HB 19-1005

Legislative Council Staff
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REVISED FISCAL NOTE

(replaces fiscal note dated January 18, 2019)

Drafting Number:	LLS 19-0504	**Date:**	April 30, 2019
Prime Sponsors:	Rep. Buckner; Wilson Sen. Todd; Priola	**Bill Status:**	Senate Finance
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Bill Topic: INCOME TAX CREDIT FOR EARLY CHILDHOOD EDUCATORS

Summary of Fiscal Impact:

☒ State Revenue *(conditional)*
☒ State Expenditure *(conditional)*
☐ State Transfer
☐ TABOR Refund
☐ Local Government
☐ Statutory Public Entity

The bill creates an income tax credit for eligible early childhood educators, which only goes into effect if a referred measure that increases taxes on cigarettes and tobacco and uses a significant portion of the revenue for preschool programs does not pass in the 2019 statewide election. It conditionally decreases state revenue and increases state expenditures through FY 2024-25.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the bill as amended by the House Finance and Appropriations Committees.

Table 1
State Fiscal Impacts Under HB 19-1005

		FY 2019-20	FY 2020-21	FY 2021-22
Revenue	General Fund	($2.6 million)	($5.3 million)	($5.6 million)
	Total	**($2.6 million)**	**($5.3 million)**	**($5.6 million)**
Expenditures	General Fund	-	$79,780	$109,855
	Centrally Appropriated	-	$22,057	$40,996
	Total	-	**$101,837**	$150,851
	Total FTE	-	1.2 FTE	2.2 FTE
TABOR Refund	General Fund	-	-	not estimated

Summary of Legislation

For tax years 2020 through 2024, the bill creates a refundable income tax credit for eligible early childhood educators. The tax credit is only available if a referred measure that allows the state to increase cigarette and tobacco taxes and use a significant portion of the tax revenue for preschool programs and expanded learning opportunities does not pass in the 2019 statewide election. If the referred measure is passed, the tax credit under this bill is not available.

The amount of the credit is limited, as follows:

- $500 for an Early Childhood Professional (ECP) I;
- $750 for an ECP II;
- $1,000 for an ECP III; and
- $500 for an ECP IV, ECP V, and ECP VI.

To be eligible, an educator must hold an early childhood professional credential, and, for at least six months of the year, be either the licensee of an eligible program or employed by an eligible early childhood program. In addition, individuals must have a federal adjusted gross income of less than or equal to $75,000 for single tax filers, or less than or equal to $85,000 for joint filers, in order to to qualify for the credit.

The early childhood program must:

- have achieved at least a level two rating in the Colorado Shines Quality Rating and Improvement System; and

- either have a financial agreement with the Colorado Child Care Assistance Program (CCCAP) or meets federal Early Head Start or Head Start standards.

The Department of Revenue must adjust the credit amounts for inflation beginning in tax year 2021.

Background

The ECP is a voluntary, tiered credentialing system developed by the Colorado Department of Education for early childhood educators. The ECP credential is one of the options available for educators to meet the educational qualifications required by the Colorado Department of Human Services for certain early childhood educator positions. Other options for meeting the educational requirements vary by position and may include college degrees, outside certifications, and various combinations of course work, training, and experience working with children. Educators must have an ECP credential to be eligible for the income tax credit created by this bill.

State Revenue

Conditional on specified 2019 statewide referendums not passing, the bill will decrease General Fund revenue by $2.6 million in FY 2019-20, $5.3 million in FY 2020-21, and $5.6 million in FY 2021-22. The estimate for FY 2019-20 represents a half-year impact for tax year 2020. Full-year revenue impacts will continue through FY 2023-24, with a half-year impact in FY 2024-25 as the credit is repealed. The bill decreases income tax revenue, which is subject to TABOR. Revenue estimates are presented on a tax year basis in Table 2 and on a fiscal year basis in Table 3. Impacts for a single tax year are expected to be accrued across the two fiscal years that each comprise half of the tax year.

Table 2
Tax Year Revenue Impacts of HB 19-1005

Tax Year	**2020**	**2021**	**2022**	**2023**	**2024**
Eligible Population					
ECP I	1,102	1,143	1,182	1,220	1,255
ECP II	2,519	2,602	2,681	2,756	2,827
ECP III	2,130	2,200	2,266	2,328	2,388
ECP IV	757	784	809	833	856
ECP V	320	331	342	352	361
ECP VI	136	141	146	150	154
Total Eligible	**6,965**	**7,201**	**7,425**	**7,638**	**7,841**
Credit Amount					
ECP I	$500	$511	$522	$533	$545
ECP II	$750	$767	$784	$801	$819
ECP III	$1,000	$1,022	$1,044	$1,067	$1,090
ECP IV	$500	$511	$522	$533	$545
ECP V	$500	$511	$522	$533	$545
ECP VI	$500	$511	$522	$533	$545
Total Tax Credits					
ECP I	$550,881	$584,110	$617,171	$650,049	$683,988
ECP II	$1,889,331	$1,995,736	$2,101,710	$2,207,207	$2,315,015
ECP III	$2,130,150	$2,248,035	$2,365,349	$2,484,379	$2,602,875
ECP IV	$378,458	$400,481	$422,394	$444,188	$466,714
ECP V	$160,121	$169,258	$178,351	$187.394	$196,748
ECP VI	$68,247	$72,112	$75,958	$79,783	$83,471
Revenue	**($5,177,186)**	**($5,469,731)**	**($5,760,932)**	**($6,053,001)**	**($6,349,080)**

ECP = early childhood professional. Tax year impacts are accrued across the two fiscal years that each comprise half of the tax year.

