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Final Fiscal Note

Drafting Number: LLS 24-0501 Date: August 6, 2024
Prime Sponsors: Rep. Bird; Taggart Bill Status: Signed into Law
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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 Colorado high school graduates to enroll in a Colorado higher education institution. The bill decreases state revenue in FY 2024-25 through FY 2032-33, and increases state expenditures in FY 2025-26 through FY 2032-33.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of \$101,756 to the Department of Higher Education. The bill currently includes an appropriation of \$285,006 to the Department of Revenue.

Fiscal Note Status: The final fiscal note reflects the enacted bill.

Table 1
State Fiscal Impacts Under HB 24-1340

Table with 5 columns: Category, Sub-category, Budget Year FY 2024-25, Out Year FY 2025-26, Out Year FY 2026-27. Rows include Revenue, Expenditures, Transfers, and Other Budget Impacts.

## Summary of Legislation

The bill creates a refundable state income tax credit to encourage Colorado high school graduates to enroll in Colorado higher education institutions.

For income tax years 2025 through 2032, the bill provides a refundable income tax credit to a student enrolled in at a public state institution of higher education, community college, area technical school, or occupational education school. For each tax year the student is claiming the credit, the student must:

- have matriculated within two years after having graduated from a Colorado high school or equivalent program;
- have a household adjusted gross income (AGI) of \$90,000 or less, as reported on their application for federal student aid (FAFSA) state financial aid (CASFA);
- qualify for in-state tuition;
- have enrolled in at least six credit hours or equivalent for the semester or term for which they are claiming the credit; and
- have a grade point average of 2.5 or higher for the semester or term for which they are claiming the credit.

The credit is equal to the tuition and fees paid by the eligible student to the institution minus any scholarships or grants.

The student can only claim up to 65 credit hours total across all years for which they claim the credit. Credits earned through concurrent enrollment, advanced placement, the international baccalaureate program, military credits, or any other credits earned prior to enrolling at a state higher education institution are not qualified to be used for the income tax credit.

The bill requires the Department of Higher Education (CDHE) to provide a report to the Department of Revenue (DOR) showing which students are eligible for the credit by January 31, 2026, and each year thereafter. CDHE will work with each institution to determine the average percentage of financial aid allocated to the resident student population with a family AGI of \$90,000 or less. Finally, the bill requires CDHE to submit a report to the Joint Budget Committee and the House of Representatives and Senate Education Committees by June 30, 2027 and each year thereafter until 2037.

## Assumptions

Preliminary data from CDHE estimates approximately 28,000 students in the 2023-24 school year meet the requirements for the income tax credit in the bill. Of these, it is estimated that approximately \$35.2 million was paid in tuition and fees minus any scholarships or grants received by the student.

The estimates in Table 2 in the State Revenue section below were adjusted by Legislative Council Staff's 2024 Higher Education Enrollment and Tuition Forecast. 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.

**State Revenue**

Based on the assumptions above, the bill is expected to decrease General Fund revenue by \$18.1 million in FY 2024-25 (half-year impact), \$36.7 million in FY 2025-26, and \$37.8 million in FY 2026-27 and by similar amounts through FY 2031-32, with another half-year impact in FY 2032-33. The bill reduces income tax revenue, which is subject to TABOR. The credit is expected to average \$2,700 for students at four-year colleges, \$2,000 for students at area technical colleges, and \$1,000 for students at two-year colleges.

It is important to note that the state revenue impact estimated above may vary based on several factors that can impact student enrollment and/or tuition and fees. For example, the amount of state funding to higher education institutions will have a direct effect on the revenue impact. The fiscal note does not account for any increase in enrollment as a result of the credit.

**State Expenditures**

The bill increases General Fund expenditures by about \$123,000 in FY 2024-25, \$478,000 in FY 2025-26, \$330,000 in FY 2026-27, and by similar amounts through FY 2032-33. Expenditures are shown in Table 2 and detailed below.

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

	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
<b>Department of Revenue (DOR)</b>			
Personal Services	-	\$207,942	\$148,705
Operating Expenses	-	\$4,608	\$3,328
Capital Outlay Costs	-	\$33,350	-
GenTax Programming and Testing	-	\$36,729	-
Data Reporting	-	\$7,392	\$7,392
Document Management and Tax Form	-	\$3,875	\$3,368
Centrally Appropriated Costs <sup>1</sup>	-	\$61,328	\$44,154
FTE – Personal Services	-	3.6 FTE	2.6 FTE
<b>DOR Subtotal</b>	-	<b>\$355,223</b>	<b>\$206,947</b>

**Table 2**  
**Expenditures Under HB 24-1340 (Cont.)**

<b>Department of Higher Education (CDHE)</b>			
Personal Services	\$100,092	\$100,092	\$100,092
Operating Expenses	\$1,664	\$1,664	\$1,664
Centrally Appropriated Costs <sup>1</sup>	\$20,966	\$20,966	\$20,966
FTE – Personal Services	1.3 FTE	1.3 FTE	1.3 FTE
<b>CDHE Subtotal</b>	<b>\$122,722</b>	<b>\$122,722</b>	<b>\$122,722</b>
<b>Total Cost</b>	<b>\$122,722</b>	<b>\$477,945</b>	<b>\$329,669</b>
<b>Total FTE</b>	<b>1.3 FTE</b>	<b>4.9 FTE</b>	<b>3.9 FTE</b>

<sup>1</sup> 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, updates and testing of GenTax computer programming, data reporting, and changes to state income tax forms. Costs are expected to begin in FY 2025-26 and continue through FY 2032-33. DOR expenditures are paid from the General Fund.

- **Tax credit administration.** For FY 2025-26, 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. From FY 2026-27 to FY 2032-33, the department will require 2.6 FTE for tax administration tasks.
- **Computer programming and testing.** For FY 2025-26 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 2025-26 through FY 2032-33, 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 2025-26 and \$3,368 in FY 2026-27 through FY 2032-33. 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 continue through FY 2032-33. CDHE expenditures are paid from the General Fund.

- **Data management.** CDHE requires 0.3 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.
- **Analyst.** CDHE requires 1.0 FTE policy analyst to assist in collecting data and standardizing policies from institutions, notify DOR of student eligibility, and provide customer service to students.

**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 was signed into law by the Governor on May 30, 2024, and takes effect on August 7, 2024, assuming no referendum petition is filed.

## State Appropriations

For FY 2024-25, the bill requires a General Fund appropriation of \$123,772 to the Department of Higher Education, and 1.5 FTE.

For FY 2024-25, the bill currently includes, but does not require, a General Fund appropriation of \$285,006 to the Department of Revenue, and 3.6 FTE.

## State and Local Government Contacts

Higher Education

Personnel

Revenue

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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](#).