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FINAL FISCAL NOTE

Drafting Number: LLS 20-0382 Date: October 13, 2020
Prime Sponsors: Rep. Cutter; Will Sen. Lee Bill Status: Deemed Lost
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Bill Topic: ASSISTANCE LANDOWNER WILDFIRE MITIGATION

- Summary of Fiscal Impact: State Revenue, State Expenditure, State Transfer, TABOR Refund, Local Government, Statutory Public Entity

This bill would have created the wildfire mitigation resources and best practices grant program and replaced an income tax deduction with a tax credit for wildfire mitigation work.

Appropriation Summary: For FY 2020-21, the bill requires appropriations of \$333,537 to multiple state agencies.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Rural Affairs and Finance committees. The bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Table 1 State Fiscal Impacts Under HB 20-1004

Table with 4 columns: Category, Sub-category, FY 2020-21, FY 2021-22. Rows include Revenue, Expenditures, Transfers, and TABOR Refund.

## Summary of Legislation

This 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). Local governments, special districts, tribal agencies or programs, and nonprofit organizations are eligible for grant funding to be used to conduct outreach to landowners to inform them of best practices and resources available for wildfire mitigation. Grants must be awarded by January 1 of each year and a report on the grant program must be submitted to the General Assembly by September 1, 2021, and each year thereafter. The grant program is repealed January 1, 2025.

For tax years 2021 through 2025, the bill creates a state income tax credit for costs incurred in performing wildfire mitigation measures. The amount of the tax credit is 25 percent of up to \$2,500 in qualified costs. The credit is available to landowners with federal taxable income up to \$120,000, is non-refundable, and cannot be carried forward to subsequent tax years. The bill also eliminates the wildfire mitigation income tax deduction beginning tax year 2021, which under current law is in effect through tax year 2024.

## Background

In tax year 2018, 1,748 taxpayers claimed the wildfire mitigation tax deduction, totaling \$2.2 million in aggregate deductions on income tax returns. This reduced state General Fund revenue by approximately \$103,000. Of these taxpayers, 47 percent had federal taxable income below \$120,000, which amounted to 41 percent of total deductions in dollar value.

## State Revenue

The bill decreases state General Fund revenue by an estimated \$110,074 in FY 2020-21 and \$221,249 in FY 2021-22. Table 2 shows the net impact on the General Fund through the period that the income tax credit is available. The tax credit figures for FY 2020-21 and FY 2025-26 represent a half-year impact. The actual reduction in state revenue may be greater than estimated if wildfire mitigation work occurs at a greater rate due to the availability of the income tax credit.

Eliminating the income tax deduction and establishing a tax credit have offsetting impacts to the General Fund beginning in FY 2020-21. The net impact of this is a revenue reduction each year because tax deductions reduce a tax bill by the size of the deduction multiplied by the state income tax rate of 4.63 percent, whereas this tax credit reduces a final tax bill by 25 percent of eligible expenditures.

The estimated revenue impact is based on a five-year average of wildfire mitigation spending through 2018, adjusted to reflect future population growth.

**Table 2  
General Fund Revenue Impacts Under HB 20-1004**

<b>Fiscal Year</b>	<b>Elimination of Tax Deduction</b>	<b>Tax Credit</b>	<b>Net Impact</b>
FY 2020-21	\$32,114	(\$142,188)	<b>(\$110,074)</b>
FY 2021-22	\$64,548	(\$285,797)	<b>(\$221,249)</b>
FY 2022-23	\$65,194	(\$288,655)	<b>(\$223,461)</b>
FY 2023-34	\$65,846	(\$291,542)	<b>(\$225,696)</b>
FY 2024-25	\$33,087	(\$294,457)	<b>(\$261,371)</b>
FY 2025-26	-	(\$147,961)	<b>(\$147,961)</b>

**State Expenditures**

The bill increases General Fund expenditures by \$336,647 and 0.2 FTE in FY 2020-21, and by \$323,294 and 0.2 FTE in FY 2021-22 and future years. These costs are shown in Table 3 and described below.

**Table 3  
Expenditures Under HB 20-1004**

	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Department of Higher Education</b>		
Personal Services	\$13,154	\$14,350
Operating Expenses	\$2,510	\$2,510
Grant Program	\$300,000	\$300,000
Centrally Appropriated Costs*	\$3,110	\$3,218
<b>DHE Subtotal</b>	<b>\$318,774</b>	<b>\$320,078</b>
<b>FTE</b>	<b>0.2 FTE</b>	<b>0.2 FTE</b>
<b>Department of Revenue</b>		
Changes to Tax Forms	\$17,873	\$3,216
<b>Department of Revenue Subtotal</b>	<b>\$17,873</b>	<b>\$3,216</b>
<b>Total</b>	<b>\$336,647</b>	<b>\$323,294</b>
<b>Total FTE</b>	<b>0.2 FTE</b>	<b>0.2 FTE</b>

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

**Department of Higher Education.** Beginning in FY 2020-21, the CSFS requires \$300,000 to issue grants, assuming 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, 2020, start date, standard operating costs, and is prorated for the General Fund paydate shift.

**Department of Revenue.** Beginning in FY 2020-21, Department of Revenue will incur costs to incorporate the tax credit. These costs include 25 programming hours to update GenTAX at a rate of \$225 per hour, plus additional resources for testing and tax credit verification by tax examiners. Workload will increase by a minimal amount to update instructions, related materials, and provide guidance to taxpayers on the wildfire mitigation income tax deduction.

**TABOR refunds.** Under the March 2020 LCS Economic and Revenue Forecast, the state is not expected to collect revenue above the TABOR limit in either FY 2020-21 or FY 2021-22, and refund obligations are not anticipated for these years.

**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 estimated to be \$3,110 in FY 2020-21 and \$3,218 in FY 2021-22.

## Local Government

Beginning in FY 2020-21, costs and workload will increase for any local government or special district that receives a grant award to conduct wildfire mitigation and best practices for wildfire mitigation efforts.

## Effective Date

The bill was deemed lost on June 16, 2020.

## State Appropriations

For FY 2020-21, the bill requires General Fund appropriations of \$315,664, and 0.2 FTE to the Department of Higher Education, and \$17,873 to the Department of Revenue.

## State and Local Government Contacts

Counties	Information Technology	Local Affairs
Municipalities	Revenue	Special Districts