Fiscal Note

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SB 25-182: EMBODIED CARBON REDUCTION

Prime Sponsors:
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Rep. Brown

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Fiscal note status: This revised fiscal note reflects the introduced bill, as amended by the Senate Transportation and Energy Committee.

Summary Information

Overview. The bill adds embodied carbon improvements to the Industrial Clean Energy Tax Credit and the list of energy improvements eligible for funding by the Colorado New Energy Improvement District.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Expenditures
- Local Government

Appropriations. For FY 2025-26, the bill requires an appropriation of $20,246 to the Colorado Energy Office.

Table 1
State Fiscal Impacts

Type of Impact[1]	Budget Year FY 2025-26	Out Year FY 2026-27
State Revenue	$0	$0
State Expenditures	$24,614	$12,307
Transferred Funds	$0	$0
Change in TABOR Refunds	$0	$0
Change in State FTE	0.2 FTE	0.1 FTE

[1] Fund sources for these impacts are shown in the table below.

Table 1A
State Expenditures

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	$0	$0
Cash Funds	$20,246	$10,123
Federal Funds	$0	$0
Centrally Appropriated	$4,368	$2,184
Total Expenditures	**$24,614**	**$12,307**
Total FTE	**0.2 FTE**	**0.1 FTE**

Summary of Legislation

The bill defines an "embodied carbon improvement" as an installation or modification to real property using asphalt and asphalt mixtures, cement and concrete mixtures, and steel that results in the reduction of the installation's or modification's embodied emissions, as established by policies created by the Colorado Energy Office (CEO) in consultation with the Office of the State Architect.

The bill adds embodied carbon improvements to the list of new energy improvements for which the Colorado New Energy Improvement District may provide financing.

Beginning in the 2026 tax year, the bill adds embodied carbon investments—which are investments in the production of asphalt and asphalt mixtures, cement and concrete mixtures, and steel that result in the reduction of the material's embodied emissions—to the list of greenhouse gas reduction improvements that may qualify for the Industrial Clean Energy Tax Credit. To qualify, an investment must result in a 15 percent or greater reduction in the material's embodied emissions compared to the material's baseline as established by the CEO in consultation with the Office of the State Architect. The measurement of embodied emissions considers the life cycle stages for a product such as raw material extraction and processing, transport to the manufacturer, manufacturing, and others stages.

Background

Colorado New Energy Improvement District

The Colorado New Energy Improvement District is a special district that was established in the New Energy Jobs Creation Act of 2010 (House Bill 10-1328). The district administers the Colorado Commercial Property Assessed Clean Energy (C-PACE) Program, which provides financing for new energy improvements to eligible commercial and industrial buildings. Financing provided by the C-PACE program is repaid through the county property tax assessment process. A voluntary assessment is placed on the building owner's property tax bill to repay the provided funds over a payment period of up to 25 years. New energy improvements include installations or modifications that reduce the energy consumption of the property or add energy produced from renewable energy sources.

Industrial Clean Energy Tax Credit

The Industrial Clean Energy Tax Credit—also referred to as the Colorado Industrial Tax Credit Offering (CITCO)—is a refundable state income tax credit created by House Bill 23-1272. The tax credit is administered by the CEO and may be claimed for tax years 2024 through 2032. The credit is equal to 30 percent of qualifying expenditures by an owner of an industrial facility to undertake an industrial emissions study or between 30 percent and 50 percent of qualifying expenditures to implement greenhouse gas emissions reduction improvements. The aggregate amount of the credit is limited to $16 million for tax years 2024 through 2028 and to $24 million for tax years 2029 through 2032. Individual tax credit reservations for industrial emissions studies must not exceed $1 million; individual credits for greenhouse gas emissions reduction improvements must range between $75,000 and $8 million.

Organizations that receive an Enterprise Zone Tax Credit or a Clean Air Program grant may not receive a CITCO Tax Credit.

For FY 2024-25, costs to administer the tax credit are paid by the continuously appropriated Industrial Manufacturing Operations Clean Air Grant Program Cash Fund. For FY 2025-26 through FY 2033-34, funds for administrative costs will be annually appropriated from the Decarbonization Tax Credit Administration Cash Fund, which receives severance tax revenue generated from temporary cuts to the severance tax ad valorem tax credit enacted in HB 23-1272.

State Revenue

The bill is not expected to impact state revenue. The expansion of the CITCO may result in more applications for the tax credit, making reservations for the tax credit more competitive. However, the aggregate maximum credit amount is already expected to be reached each year under current law; therefore, the expansion of the CITCO to include embodied carbon improvements will not cause further reductions to state revenue than have already been estimated and accounted for through the fiscal note for HB 23-1272.

State Expenditures

The bill increases state expenditures in the Colorado Energy Office by $24,614 and 0.2 FTE in FY 2025-26 and $12,307 and 0.1 FTE in FY 2026-27 and ongoing through FY 2033-34. These costs, paid from the Decarbonization Tax Credit Administration Cash Fund, are summarized in Table 2 and discussed below. The bill also minimally affects workload in the Department of Revenue.

Table 2
State Expenditures
Colorado Energy Office

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27
Personal Services	$20,246	$10,123
Centrally Appropriated Costs	$4,368	$2,184
Total Costs	**$24,614**	**$12,307**
Total FTE	**0.2 FTE**	**0.1 FTE**

Colorado Energy Office

The office requires program management staff beginning in FY 2025-26 to implement the bill. Staff will be responsible for overseeing the development and implementation of embodied carbon reduction considerations, including coordination with the agency's CITCO contractor to develop embodied carbon reduction-related calculation methodologies to ensure a minimum 15 percent embodied carbon reduction is occurring when compared to usual material manufacturing, resulting in increased workload amounting to 0.2 FTE in FY 2025-26 only. In addition, the incorporation of embodied carbon reduction into eligible project types will likely result in an increase in tax credit applications, which will require workload amounting to 0.1 FTE in FY 2026-27 through FY 2033-34 for additional application reviews and awards.

Department of Revenue

The bill may increase workload within the Department of Revenue to the extent that the expansion of the CITCO tax credit creates more reservations of the credit. Because additional reservations are expected to be minimal, any additional work is correspondingly expected to be minimal and can be accomplished within existing appropriations.

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 above.

Local Government

The C-PACE Program within the Colorado New Energy Improvement District may see increased expenditures and revenue to the extent that building owners conducting embodied carbon improvements apply for financing through the program.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2025-26, the bill requires an appropriation of $20,246 from the Decarbonization Tax Credit Administration Cash Fund to the Colorado Energy Office, and 0.2 FTE.

State and Local Government Contacts

Colorado Energy Office

Information Technology

Revenue