



**Colorado
Legislative
Council
Staff**

SB17-188

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 17-0936
Prime Sponsor(s): Sen. Marble

Date: February 27, 2017
Bill Status: Senate Finance
Fiscal Analyst: Greg Sobetski (303-866-4105)

BILL TOPIC: REPEAL INCOME TAX CREDIT INNOVATIVE MOTOR VEHICLES

Fiscal Impact Summary	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
State Revenue	<u>\$3.3 million</u>	<u>\$6.5 million</u>	<u>\$5.9 million</u>	<u>\$4.2 million</u>	<u>\$1.6 million</u>
General Fund	3.3 million	6.5 million	5.9 million	4.2 million	1.6 million
<i>State Diversions</i>					
General Fund	(3.3 million)	(6.5 million)	(5.9 million)	(4.2 million)	
Hwy Users Tax Fund	3.3 million	6.5 million	5.9 million	4.2 million	
State Expenditures		<u>(\$18,885)</u>	<u>(\$37,631)</u>	<u>(\$37,631)</u>	<u>(\$37,631)</u>
General Fund		(13,744)	(27,348)	(27,348)	(27,348)
Centrally Appropriated		(5,141)	(10,283)	(10,283)	(10,283)
TABOR Impact	See TABOR Impact Section.				
FTE Position Change		(0.3 FTE)	(0.6 FTE)	(0.6 FTE)	(0.6 FTE)
Appropriation Required: None.					
Future Year Impacts: None.					

Summary of Legislation

This bill refers a ballot measure to voters at the November 2017 election. Conditional on approval of the measure, the bill repeals the state income tax credits for purchases of innovative motor vehicles and trucks at the end of the 2017 tax year. For each fiscal year between FY 2017-18 and FY 2020-21, the amount by which state revenue increases as a result of these credits' repeal is diverted to the Highway Users Tax Fund (HUTF) and distributed to the state, counties, and municipalities for transportation project construction and maintenance. Distributions from the HUTF are made in the following shares:

- 60 percent to the State Highway Fund;
- 22 percent to counties, following the current county allocation formula; and
- 18 percent to municipalities, following the current municipal allocation formula.

The increase in revenue resulting from repeal of the credits is exempt from the state's TABOR limit as a voter-approved revenue change.

Background

The state has allowed an income tax credit for the purchase of certain alternative fuel or innovative vehicle types since tax year 1993. Under current law, the credit is available for the purchase or lease of new vehicles, including trucks, powered using certain fuel sources. Credit is also available to taxpayers who convert vehicles to use these fuels. Qualifying fuel sources include:

- electricity, including hybrid vehicles that plug into an electrical outlet;
- compressed natural gas;
- liquefied petroleum gas;
- liquefied natural gas; and
- hydrogen.

Taxpayers may also claim credit for the installation of idling reduction technologies on any vehicle, or for the installation of aerodynamic technologies on a qualifying truck. Purchases, leases, and conversions of hydraulic hybrid trucks and clean fuel refrigerated trailers also qualify for credit.

Under current law, the amount of credit available for most qualifying vehicles will be reduced in 2020 and again in 2021. All innovative vehicle credits are set to repeal at the end of tax year 2021.

State Revenue

Conditional upon approval of the ballot measure, state General Fund revenue will increase by the following amounts on an accrual accounting basis:

- \$3.3 million for FY 2017-18;
- \$6.5 million for FY 2018-19;
- \$5.9 million for FY 2019-20;
- \$4.2 million for FY 2020-21; and
- \$1.6 million for FY 2021-22.

The amounts for FY 2017-18 and FY 2021-22 represent half-year impacts for tax years 2018 and 2021, respectively.

Assumptions. The Department of Revenue reports that innovative vehicle and innovative truck credits allowed for FY 2015-16 totaled \$6.8 million. This amount is assumed to be representative of the volume of vehicle transactions that will qualify for the credit in future years under current law. The total credit amount is assumed to fall by about \$300,000 in tax year 2017, when credits are first awarded in fixed amounts rather than percentage shares pursuant to House Bill 16-1332. The total amount allowed for the credit is expected to be 20 percent and 50 percent lower in tax years 2020 and 2021, respectively, than in prior years as the amounts of credit awarded are scheduled to fall by these percentages in these years under current law.

State diversions. For FY 2017-18 through FY 2020-21, the state controller is required to deposit in the HUTF the amount by which state revenue increases as a result of repeal of the tax credits. The amount of the increase for FY 2021-22 is not diverted under the bill and is assumed

to be collected in the General Fund and expended at the discretion of the General Assembly. Total diversion amounts, as well as these amounts' approximate allocations to the State Highway Fund, counties, and municipalities, are shown in Table 1.

Table 1. HUTF Diversions and Distributions under SB17-188				
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Total Diversion to HUTF	\$3.3 million	\$6.5 million	\$5.9 million	\$4.2 million
<i>State Highway Fund</i>	<i>2.0 million</i>	<i>3.9 million</i>	<i>3.5 million</i>	<i>2.5 million</i>
<i>Counties</i>	<i>0.7 million</i>	<i>1.4 million</i>	<i>1.3 million</i>	<i>0.9 million</i>
<i>Municipalities</i>	<i>0.6 million</i>	<i>1.2 million</i>	<i>1.1 million</i>	<i>0.8 million</i>

Revenue distributed from the HUTF may be expended only for improvements to highways and other transportation-related projects, including construction, safety improvements, maintenance, and capacity improvements. These moneys may not be expended for administrative purposes.

