HB 24-1352

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 24-0859	**Date:**	July 22, 2024
Prime Sponsors:	Rep. Froelich; Velasco Sen. Cutter	**Bill Status:**	Deemed Lost
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Bill Topic: **APPLIANCE REQUIREMENTS & INCENTIVES**

Summary of Fiscal Impact:

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

The bill would have made various updates and programs for energy efficient appliances, including creating a tax credit, modifying an existing tax credit, updating standards for certain appliances, and creating an incentive program for HVAC systems. It would have decreased state revenue and increases state expenditures beginning in FY 2024-25.

Appropriation Summary: For FY 2024-25, the bill would have required appropriations totaling $259,997 to multiple state agencies.

Fiscal Note Status: The final fiscal note reflects the introduced bill, as amended by the House Energy and Environment Committee. The bill was deemed lost in the House Appropriations Committee on May 9, 2024; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under HB 24-1352

		Budget Year FY 2024-25	Out Year FY 2025-26	Out Year FY 2026-27
Revenue	General Fund	($6.6 million)	($16.7 million)	($26.9 million)
	Total Revenue	**($6.6 million)**	**($16.7 million)**	**($26.9 million)**
Expenditures	General Fund	$259,997	$437,475	$680,533
	Centrally Appropriated	$38,939	$58,043	$93,702
	Total Expenditures	**$298,936**	**$495,518**	**$774,234**
	Total FTE	**2.0 FTE**	**3.2 FTE**	**4.8 FTE**
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	($6.6 million)	($16.7 million)	Not estimated
	General Fund Reserve	$39,000	$65,621	$102,080

Summary of Legislation

The bill modifies and updates programs for energy efficient appliances, including requirements and incentives for certain HVAC systems, creating a new tax credit, modifying an existing tax credit, and updating energy efficiency requirements.

HVAC requirements. The bill creates new requirements for heating, ventilation, and air conditioning (HVAC) equipment sold or installed in Colorado beginning January 1, 2027. By January 1, 2029, and again by January 1, 2034, the Department of Public Health and Environment (CDPHE) must assess compliance with the new requirements and submit a report to the General Assembly. Individuals may anonymously notify CDPHE of violations. Violators receive two warnings; subsequent violations may result in civil action from the Attorney General, which may include a civil penalty. These requirements repeal July 1, 2034.

Financial incentive report. Beginning in 2026 and again every two years, the Colorado Energy Office (CEO) must study the difference in cost for income-qualified households and income-qualified housing providers between installing an HVAC system that meets the bills requirements and installing one that does not, including any applicable financial incentives. By February 1, 2026, the office must identify places or populations that lack access to incentives and make recommendations to the General Assembly.

Tax credit for qualifying HVAC installations. The bill creates a tax credit for tax years 2025 through 2034 for home builders and HVAC contractors who install an eligible cold-climate heat pump or ground-source heat pump. The credit is up to $5,000 per installation for up to 10 installations, except installations may qualify for a larger credit of up to $10,000 for meeting certain conditions such as using prevailing wages, being implemented by a historically underutilized business, or having employees with certain professional certifications. The credit is assignable and refundable.

Tax credit for heat pump technology and thermal energy networks. The bill modifies this existing tax credit, which was created by House Bill 23-1272 and applies to tax years 2024 through 2032. The existing tax credit is available for the installation of certain equipment based on the type of equipment. The bill instead makes the amount of the credit dependent on the amount of cooling the equipment provides, measured in tons. The bill also changes who may claim the credit, from eligible installers who apply a discount equal to the value of the credit at the time of household and business purchases, to taxpayers who utilize a qualified installer. The bill also repeals provisions related to allowable supplemental heat for qualifying heat pump systems.

Electricity rates. Electric utilities must offer for voluntary rates for customers who use a heat pump, and must submit the proposed rates to the Public Utilities Commission (PUC) in the Department of Regulatory Agencies by April 1, 2026.

