOLLAR OF QUALIFIED REHABILITATION EXPENDITURES INCENTIVIZED BY THE CREDIT
5 percent	\$120,000	\$377,000	\$3.14
10 percent	\$240,000	\$377,000	\$1.57
15 percent	\$360,000	\$377,000	\$1.05
15.7 percent (Break Even)	\$377,000	\$377,000	\$1.00
20 percent	\$480,000	\$377,000	\$0.79
25 percent	\$600,000	\$377,000	\$0.63
30 percent	\$720,000	\$377,000	\$0.52

SOURCE: Office of the State Auditor analysis of History Colorado data.



# Cost Effectiveness: Economic Impact

**EXHIBIT 1.5.  
IMPLAN ECONOMIC IMPACTS OF  
HISTORY PROPERTY PRESERVATION CREDIT  
TAX YEAR 2016 AND 2017**

IMPACTS OF CREDIT PER INCENTIVIZATION RATE			IMPACTS OF CREDIT AMOUNT THROUGH TAX REFUND		IMPACTS OF CREDIT AMOUNT THROUGH STATE SPENDING	
PERCENTAGE OF EXPENDITURES INCENTIVIZED BY CREDIT	JOBS SUPPORTED	ECONOMIC VALUE-ADDED	JOBS SUPPORTED	ECONOMIC VALUE-ADDED	JOBS SUPPORTED	ECONOMIC VALUE-ADDED
5 Percent	3.0	\$246,000	3.6	\$291,000	6.0	\$474,000
10 Percent	4.5	\$367,000				
15 Percent	6.0	\$488,000				
15.7 Percent (Break Even)	6.2	\$505,000				
20 Percent	7.5	\$610,000				
25 Percent	9.0	\$731,000				
30 Percent	10.5	\$852,000				

SOURCE: Office of the State Auditor analysis of History Colorado data and IMPLAN Economic Analysis.



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