Table 3
Fiscal Year Revenue Impacts of HB 19-1005

	FY 2019-20*	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25***
Fiscal Impact	($2,588,593)	($5,323,459)	($5,615,332)	($5,906,966)	($6,201,040)	($3,174,540)

**Fiscal year impacts comprise half-year impacts for each of the two component tax years.*

Assumptions. The Department of Human Services reports that, as of January 10, 2019, there are:

- 5,953 early childhood professionals who currently satisfy the eligibility criteria for the tax credit;
- 4,731 credentialed early childhood professionals who do not satisfy the eligibility criteria; and
- 1,003 early childhood professionals whose eligibility status is unknown.

For 2020, the eligible population is assumed to include all currently eligible early childhood professionals, half of the early childhood professionals with unknown status, and five percent of ineligible early childhood professionals, including the currently ineligible and half of those with unknown eligibility. An additional five percent of the ineligible population is assumed to become eligible each year for which the tax credit remains in effect, based on caseload growth and the assumption that the presence of the tax credit will incentivize professionals to work in this field.

The credit amounts are grown by expectations using the Denver-Aurora-Lakewood consumer price index published in the March 2019 Legislative Council Staff forecast. For years beyond 2020, the annual rate of inflation is assumed to be 2.2 percent. The fiscal note does not assume any change in the distribution of educators across credential tiers.

State Expenditures

Conditional on 2019 statewide referendums not passing, the bill will increase General Fund expenditures by $101,837 and 1.2 FTE in FY 2020-21 and by $150,851 and 2.2 FTE in FY 2021-22 and in future years through FY 2024-25. Expenditures are summarized in Table 4 and detailed below.

Table 4
Expenditures Under HB 19-1005

	FY 2019-20	FY 2020-21	FY 2021-22
Department of Revenue			
Personal Services	-	$55,446	$107,765
Operating Expenses and Capital Outlay Costs	-	$15,344	$2,090
Computer Programming and Testing	-	$6,590	-
Document Management	-	$2,400	-
Centrally Appropriated Costs*	-	$22,057	$40,996
Total Cost	**-**	**$101,837**	**$150,851**
Total FTE	***-***	**1.2 FTE**	**2.2 FTE**

** Centrally appropriated costs are not included in the bill's appropriation.*

Department of Revenue. General Fund expenditures for the department will increase by $101,837 and 1.2 FTE in FY 2020-21 and by $150,851 and 2.2 FTE in FY 2021-22. All expenditures for FY 2021-22 are for ongoing tax credit administration and continue through FY 2024-25. The majority of the expenditure increase is attributable to staffing costs in the Taxpayer Service division to review tax credits claimed, identify and address taxpayer errors, and manage call and correspondence volume associated with the new tax credit. For FY 2020-21, estimated personnel costs assume a January 1, 2021, start date to administer tax credits claimed on 2020 tax forms. In FY 2020-21 only, the department requires 0.1 FTE in the Office of Research and Analysis to add the credit to the department's reports.

This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of $250 per hour. The changes in this bill are expected to increase General Fund expenditures by $2,750, representing 11 hours of programming. All GenTax programming changes are tested by the department. Testing for this bill will require expenditures for contract personnel totaling $3,840, representing 160 hours of testing at a rate of $24 per hour.

For FY 2020-21 only, the bill requires changes to two tax forms at a cost of $1,200 per form. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated Department of Revenue funds.

Department of Human Services. The Department of Human Services covers the cost of user licenses in three computer systems: the Colorado Shines Professional Development Information System for educators to receive and maintain their credentials, the Colorado Shines Technology System for early childhood education programs to receive a quality rating, and the Attendance Tracking System for programs that have a fiscal agreement with the Colorado Child Car Assistance Program (CCCAP). User licenses for these systems are purchased in blocks, meaning that the cost increases once a certain threshold of new users is reached. To the extent that the income tax credit incentivizes new educators or childcare facilities, the department may be required to purchase additional user licenses in future years. Any future increase in appropriations will be requested through the annual budget process.

TABOR Refunds. The bill reduces revenue subject to TABOR, thereby reducing TABOR refunds in years in which the state incurs a TABOR surplus. A TABOR surplus is not expected in FY 2020-21, and a forecast is not available for FY 2021-22, or subsequent years.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance, supplemental employee retirement payments, and leased space, are estimated to be $22,057 in FY 2020-21 and $40,996 in FY 2021-22

Effective Date

The bill only takes effect if, at the November 2019 statewide election, a majority of voters do not approve a referred measure that allows the state to increase the cigarette tax, increase the tobacco products tax, and to create a new tax on nicotine products, and use a significant portion of the tax revenue for preschool programs and expanded learning opportunities.

If the voters at the November 2019 statewide election do not approve the measure, this act takes effect on the date of the official declaration of the vote by the Governor.

State and Local Government Contacts

Revenue Human Services