HB 22-1010

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 22-0202	**Date:**	January 20, 2022
Prime Sponsors:	Rep. Sirota; Van Beber Sen. Buckner; Kirkmeyer	**Bill Status:**	House Education
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Bill Topic: **EARLY CHILDHOOD EDUCATOR INCOME TAX CREDIT**

Summary of Fiscal Impact:

☒ State Revenue
☒ State Expenditure
☐ State Transfer
☒ TABOR Refund
☐ Local Government
☐ Statutory Public Entity

The bill creates a refundable income tax credit for eligible early childhood educators. The bill will decrease state revenue beginning in FY 2021-22, and increase state expenditures beginning in FY 2022-23.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of $156,743 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill, which was recommended by the Early Childhood and School Readiness Legislative Commission.

Table 1
State Fiscal Impacts Under HB 22-1010

		Current Year FY 2021-22	Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	($3.9 million)	($8.0 million)	($8.5 million)
	Total	**($3.9 million)**	**($8.0 million)**	**($8.5 million)**
Expenditures	General Fund	-	$156,743	$86,926
	Centrally Appropriated	-	$28,931	$23,274
	Total	-	**$185,674**	$110,200
	Total FTE	-	**2.0 FTE**	**1.6 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	($3.9 million)	($8.0 million)	($8.5 million)
	General Fund Reserve	-	$23,511	$13,039

Summary of Legislation

The bill creates a refundable income tax credit for early childhood educators who have an adjusted gross income of less than or equal to $75,000 for a single return or $85,000 for a joint return, has held an early childhood professional credential for at least six months, and is the licensee of an eligible early childcare program or employed by an eligible program for at least six months. An eligible program is an early childhood education program or licensed family child care home that has held a level two Colorado Shines quality rating and has a fiscal agreement with the Colorado Child Care Assistance Program (CCCAP) or meets the federal standards for a Head Start Program. The credit can be claimed from January 1, 2022, through January 1, 2027. Credit amounts include:

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

After January 1, 2023, the Department of Revenue (DOR) must adjust the amount of the credit by inflation. The Department of Human Services must provide DOR with an electronic report of each individual who held an early childhood professional credential each year.

Assumptions

As of January 13, 2022, the Department of Human Services reports that there are:

- 6,019 early childhood professionals who currently satisfy the eligibility criteria for the tax credit;
- 4,207 credentialed early childhood professionals who do not satisfy the eligibility criteria; and
- 8,559 early childhood professionals whose eligibility status is unknown.

For 2022, 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 5.0 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 inflation projections published in the December 2021 Legislative Council Staff forecast. For years beyond 2023, 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 Revenue

The bill will decrease General Fund revenue by $3.9 million in the current FY 2021-22, $8.0 million in FY 2022-23, and $8.5 million in FY 2023-24. The estimate for FY 2021-22 represents a half year impact for tax year 2022. Full-year revenue impacts will continue through FY 2025-26, with a half-year impact in FY 2026-27 as the credit is repealed. The bill decreases income tax revenue, which is subject to

TABOR. Taxpayer and revenue estimates are presented on a tax year basis in Table 2 and on a fiscal year basis in Table 3.

Table 2
Estimated Taxpayer and Revenue Impacts Under HB 22-1010

Tax Year	2022	2023	2024	2025	2026
Eligible Population					
ECP I	2,202	2,303	2,399	2,490	2,577
ECP II	3,960	4,110	4,254	4,390	4,519
ECP III	2,733	2,827	2,917	3,003	3,084
ECP IV	1,025	1,059	1,091	1,121	1,150
ECP V	462	476	490	502	514
ECP IV	341	350	359	367	375
Total Eligible	**10,723**	**11,126**	**11,509**	**11,873**	**12,218**
Credit Amount					
ECP I	$500	$517	$526	$538	$550
ECP II	$750	$776	$790	$807	$825
ECP III	$1,000	$1,034	$1,053	$1,076	$1,100
ECP IV	$500	$517	$526	$538	$550
ECP V	$500	$517	$526	$538	$550
ECP IV	$500	$517	$526	$538	$550
Total Tax Credits Claimed					
ECP I	$1,100,913	$1,190,565	$1,261,765	$1,339,594	$1,417,105
ECP II	$2,969,738	$3,189,645	$3,360,304	$3,542,384	$3,728,004
ECP III	$2,732,650	$2,923,446	$3,071,866	$3,230,893	$3,392,240
ECP IV	$512,488	$547,336	$573,704	$603,156	$632,501
ECP V	$231,138	$246,253	$257,554	$270,245	$282,891
ECP IV	$170,725	$181,171	$188,811	$197,477	$206,115
Total Revenue Impact	**($7,717,650)**	**($8,278,416)**	**($8,714,003)**	**($9,183,750)**	**($9,658,858)**

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

Table 3
Revenue Impacts by Fiscal Year Under HB 22-1010

	FY 2021-22*	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27*
Revenue	**($3,858,825)**	**($7,998,033)**	**($8,496,210)**	**($8,948,877)**	**($9,421,304)**	**($4,829,429)**

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

State Expenditures

The bill increases state General Fund expenditures in the DOR by $185,674 in FY 2022-23 and $110,200 in FY 2023-24, with ongoing impacts through FY 2026-27. Expenditures are shown in Table 4 and detailed below. In addition, expenditures in the DHS may increase as explained below.

Table 4
Expenditures Under HB 22-1010

	FY 2022-23	FY 2023-24
Department of Revenue		
Personal Services	$99,282	$80,866
Operating Expenses	$2,970	$2,160
Capital Outlay Costs	$18,600	-
Computer Programming	$34,859	$3,200
Document Changes	$1,032	$700
Centrally Appropriated Costs[1]	$28,931	$23,274
Total Cost	**$185,674**	**$110,200**
Total FTE	**2.0 FTE**	**1.6 FTE**

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

Department of Revenue. General Fund expenditures in the DOR will increase to hire additional staff and to make changes to its GenTax software. The DOR requires 2.0 FTE in FY 2022-23 and 1.6 FTE beginning in FY 2023-24 to process returns, conduct initial review, and to resolve any return issues. Staffing costs are shown in Table 4 and are prorated for the General Fund paydate shift.

Computer programing. This bill requires expenditures of $34,859 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at $4,950, representing 22 hours of contract programming at a rate of $225 per hour. Costs for testing at the department are estimated at $26,709, representing 586 hours for the systems Support Office at $35 per hour and 246 hours of user acceptance testing at a rate of $25.50 per hour. Expenditures in the Office of Research and Analysis 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 $3,200, representing 100 hours for data management and reporting at $32 per hour.

Finally, the DOR will need to make changes to its tax forms. The changes are expected to cost $1,032 in FY 2022-23 and $700 in FY 2023-24. These costs are reappropriated to the Department of Personnel and Administration.

Department of Human Services. Expenditures within the DHS will increase to the extent they receive additional applicants for credentialing. These costs include additional help desk staff and purchasing additional 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 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. In addition, if additional persons apply for credentials, additional help staff desk may be needed. Any future increase in appropriations will be requested through the annual budget process.

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 4.

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. 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 beginning in FY 2022-23. Based on this fiscal note, the bill is expected to **increase** the amount of General Fund held in reserve by $23,511 in FY 2022-23 in $13,039 FY 2023-24, which will decrease the amount of General Fund available for other purposes.

Effective Date

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

State Appropriations

In FY 2022-23, the Department of Revenue requires a General Fund appropriation of $156,743 and 2.0 FTE. Of this amount, $1,032 is reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Human Services	Information Technology
Personnel	Revenue