



Legislative Council Staff
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Revised Fiscal Note

(replaces fiscal note dated April 3, 2024)

Drafting Number: LLS 24-0501 Date: May 2, 2024
Prime Sponsors: Rep. Bird; Taggart Bill Status: House Appropriations
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Bill Topic: INCENTIVES FOR POST-SECONDARY EDUCATION

Summary of Fiscal Impact: [X] State Revenue [] State Transfer [] Local Government
[X] State Expenditure [X] TABOR Refund [] Statutory Public Entity

The bill creates a refundable income tax credit to encourage enrollment in a Colorado higher education institution. The bill decreases state revenue beginning in the current FY 2023-24 through FY 2029-30, and increases state expenditures beginning in FY 2024-25 through FY 2029-30.

Appropriation Summary: For FY 2024-25, the bill requires a General Fund appropriation of \$417,667 to multiple agencies.

Fiscal Note Status: The fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Table 1
State Fiscal Impacts Under HB 24-1340

Table with 5 columns: Category, Sub-category, Current Year FY 2023-24, Budget Year FY 2024-25, Out Year FY 2025-26, Out Year FY 2026-27. Rows include Revenue (General Fund, Total Revenue), Expenditures (General Fund, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and Other Budget Impacts (TABOR Refunds, General Fund Reserve).

Summary of Legislation

The bill creates a state refundable income tax credits to encourage enrollment in Colorado higher education institutions.

Top Jobs Tax Credit. The first incentive provides a state income tax credit for a student, or a taxpayer claiming the student as a dependent, that graduates from a Colorado higher education institution in an instructional program that supports an occupation identified as a “Top Job” from the 2023 Talent Pipeline Report prepared by the Colorado Workforce Development Council (CWDC). The amount of the state income tax credit is equal to:

- \$250 for a certification program less than one year in duration;
- \$500 for a certification program between one year and two years in duration;
- \$1,500 for a graduate of an associate’s degree program; or
- \$3,000 for a graduate of a bachelor’s degree program.

The state credit is available for income tax years 2024 through 2029 and is refundable, meaning if the taxpayer’s state tax liability is less than the amount of the credit allowed, the remaining amount is refunded to the taxpayer. The qualifying student must have completed the program during the income tax year the credit is claimed. By July 31, 2024, the Department of Higher Education (CDHE) must create a list of eligible programs based on the 2023 Colorado Talent Pipeline Report.

Credit limitation, qualification, and notification. For both state credits, availability of the incentive is dependent on the amount of excess state revenues (TABOR refund) projected for the ending fiscal year by either Legislative Council Staff (LCS) or the Office of State Planning and Budgeting (OSPB) in their quarterly June revenue forecast. If the forecasts show the amount of the TABOR refund is between \$500 million and \$750 million, the amount of the credit is reduced by 50 percent for that income tax year. If the amount of the TABOR refund is projected to be less than \$500 million, the credit is not allowed for that income tax year.

A private institution of higher education may qualify for the purpose of the credits in this bill if they enter into an agreement with the CDHE.

Finally, the CDHE must develop standard language to notify students about the income tax credits, assist the State Auditor on their tax evaluation reports, and provide the Department of Revenue with social security numbers and incentive amounts by November 1 of each tax year the credit is available. If a social security number is not available, the CDHE must provide a student identification number.

Background

Colorado Talent Pipeline Report. The Colorado Workforce Development Council (CWDC) provides an annual report identifying areas of growing demand and opportunity, key features of the current labor force, and strategies to balance the supply and demand equation for talent. It

also highlights the Top Jobs in Colorado, jobs with high annual openings, above average growth, and a good wage.

On December 15, 2023, the CWDC published their [2023 Talent Pipeline Report](#). Table 2 on pages 23 through 26 of the report shows the 2023 Top Jobs and their industries.

Assumptions

Data from the National Center for Education Statistics shows approximately 37,407 students completed a credential in a qualified Colorado Higher Education Institution (both private and public) in school year 2021-22 (the latest data available) that is consistent with the Top Jobs industry categories as identified in the 2023 Talent Pipeline Report.

The estimates in Table 2 in the State Revenue section below were adjusted by Legislative Council Staff's 2024 Higher Education Forecast. For 2024, the first year the income tax credit is available, the fiscal assumes approximately 38,500 students will qualify for the credit. Consistent with other tax credits, the fiscal note assumes a slightly faster growth rate through the period the credit is available as taxpayers become aware of the benefit. Finally, the fiscal note assumes just over 40,000 students will qualify for the credit by tax year 2029.

TABOR Outlook

The March 2024 TABOR outlook for both LCS and OSPB project state revenue subject to TABOR to exceeded the Referendum C cap in the current FY 2023-24 through FY 2025-26, the last year of the forecast, by more than \$750 million. The fiscal note assumes the full credit amount will be available during this period.

