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FISCAL NOTE

Drafting Number:	LLS 20-0067	Date:	January 31, 2020
Prime Sponsors:	Rep. Buckner; Wilson Sen. Todd; Priola	Bill Status:	House Education
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Bill Topic: INCOME TAX CREDIT FOR EARLY CHILDHOOD ED FIX

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

This bill amends the effective date of House Bill 19-1005 in the 2019 Session Laws and makes the income tax credit for early childhood educators available for tax years 2020 through 2024. It decreases state revenue and increases state expenditures through FY 2024-25.

Appropriation Summary: For FY 2020-21, the bill requires a General Fund appropriation of \$103,120 and 1.3 FTE to the Department of Revenue.

Fiscal Note Status: This bill reflects the introduced version of the bill.

**Table 1
State Fiscal Impacts Under HB 20-1043**

		FY 2019-20 <i>(current year)</i>	FY 2020-21	FY 2021-22
Revenue	General Fund	(\$2.7 million)	(\$5.7 million)	(\$6.0 million)
	Total	(\$2.7 million)	(\$5.7 million)	(\$6.0 million)
Expenditures	General Fund	-	\$103,120	\$139,348
	Centrally Appropriated	-	\$17,790	\$31,981
	Total	-	\$120,910	\$171,329
	Total FTE	-	1.3 FTE	2.4 FTE
Transfers		-	-	-
TABOR Refund	General Fund	(\$2.7 million)	(\$5.7 million)	(\$6.0 million)

Summary of Legislation

This bill amends the effective date of House Bill 19-1005 in the 2019 Session Laws and makes the income tax credit for early childhood educators available for tax years 2020 through 2024.

Background

The General Assembly passed House Bill 19-1005 and the Governor signed the bill into law on May 13, 2019. However, the bill never took effect because of a clause in the effective date which specified that the tax credit was only available if a referred measure that would have allowed the state to increase cigarette and tobacco taxes and use a significant portion of the tax revenue for preschool programs did not pass in the 2019 statewide election. This referendum was never passed in the 2019 legislative session and voters were not given an opportunity to vote on the ballot issue.

House Bill 19-1005. For tax years 2020 through 2024, the bill created a refundable income tax credit for eligible early childhood educators. 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 qualify for the credit.

An eligible 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.

State Revenue

This bill decreases General Fund revenue by \$2.7 million in the current FY 2019-20, \$5.7 million in FY 2020-21, and \$6.0 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. This estimate represents an updated analysis and information of the policy included in HB 19-1005.

Table 2
Tax Year Revenue Impacts of HB 20-1043

Tax Year	2020	2021	2022	2023	2024
Eligible Population					
ECP I	1,075	1,134	1,189	1,241	1,288
ECP II	2,637	2,763	2,880	2,989	3,091
ECP III	2,275	2,375	2,469	2,556	2,636
ECP IV	817	853	886	917	946
ECP V	371	388	404	418	432
ECP VI	172	179	186	192	198
Total Eligible	7,346	7,692	8,013	8,312	8,590
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	\$537,415	\$579,542	\$620,806	\$661,226	\$702,109
ECP II	\$1,977,634	\$2,119,165	\$2,258,062	\$2,394,372	\$2,531,237
ECP III	\$2,274,698	\$2,427,423	\$2,577,226	\$2,726,724	\$2,873,589
ECP IV	\$408,719	\$435,902	\$462,568	\$488,726	\$515,336
ECP V	\$185,414	\$198,156	\$210,651	\$222,904	\$235,354
ECP VI	\$85,822	\$91,407	\$96,887	\$102,264	\$107,738
Revenue	(\$5,469,704)	(\$5,851,595)	(\$6,226,201)	(\$6,596,217)	(\$6,965,362)

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 20-1043

	FY 2019-20*	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25*
Fiscal Impact	(\$2,734,852)	(\$5,660,649)	(\$6,038,898)	(\$6,411,209)	(\$6,780,790)	(\$3,482,681)

**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 17, 2020, there are:

- 5,667 early childhood professionals who currently satisfy the eligibility criteria for the tax credit;
- 4,801 credentialed early childhood professionals who do not satisfy the eligibility criteria; and
- 1,816 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 seven percent of ineligible early childhood professionals, including the currently ineligible and half of those with unknown eligibility. An additional seven 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 inflation expectations using the Denver-Aurora-Lakewood consumer price index published in the December 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

The bill will increase General Fund expenditures by \$120,910 and 1.3 FTE in FY 2020-21 and by \$171,329 and 2.4 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 20-1043**

	FY 2019-20	FY 2020-21	FY 2021-22
Department of Revenue			
Personal Services	-	\$70,101	\$119,948
Operating Expenses and Capital Outlay Costs	-	\$15,724	\$2,280
Computer Programming and Testing	-	\$6,315	\$1,280
Document Management	-	\$2,400	-
Leased Space	-	\$8,580	\$15,840
Centrally Appropriated Costs*	-	\$17,790	\$31,981
Total Cost	-	\$120,910	\$171,329
Total FTE	-	1.3 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 \$120,910 and 1.3 FTE in FY 2020-21 and by \$171,329 and 2.4 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.

This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of \$225 per hour. The changes in this bill are expected to increase General Fund expenditures by \$2,475, 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 Care 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 is expected to decrease state General Fund obligations for TABOR refunds by \$2.7 million in FY 2019-20, \$5.7 million in FY 2020-21 and \$6.0 million in FY 2021-22. Under current law and the December 2019 Legislative Council Staff forecast, the bill will correspondingly decrease the amount refunded to taxpayers via sales tax refunds made available on income tax returns for tax years 2020, 2021, and 2022, respectively. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22.

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 \$17,790 in FY 2020-21 and \$31,981 in FY 2021-22.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2020-21, the bill requires a General Fund appropriation of \$103,120 and 1.3 FTE to the Department of Revenue.

State and Local Government Contacts

Education
Personnel

Human Services
Revenue

Information Technology