Bill 8

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 22-0191	**Date:**	October 25, 2021
Prime Sponsors:		**Bill Status:**	Bill Request
		Fiscal Analyst:	Matt Bishop | 303-866-4796 Greg Sobetski | 303-866-4105

Bill Topic: **ASSISTANCE LANDOWNER WILDFIRE MITIGATION**

Summary of Fiscal Impact:

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

The bill creates a wildfire mitigation grant program and replaces the current law state income tax deduction for wildfire mitigation expenses with a state income tax credit. It increases state and local expenditures, increases local revenue, and reduces state revenue on an ongoing basis beginning in FY 2023-24.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the bill draft, as requested by the Wildfire Matters Review Committee.

Table 1
State Fiscal Impacts Under Bill 8

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue	General Fund	($125,000)	($250,000)
	Total Revenue	**($125,000)**	**($250,000)**
Expenditures	General Fund	-	$335,510
	Centrally Appropriated	-	$3,214
	Total Expenditures	**-**	**$338,724**
	Total FTE	**-**	**0.2 FTE**
Transfers		-	-
TABOR Refund	General Fund	($125,000)	($250,000)

Summary of Legislation

The bill creates a grant program for local wildfire mitigation and amends tax code benefits to landowners conducting wildfire mitigation.

Grant program. The bill creates the Wildfire Mitigation Resources and Best Practices Grant Program in the Colorado State Forest Service (CSFS) in the Department of Higher Education (DHE). Grant recipients must be an agency of local government, a county, a municipality, a special district, a tribal agency or program, or a nonprofit organization. Grant funds may be used to conduct outreach among landowners regarding available resources and best practices for wildfire mitigation.

Grants are awarded each January beginning in 2024. The CSFS must submit a report to the Wildfire Matters Review Committee each September beginning in 2025.

Tax code changes. Under current law, the state income tax deduction for wildfire mitigation expenses is scheduled to become unavailable after tax year 2024. The bill ends the deduction two years earlier, after tax year 2022. Beginning in tax year 2023, the bill replaces the deduction with an income tax credit for wildfire mitigation expenses. The credit is available to landowners with federal taxable income of no more than $120,000, adjusted for inflation, and is equal to 25 percent of the taxpayer's cost for wildfire mitigation expenses, up to $625 per year.

State Revenue

The bill is expected to decrease state General Fund revenue by $125,000 in FY 2022-23 and by $250,000 in FY 2023-24. These amounts represent the net revenue loss after accounting for the repeal of the current law state income tax deduction and the creation of a new state income tax credit beginning in tax year 2023. The estimate for FY 2022-23 represents a half-year impact for tax year 2023 on an accrual accounting basis. The bill reduces state income tax revenue, which is subject to TABOR.

Assumptions. The income tax deduction for wildfire mitigation expenses reduced state revenue by approximately $100,000 for tax year 2018, when the deduction was available for 100 percent of expenses up to a capped amount per taxpayer. Repealing the deduction is expected to increase state revenue by approximately $50,000 for each of tax year 2023 and tax year 2024, when the deduction is scheduled to be available for 50 percent of expenses under current law.

Between 2017 and 2019, approximately 1,000 taxpayers with taxable income of less than $120,000 claimed the deduction each year. Deductions averaged $1,200 per taxpayer, reflecting an equivalent amount of wildfire mitigation expenses. The bill allows taxpayers to claim a credit for 25 percent of their expenses, an estimated $300 per year. Therefore, the credit is expected to decrease state revenue by approximately $300,000 annually. To the extent that the increased tax incentive for mitigation costs induces more taxpayers to claim the credit than claimed the deduction under current law, the revenue decrease may be greater than estimated.

State Expenditures

Beginning in FY 2023-24, the bill increase expenditures by $338,724 in several state departments. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under Bill 8

Cost Components	FY 2022-23	FY 2023-24
Department of Higher Education		
Personal Services	-	$13,488
Grant Program	-	$300,000
Centrally Appropriated Costs[1]	-	$3,214
FTE – Personal Services	-	0.2 FTE
DHE Subtotal	**-**	**$316,702**
Department of Revenue		
Computer Programming and Testing	-	$18,158
Tax Form Changes	-	$664
Data Management and Reporting	-	$3,200
DOR Subtotal	**-**	**$22,022**
Total	**-**	**$338,724**
Total FTE	**-**	**0.2 FTE**

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

Department of Higher Education. Beginning in FY 2023-24, expenditures will increase in the CSFS to administer the grant program. The fiscal note assumes that 30 grants averaging $10,000 will be awarded. Because this grant program is open to local governments, special districts, tribal, and nonprofit organizations, the number of grant applications could greatly exceed 30 and it is assumed appropriations adjustments will be requested through the annual budget process, if needed. DHE also requires 0.2 FTE to administer the grant program, manage contracts, provide support to grant recipients, and to prepare reports on the use of the grant funds. This assumes a July 1, 2023, start date, standard operating costs, and is prorated for the General Fund pay date shift.

Department of Revenue. For FY 2023-24 only, the bill increases General Fund expenditures in the Department of Revenue (DOR) by $22,022. This amount represents computer programming, testing, data management, and form change costs associated with the creation of the new state income tax credit, as shown in Table 2. Costs for two tax form changes, estimated at $664, will occur in the Department of Personnel and Administration and paid via reappropriated funds from DOR.

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.

TABOR refunds. The bill decreases state revenue subject to TABOR, thereby decreasing the state obligation for TABOR refunds to taxpayers by $125,000 in FY 2022-23 and by $250,000 in FY 2023-24. TABOR refunds are paid from the General Fund. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24.

Local Governments

Revenue and expenditures will increase in municipalities, counties, special districts, and other units of local government to the extent that they apply for and/or receive grants to conduct wildfire mitigation outreach.

Technical Note

The current bill draft creates the income tax credit beginning in tax year 2021, which would make the credit retroactive if the bill passes in 2022. This fiscal note assumes this is drafting error, and that the bill's intent is to allow the credit beginning in tax year 2023.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Forest Service	Information Technology	Personnel	Revenue