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# Fiscal Note

<b>Drafting Number:</b>	LLS 23-0213	<b>Date:</b>	January 20, 2023
<b>Prime Sponsors:</b>	Sen. Hansen Rep. McCormick; Sirota	<b>Bill Status:</b>	Senate Transportation
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**Bill Topic:** **GREENHOUSE GAS EMISSION REDUCTION MEASURES**

<b>Summary of Fiscal Impact:</b>	<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
	<input type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> Statutory Public Entity

The bill creates a state income tax credit for new, electric-powered lawn equipment; requires the Public Employees' Retirement Association and insurance companies to study climate risks to their investment portfolios; authorizes the Department of Natural Resources to regulate Class VI injection wells; and updates the state's greenhouse gas emissions reduction goals. Beginning in FY 2023-24, the bill reduces state revenue and increases state, local, and statutory public entity expenditures.

**Appropriation Summary:** For FY 2023-24, the bill requires appropriations of \$457,454 to various state agencies. See State Appropriations section for detail.

**Fiscal Note Status:** The fiscal note reflects the introduced bill.

**Table 1**  
**State Fiscal Impacts Under SB 23-016**

		<b>Budget Year FY 2023-24</b>	<b>Out Year FY 2024-25</b>
<b>Revenue</b>	General Fund	(\$5.4 million)	(\$11.2 million)
	<b>Total Revenue</b>	<b>(\$5.4 million)</b>	<b>(\$11.2 million)</b>
<b>Expenditures</b>	General Fund	\$265,664	\$222,645
	Cash Funds	\$191,790	\$439,582
	Centrally Appropriated	\$49,619	\$93,201
	<b>Total Expenditures</b>	<b>\$507,073</b>	<b>\$755,428</b>
	<b>Total FTE</b>	<b>3.4 FTE</b>	<b>5.9 FTE</b>
<b>Transfers</b>		-	-
<b>Other Budget Impacts</b>	TABOR Refund	(\$5.4 million)	(\$11.2 million)
	General Fund Reserve	\$39,850	\$33,397

## Summary of Legislation

The bill includes a number of provisions to reduce greenhouse gas (GHG) emissions in the state. For tax years 2024 to 2026, the bill creates a nonrefundable income tax credit equal to 30 percent of the purchase price of new electric powered law equipment. The credit will be provided as a discount to purchasers and then claimed by sellers as a credit against their taxes. If the value of the credit exceeds the sellers tax liability, the credit may be carried forward for five years.

In addition, the bill:

- establishes GHG reduction goals of 65 percent by 2035, and 80 percent by 2040, 90 percent by 2045, and increases the 2050 goal to 100 percent;
- requires insurance companies that report more than \$100 million in premiums to complete an annual climate risk disclosure;
- requires the Public Employees' Retirement Association (PERA) to include climate-risk assessments in its annual investment stewardship report and to adopt proxy-voting procedures that ensure that the PERA board's voting decisions are in alignment with statewide greenhouse gas pollution reduction goals;
- specifies that wastewater thermal energy equipment is a type of pollution control device that may be certified as pollution control equipment and that qualifies as a clean heat resource for utilities' clean heat plans;
- authorizes the Colorado Oil and Gas Conservation Commission (COGCC) to regulate Class VI Injection Wells after publically determining that the COGCC has the necessary resources to ensure the safe and effective regulation of these wells;
- modifies how fixed bill credits are calculated for community solar gardens that receive a net metering credit from a utility;
- expands the types of projects eligible for financing under the Colorado Electric Transmission Authority Act to include facilities that are renovated, rebuilt, or reconditioned; and
- requires local governments to expedite review of land use applications to renovate, rebuild, or recondition transmission lines.

## Background

**GHG emissions reduction targets.** [House Bill 19-1261](#), Climate Action Plan to Reduce Pollution, establishes goals to reduce GHG emissions measured relative to the 2005 baseline emissions. This bill updates the GHG reduction goals by adding intermediary targets and increasing the final 2050 goal.