State Revenue

Based on the assumptions above, the bill is expected to decrease General Fund revenue by \$44.8 million in the current FY 2023-24 (half-year impact), \$89.8 million in FY 2024-25, and \$90.0 million in FY 2025-26 continuing through FY 2028-29, with another half-year impact in FY 2029-30. The bill reduces income tax revenue, which is subject to TABOR.

To the extent more students complete the eligible credentials as assumed above, the state revenue estimates below will be higher. Conversely, if the number of qualified students is lower than assumed above, the state revenue estimates below will be lower. Finally, if the TABOR outlook indicates excess state revenue of less than \$750 million in the June revenue forecast from LCS and OSPB, the amount of revenue estimated below will be less.

State Expenditures

The bill increases General Fund expenditures by about \$506,000 in FY 2024-25, \$421,000 in FY 2025-26, and by similar amounts through FY 2029-30. Expenditures are shown in Table 2 and detailed below.

**Table 2
Expenditures Under HB 24-1340**

	FY 2024-25	FY 2025-26	FY 2026-27
Department of Revenue (DOR)			
Personal Services	\$207,942	\$197,519	\$197,519
Operating Expenses	\$4,608	\$4,352	\$4,352
Capital Outlay Costs	\$33,350	-	-
GenTax Programming and Testing	\$36,729	-	-
Data Reporting	\$7,392	\$7,328	7,328
Document Management and Tax Form	\$3,875	\$3,368	\$3,368
Centrally Appropriated Costs ¹	\$61,328	\$58,027	\$58,027
FTE – Personal Services	3.6 FTE	3.4 FTE	3.4 FTE
DOR Subtotal	\$355,223	\$270,594	\$270,594
Department of Higher Education (CDHE)			
Personal Services	\$101,842	\$101,842	\$101,842
Operating Expenses	\$1,920	\$1,920	\$1,920
Capital Outlay Costs	\$20,010	\$20,010	\$20,010
Centrally Appropriated Costs ¹	\$26,798	\$26,798	\$26,798
FTE – Personal Services	1.5 FTE	1.5 FTE	1.5 FTE
CDHE Subtotal	\$150,570	\$150,570	\$150,570
Total Cost	\$505,793	\$421,164	\$421,164
Total FTE	5.1 FTE	4.9 FTE	4.9 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue. Expenditures will increase in DOR to administer the income tax credit in the bill. These costs include personnel to review tax credit claims, update and test GenTax computer programming, provide data reporting, and make changes to state income tax forms. Costs are expected to begin in FY 2024-25 and be ongoing through FY 2029-30. DOR expenditures are paid from the General Fund.

- **Tax credit administration.** For FY 2024-25 and the Top Jobs Tax Credit, the department requires 3.6 FTE tax examiners to review tax credit claims, staff call centers and manage correspondence associated with the income tax credit, prorated for an October 2024 start date.

- **Computer programming and testing.** For FY 2024-25 only, the DOR will program, test, and update database fields in the DOR's GenTax software system for the tax credits. Costs include programming estimated at \$23,775, representing 100 hours of contract programming at a rate of \$237.75 per hour. Costs for user acceptance testing total \$4,064 for 127 hours of testing at a rate of \$32 per hour, and \$8,890 for 254 hours of program design implementation.
- **Data reporting.** Expenditures in the Office of Research and Analysis in the DOR are required for changes in the related GenTax reports so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$7,392 in FY 2024-25, representing 231 hours for data management and reporting at \$32 per hour, with similar costs in later years.
- **Document management and tax form changes.** Document management costs to make changes to paper tax forms and process paper returns are estimated at \$3,875 in FY 2024-25 and \$3,368 in FY 2025-26 through FY 2029-30. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated DOR funds.

Department of Higher Education. Expenditures will increase in CDHE to administer the income tax credit in the bill. These costs include data management, programming, and risk management staff. Costs are expected to begin in FY 2024-25 and be ongoing through FY 2029-30. CDHE expenditures are paid from the General Fund.

- **Data management.** CDHE requires 0.5 FTE data manager to create a process and update databases to collect and manage data from private higher institutions; collect and manage student data; and create a list of eligible students from each of the institutions.
- **Programming staff.** CDHE requires 0.5 FTE program coordinator to create a list of eligible degree programs and the associated Standard Occupational Classification (SOC) code using the National Center for Education Statistics' (NCES) Classification of Instructional Programs (CIP) CIP-SOC. This will require partial support from an economist, data analysis and database management. Additionally, this staff will assist in collecting eligibility from institutions and notifying DOR of student eligibility.
- **Risk management.** CDHE requires 0.5 FTE tax compliance agent to review and monitor submissions from higher education institutions and to track student eligibility.

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 and supplemental employee retirement payments, are shown in Table 2.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate

assumes the March 2024 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26. Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

Effective Date

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

State Appropriations

For FY 2024-25, the bill requires the following General Fund appropriations:

- \$293,896 and 3.6 FTE to the Department of Revenue, of which \$3,875 is reappropriated to the Department of Personnel; and
- \$123,772 and 1.5 FTE to the Department of Higher Education.

State and Local Government Contacts

Higher Education
State Auditor

Personnel

Revenue

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).