TABOR Impact

This bill has no net impact on the state's TABOR refund obligation. Under current law, the innovative vehicles and innovative trucks credits reduce state revenue during FY 2017-18 and FY 2018-19, both years for which the state is expected to collect a TABOR surplus. Conditional on approval of the ballot measure, these credits are repealed and General Fund revenue will increase. The bill exempts the resulting revenue from the state TABOR limit.

State Expenditures

Conditional upon approval of the ballot measure, the bill will reduce General Fund expenditures for the Department of Revenue by the following amounts:

- \$18,885 and 0.3 FTE for FY 2018-19; and
- \$37,631 and 0.6 FTE for each of FY 2019-20, FY 2020-21, and FY 2021-22.

Changes to state expenditures are summarized in Table 2 and described below.

Table 2. Expenditures Under SB17-188					
Cost Components	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Personal Services		(\$13,033)	(\$26,067)	(\$26,067)	(\$26,067)
FTE		(0.3 FTE)	(0.6 FTE)	(0.6 FTE)	(0.6 FTE)
Operating Expenses and Capital Outlay Costs			(570)	(570)	(570)
Document Management		(711)	(711)	(711)	(711)
Centrally Appropriated*		(5,141)	(10,283)	(10,283)	(10,283)
TOTAL	\$0	(\$18,885)	(\$37,631)	(\$37,631)	(\$37,631)

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

Assumptions. Departmental expenditures will be reduced for tax compliance and document management. Beginning in FY 2019-20, the bill is expected to reduce department tax audit and compliance workload by approximately 1,150 hours, or 0.6 FTE, at the Tax Examiner I level. Estimates are based on the assumption that approximately 1,700 filers claim the innovative vehicle and truck credits annually under current law and that 100 percent of credit claims are reviewed by department personnel. The estimate for FY 2018-19 represents a half-year impact based on the assumption that the department's workload will be reduced beginning when tax forms for 2018 are first filed in January 2019. Document management costs are assumed to be reduced by \$711 annually beginning in FY 2018-19; these amounts are reappropriated to the Department of Personnel and Administration for document preparation, scanning, and mailing costs.

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. Leased space is included to show the incremental impact of the reduction in FTE, and calculated at the Department of Revenue's rate of 200 square feet per FTE at a rate of \$27 per square foot. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Cost Components	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Employee Insurance		(\$2,353)	(\$4,707)	(\$4,707)	(\$4,707)
Supplemental Employee Retirement Payments		(1,168)	(2,336)	(2,336)	(2,336)
Leased Space		(1,620)	(3,240)	(3,240)	(3,240)
TOTAL	\$0	(\$5,141)	(\$10,283)	(\$10,283)	(\$10,283)

Election expenditure impact (existing appropriations). This bill includes a referred measure that will appear before voters at the November 2017 general election. Although no additional appropriation is required in this bill, certain election costs are incurred by the state when ballot measures are referred to voters. These costs, paid using existing appropriations, are in two areas. First, current law requires the state to reimburse counties for costs incurred conducting a ballot measure election, paid from the Department of State Cash Fund in the Secretary of State's Office. Second, the text and title of the measure must be published in one legal newspaper per county and an analysis of the measure must be included in the Ballot Information Booklet (Blue Book) mailed to all registered voter households, paid from the Ballot Analysis Revolving Fund in the Legislative Department. Table 4 estimates the costs for a single ballot measure in 2017. These costs will increase by approximately \$100,000 per measure beyond this base amount for any additional referred or initiated measures placed on the ballot.

Cost Component	Amount
County Reimbursement for Statewide Ballot Measures	\$2,700,000
Ballot Information Booklet (Blue Book) and Newspaper Publication	700,000
TOTAL	\$3,400,000

Local Government Impact

Conditional upon approval of the ballot measure, counties and municipalities will receive increased distributions from the HUTF for FY 2017-18 through FY 2020-21. Estimates of these distributions are presented in Table 1 on page 3. Distributed amounts are allocated to individual counties and municipalities following an existing statutory formula. Revenue allocated to local jurisdictions is assumed to increase local expenditures for transportation projects.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. If approved by voters, the referred portion of the bill takes effect after the date of the official declaration of the vote by proclamation of the Governor, not later than 30 days after the votes have been canvassed.

Departmental Difference

The Department of Revenue assesses the bill as reducing departmental expenditures for tax audit and compliance by a minimal amount. The department projects that most reviews of tax returns that claim the innovative vehicle and truck credits will continue to be reviewed under the bill, based on the assumption that these returns will require review for other reasons. Further, because the responsibility for administering individual credits is dispersed among various staff, it is the department's position that the workload reduction resulting from the repeal of the credits cannot be quantified as a reduction in the number of taxpayer service personnel required. This fiscal note assumes that the bill's effect on departmental expenditures will be the inverse of the increase that would be expected if a similarly complex pair of tax credits were enacted into law.

State and Local Government Contacts

Colorado Energy Office
Information Technology
Personnel and Administration
Transportation

Counties
Municipalities
Revenue