**Table 2**  
**Changes to GHG Emissions Reduction Goals**

<b>Year</b>	<b>Existing Goal</b>	<b>Goal Under SB 23-016</b>
2025	26%	26%
2030	50%	50%
2035	<i>n/a</i>	65%
2040	<i>n/a</i>	80%
2045	<i>n/a</i>	90%
2050	90%	100%

**Class VI Geologic Sequestration Wells.** Class VI wells are used for the geologic sequestration and long-term storage of carbon dioxide in deep rock formations. Class VI injection permits are designed to protect underground drinking water sources and are regulated by the U.S. Environmental Protection Agency (EPA), in states, including Colorado, that have not enacted their own regulatory process for these permits. Senate Bill 21-264 required the Department of Natural Resources (DNR) to study the resource needed to safely and effectively regulate greenhouse gas sequestration. The [COGCC Class VI Report](#) is the result.

This bill authorizes the COGCC to issue Class VI injection permits, which will require the COGCC to pursue Class VI primacy with the EPA. The COGCC currently only has primacy for Class II wells, which are used for the injection of fluids associated with oil and natural gas production. North Dakota and Wyoming are the only states to have primacy for permitting Class VI wells.

As of January 2023, only two Class VI wells, both in Illinois, are [currently permitted by the EPA](#). Thirty additional permits are under consideration. Geologic sequestration is regulated under the federal Safe Drinking Water Act for the purpose of protecting underground sources of drinking water.

## **State Revenue**

**Income tax credit for electric powered lawn equipment.** The income tax credit is expected to decrease General Fund revenue by \$5.4 million in FY 2023-24 (half-year impact) and by \$11.2 million in FY 2024-25, with similar impacts through FY 2026-27. The bill reduces income tax revenue to the General Fund, which is subject to TABOR.

Based on estimated per capita unit sales of electric lawn and garden equipment in California applied to Colorado's population, and assuming the credit will be utilized on 95 percent of qualifying equipment purchases, the credit will be claimed on an estimated 205,400 units in 2024 and 208,900 units in 2025. This analysis assumes tax liability will exceed the value of the credit each year. To the extent credits are carried forward, revenue impacts may vary from those estimated in this analysis.

**Pollution control equipment fees.** By expanding the definition of "pollution control equipment" to include wastewater thermal energy equipment, the bill may increase the number of applications CDPHE receives to certify pollution control equipment. Fee revenue, which has not been estimated and is subject to TABOR, accrues to the Pollution Control Equipment Certification Fund.

**Injection well fees.** If Colorado attains Class VI injection well primacy, COGCC may generate fee-based revenue from well operators. This fee revenue, which has not been estimated, may begin to accrue in FY 2024-25.

**State Expenditures**

The bill increases state expenditures in multiple state agencies by about \$500,000 in FY 2023-24 and \$750,000 in FY 2024-25, from the General Fund and the Oil and Gas Conservation Cash Fund. Expenditures are shown in Table 3 and detailed below.

**Table 3  
Expenditures Under SB 23-016**

	FY 2023-24	FY 2024-25
<b>Department of Natural Resources</b>		
Personal Services	\$151,142	\$369,022
Operating Expenses	\$2,160	\$6,210
Capital Outlay Costs	\$13,340	\$33,350
Legal Services	\$21,148	-
Training	\$4,000	\$6,000
Computer Software	-	\$25,000
Centrally Appropriated Costs <sup>1</sup>	\$31,789	\$85,242
FTE – Personal Services	1.6 FTE	4.6 FTE
FTE – Legal Services	0.1 FTE	-
<b>DNR Subtotal</b>	<b>\$223,579</b>	<b>\$524,824</b>
<b>Department of Public Health and Environment</b>		
Personal Services	\$28,433	\$37,909
Legal Services	\$137,462	\$164,954
Centrally Appropriated Costs <sup>1</sup>	\$5,969	\$7,959
FTE – Personal Services	0.3 FTE	0.4 FTE
FTE – Legal Services	0.7 FTE	0.9 FTE
<b>CDPHE Subtotal</b>	<b>\$171,864</b>	<b>\$210,823</b>
<b>Department of Revenue</b>		
Personal Services	\$44,327	-
Operating Expenses	\$945	-
Capital Outlay Costs	\$6,670	-
Computer Programming and Testing	\$40,435	-
Office of Research and Analysis	\$7,392	\$7,328
Document Management	-	\$12,453
Centrally Appropriated Costs <sup>1</sup>	\$11,861	-
FTE – Personal Services	0.7 FTE	-
<b>DOR Subtotal</b>	<b>\$111,630</b>	<b>\$19,781</b>
<b>Total</b>	<b>\$507,073</b>	<b>\$755,428</b>
<b>Total FTE</b>	<b>3.4 FTE</b>	<b>5.9 FTE</b>

