

AGENDA ITEM SUMMARY

City Council



STAFF

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SUBJECT

Resolution 2023-052 Approving the Boundaries of a Proposed Area of the City to be Submitted to the Director of the Colorado Office of Economic Development for Designation as a CHIPS Zone under the CHIPS Zone Act.

EXECUTIVE SUMMARY

In July 2022, Congress passed the Creating Helpful Incentives to Produce Semiconductors and Science Act of 2022 (CHIPS Act) as part of President Biden's economic plan to invest in America, strengthen domestic semiconductor manufacturing, fortify the economy and national security, and reinforce America's chip supply chain. This May, the Colorado General Assembly adopted HB23-1260 to provide certain tax incentives to support and encourage investments in semiconductor and advanced manufacturing in Colorado, as well as meet the requirement for state or local participation in the federal government's CHIPS Act. HB23-1260 creates a state income tax-credit opportunity for businesses in the semiconductor and advanced manufacturing that are awarded CHIPS federal funding. For this to occur for businesses in the City, HB23-1260 requires the City to propose an area within the City for designation as a CHIPS Zone (Zone) and to submit this proposed area, together with a development plan, to the Director of the Colorado Office of Economic Development for consideration and approval of such designation by the Colorado Development Commission.

STAFF RECOMMENDATION

Staff recommends adoption of the Resolution.

BACKGROUND / DISCUSSION

In July 2022, Congress passed the CHIPS Act as part of President Biden's economic plan to invest in America, stimulate private sector investments, strengthen domestic semiconductor manufacturing, fortify the economy and national security, and reinforce America's chip supply chain. The United States invented the semiconductor, but today produces about 10 percent of the world's supply. Seventy-five percent of semiconductors are made in East Asia. The CHIPS Program Office was then formed within the National Institute of Standards and Technology (NIST) at the U.S. Department of Commerce.

Semiconductors, or chips, are tiny electronic devices that are integral to America's economic and national security. These devices power tools as simple as a light switch and as complex as a fighter jet or a smartphone. Semiconductors power our consumer electronics, automobiles, data centers, critical infrastructure, and virtually all military systems. They are also essential building blocks of the technologies

that will shape our future, including intelligence, biotechnology, and clean energy (<https://www.nist.gov/chips>). The US industrial transition is creating opportunity to adapt to new and existing demands, solidify supplier diversity and supplier development in semiconductors.

CHIPS applications to the federal government are due on June 26, 2023. The CHIPS Program Office's first round of funding seeks applications for projects involving the construction, expansion, or modernization of commercial facilities for the fabrication of leading-edge, current-generation, and mature-node semiconductors. This includes both front-end wafer fabrication and back-end assembly, testing, and packaging.

Companies that are awarded CHIPS Act funding are barred from making new, high-tech investments in China or other "countries of concern" for at least 10 years to ensure that taxpayer money does not go to fund operations in China. Additionally, companies that are federally awarded over \$150M or more are required to guarantee affordable, high-quality childcare for plant construction workers and operators.

HB23-1260 adopted by the Colorado General Assembly this May meets the requirement for Colorado's participation in the federal government's CHIPS Act. This program, designed to bring microprocessor manufacturing out of China and back to the U.S., will create a refund mechanism allowing a state tax credit based on a specified project in the state for qualified investments, business facility employees, and experiential activity research, in the hopes of spurring direct investments from private companies to Colorado.

Historically, Colorado has struggled to contribute matching funds required to be competitive for federal grant programs. HB23-1260 creates new state incentives, as well as modifications to existing state tax credits to maximize federal government funding for private businesses engaged in semiconductor manufacturing in Colorado.

Process:

- A local government/municipality must propose an area for designation as a CHIPS Zone (Zone) and submit a development plan for that zone to the Director of the Colorado Office of Economic Development. The proposed Zone and development plan must then be considered and approved by Colorado Economic Development Commission (Commission).
- Semiconductor and advanced manufacturers must apply to the Commission for a refund certificate approving their project and setting the maximum amount of income tax credits the manufacturer may claim as a refund in connection with the project. The tax benefits of the Zones are only available to taxpayers engaged in semiconductor manufacturing, as that term is defined under the CHIPS Act.

The creation of a CHIPS Zone is similar to Enterprise Zones (EZ) Program with tax credits for qualified investments, new employment, and R&D activities. In designated EZ areas, businesses are eligible for state income tax credits and sales and use tax exemptions for specific business investments. Colorado currently has 16 designated enterprise zones, including one in Fort Collins.

The Zone proposed in the Resolution is only available to taxpayers engaged in semiconductor manufacturing. The Zone is industry-specific versus company specific. Fort Collins CHIPS Zone (Attachment 2) has been identified south to north from Precision and Harmony Drive (south) to Vine Drive (north), and the east to west area as I-25 (east) to College Avenue/Highway 287 (west). The City's zoning for this area of Employment, Harmony Corridor, and Industrial allow for semiconductor activities such as manufacturing, and research and development.

The semiconductor and advance manufacturing industry provide quality jobs in the Fort Collins area. The Economic Development Administration define a quality job as a job that exceeds the local prevailing wage for an industry in the region, includes basic benefits (e.g., paid leave, health insurance, retirement/savings plans) and helps the employee develop the skills and experiences necessary to advance along a career path. Under the North American Industry Classification System (NAICS) 334 Computer and Electronic

Product Manufacturing, Fort Collins has 19 companies that employ over 2,500 employees, and contribute over \$100.6M in direct payroll.

CITY FINANCIAL IMPACTS

Not applicable.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

Not applicable.

PUBLIC OUTREACH

Not applicable.

ATTACHMENTS

1. Resolution for Consideration
2. Exhibit A to Resolution
3. Colorado House Bill 23-1260