<sup>1</sup> Centrally appropriated costs are not included in the bill's appropriation.

## Department of Natural Resources

Beginning in FY 2023-24, the DNR requires staff and other resources to develop and administer an Underground Injection Control Program for Class VI injection wells. These costs will phase in over a three-year period. Staffing levels are estimated based on departmental research following the recommendations of the Carbon Capture, Utilization, and Storage Task Force and input from other states that have applied for primacy to regulate Class VI wells. Standard operating and capital outlay costs are included. This fiscal note assumes funds will be appropriated from the Oil and Gas Conservation Cash Fund. When fully implemented, costs in DNR are estimated to total \$711,385 and 7.0 FTE per year starting in FY 2025-26, assuming all necessary federal approval is received.

- **Primacy staff.** Beginning in FY 2023-24, in order to assume permitting and enforcement authority, the COGCC will hire a Class VI Coordinator and an Underground Injection Control Scientist to oversee the application for primacy with the EPA, establish regulations for injection wells, and then oversee the regulatory program. Establishing primacy is expected to take approximately one and a half years, with the new regulatory program assumed to commence January 1, 2025. As Class VI wells are an emerging technology, the new staff will require annual training costs to attend relevant conferences, seminars, and workshops related to geological carbon sequestration.
- **Legal services.** DNR requires 200 hours of legal services in FY 2023-24 only to conduct rulemaking in conjunction with the application for primacy. Legal services are provided by the Department of Law at a rate of \$105.74 per hour. The additional hours equate to 0.1 FTE for the Department of Law in FY 2023-24.
- **Regulatory staff.** Assuming that primacy is granted, COGCC staff will require an additional 5.0 FTE beginning January 1, 2025, to implement all aspects of the program under EPA guidance, including reviewing permits, evaluating environmental impacts, reporting to the EPA, communicating with operators and the public about projects, and ensuring compliance with permit conditions and Class VI well rules. In addition, hydrogeology staff will review injection well permit applications to ensure underground drinking water sources will not be impacted by injection operation, which can be accommodated with existing resources.
- **Computer software and hardware.** In addition to staff to regulate Class VI wells, DNR will purchase computer hardware and software to model underground reservoirs and simulate the effects of GHG injections. Based on costs in another state that recently attained primacy, DNR will have one-time costs of \$15,000 in FY 2024-25 for the purchase of a server and costs for an annual license fee of \$10,000 for simulation software beginning in the same year.

## Department of Public Health and Environment

The bill increases staff and legal services costs in CDPHE to support the COGCC and the implementation of the new emissions reduction goals beginning in FY 2023-24.

- **Rulemaking support.** Current law requires CDPHE to consult with COGCC on the public health impacts of its rules and certain duties. CDPHE requires 0.4 FTE Environmental Protection Specialist III beginning in FY 2023-24 to support the rulemaking and implementation of the Underground Injection Control Program. Standard operating and capital outlay costs are included, and costs have been prorated in FY 2023-24 for a September 1 start date and the General Fund pay date shift.
- **Legal services.** CDPHE requires 1,560 hours of legal services beginning in FY 2023-24 to support the implementation of the new emissions reduction goals. Legal services, which are prorated in FY 2023-24 to reflect the bill's effective date, are provided by the Department of Law at a rate of \$105.74 per hour. The additional hours equate to 0.7 FTE in FY 2023-24 and 0.9 FTE in subsequent years for the Department of Law. In addition, the CDPHE may require additional legal services funding if the new goals result in subsequent litigation. This will be addressed through the annual budget process.
- **Pollution control equipment certification.** Workload may increase to process additional applications to certify wastewater thermal energy equipment. These costs, which are expected to be minimal, are paid from the Pollution Control Equipment Certification Fund.

### Department of Revenue

Expenditures will increase in the Department of Revenue by to implement the new tax credit included in the bill.

- **Computer programming and testing.** For FY 2023-24 only, the bill requires changes to the DOR's GenTax system and additional computer and user acceptance testing. Approximately 83 hours of computer programming will be required to make changes in the GenTax system, totaling \$18,675. Additional computer and user acceptance testing are required to ensure programming changes are functioning properly, resulting in an additional \$21,760. Costs also include 0.7 FTE for development and testing support. Standard operating and capital outlay costs are included.
- **Document management.** The bill requires an additional \$12,453 in expenditures to implement tax form changes in FY 2024-25. These expenditures will be reappropriated to the Department of Personnel and Administration.
- **Data reporting.** Beginning in FY 2023-24, the Office of Research and Analysis within the DOR will expend \$7,328 each year to collect and report data on the new tax credit.

### Department of Regulatory Agencies

Workload will increase in FY 2023-24 in the Division of Insurance and the Public Utilities Commission, which can be accommodated within existing appropriations.

- **Insurance climate risk disclosure.** Workload will increase for rulemaking by the Commissioner of Insurance regarding insurers' requirement to participate in the annual insurer climate risk disclosure survey, and to notify insurers that meet the threshold requirements established in the bill with the survey and instructions.

- **Public Utilities Commission.** Workload will increase to update rules regarding community solar gardens, which can be accomplished within the normal course of business.

### Other Expenditure Impacts

**All state agencies—emission reduction targets.** Meeting the updated greenhouse gas emissions reduction goals may require developing new strategies or programs relative to current law, which may increase state expenditures in future years. The fiscal note assumes that, in the short term, existing state resources are sufficient and that any changes will be addressed 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 3.

### 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 December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. 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.

### Local Government

Workload may increase in local governments to update procedures for the requirement to expedite review of certain land use applications. This workload is expected to be minimal.

### Statutory Public Entity—PERA

The bill increases expenditures in PERA related to proxy voting and updating its annual Investment Stewardship Report.

- **Proxy voting procedures.** The bill requires the PERA Board of Trustees to adopt proxy voting procedures that ensure that the board's decisions align with the statewide greenhouse gas pollution reduction goals. Expenditures will increase in PERA to adopt changes to proxy guidelines; research and evaluate proxy ballot proposals; and monitor compliance. The additional workload will vary annually depending on how many proxy ballots are evaluated. For informational purposes, PERA voted on approximately 200 proposals in 2022 that were directly

related to greenhouse gas emissions, renewable energy, or other environmental topics, and other kinds of proposals could reasonably have an indirect relationship with Colorado’s greenhouse gas pollution reduction goals and require similar analysis. PERA estimates annual costs of approximately \$430,000 and 2.5 FTE per year to comply with these requirements, paid equally from the division’s trust.

- **Investment Stewardship Report.** PERA currently publishes an [Investment Stewardship Report](#) that explains how PERA's investment philosophy addresses climate-related risks. The bill requires PERA to include additional detail on the process for identifying climate-related risks and assessing and addressing risks to its investment portfolio. Workload will increase in PERA to meet these additional requirements.

### **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 2023-24, the bill requires the following appropriations:

- \$191,790 from the Oil and Gas Conservation Cash Fund to the Department of Natural Resources, and 1.6 FTE. Of this amount, \$21,148 is reappropriated to the Department of Law, with an additional 0.1 FTE.
- \$165,895 from the General Fund to the Department of Public Health and Environment and 0.3 FTE. Of this amount, \$137,462 is reappropriated to the Department of Law, with an additional 0.7 FTE.
- \$99,769 from the General Fund to the Department of Revenue, and 0.7 FTE.

### **State and Local Government Contacts**

Counties	Information Technology	Labor
Law	Municipalities	Natural Resources
PERA	Personnel and Administration	Public Health and Environment
Regulatory Agencies	Revenue	