Energy Star requirements. Beginning in 2025, the recipient of state financial assistance for new building construction projects that include certain energy-consuming products must use products certified by the Energy Star program unless it receives a waiver from the state agency that is administering the state financial assistance. The CEO must provide guidance to state agencies by December 1, 2024, and update the guidance annually as necessary. The Attorney General may take civil action against violators of these requirements, which may include a civil penalty up to the amount of state financial assistance received.

Efficiency standards. The bill updates efficiency standards for residential windows, doors, and skylights.

High-Efficiency Electric Heating and Appliances Grant Program. The bill expands the scope of eligible uses of grant funds to include dryers and other uses determined by CEO.

State Revenue

The bill decreases General Fund revenue by an estimated $6.6 million in FY 2024-25 (half-year impact), $16.7 million in FY 2025-26, $26.9 million in FY 2026-27, and larger amounts in later years assuming increasing heat pump adoption from both the restrictions on HVAC in the bill and utilization of credits. The bill reduces income tax revenue, which is subject to TABOR.

Income tax credit for cold-climate and ground-source heat pumps. The bill creates a new income tax credit for eligible cold-climate and ground-source heat pumps that may be claimed by home builders or HVAC contractors. The fiscal note assumes claims for an estimated 350 installations in FY 2024-25 (half-year impact), about 700 installations in FY 2025-26, and about 1,400 in FY 2026-27. Further, the fiscal note also assumes an average of two $1,000 add-ons will be claimed for a total claim averaging $7,000 per installation. This analysis captures the installations that are expected to be able to claim the new credit in the bill, though many of these installations will also be able to claim the existing credit (discussed below), and so are counted in both populations.

The income tax credit created by the bill decreases General Fund revenue by an estimated $2.5 million in FY 2024-25 (half-year impact), $4.9 million in FY 2025-26, and $9.8 million in FY 2026-27. The number of credits claimed may increase significantly through 2033 with increased adoption of eligible heat pump installations after restrictions on sales of covered HVAC systems under the bill take effect in 2027 and drive increased demand for heat pump systems, primarily among residential properties.

Heat pump technology and thermal energy network tax credit. The bill modifies and extends the existing tax credit by eliminating parameters related to supplemental heat for qualifying systems and changing the credit from a per-unit amount to $750 per ton of cooling for a standard air-source or variable refrigerant flow heat pump system, and $1,500 per ton of cooling for a cold-climate, ground-source or water-source heat pump system, or combined heat pump system types. The bill also increases the credit amount for a heat pump water heater to $500 after 2026, up from $250 after 2026 as under current law. The modification to the credit is evaluated as an increase in the average value of the credit per installation for both residential and commercial applications.

Modification to the existing credit will decrease General Fund revenue by an estimated $4.1 million in FY 2024-25 (half-year impact), $11.8 million in FY 2025-26, $17.1 million in FY 2026-27, and larger amounts in subsequent years. The number of credits claimed is expected to increase significantly through 2033 with increased adoption of eligible heat pump installations after restrictions on sales of HVAC systems under the bill take effect in 2027.

The value of the existing credit under current law is limited beginning in tax year 2026 if state revenue subject to TABOR is not expected to increase by at least 4 percent in the fiscal year in which the relevant tax year begins, then the amounts of the tax credits will be reduced by 50 percent, with any credit less than $250 reduced to $0.

Civil penalties. The bill may increase state revenue from civil penalties issues to violators of the bill's HVAC or state financial assistance requirements. This revenue, which is subject to TABOR, accrues to the Energy Fund.

State Expenditures

The bill increases state expenditures in multiple state agencies by about $300,000 in FY 2024-25, $500,000 in FY 2025-26, and $800,000 million in FY 2026-27 and future years, paid from the General Fund. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under HB 24-1352

	FY 2024-25	FY 2025-26	FY 2026-27
Colorado Energy Office			
Personal Services	$98,267	$136,669	$180,539
Operating Expenses	$1,280	$1,664	$2,176
Capital Outlay Costs	$6,670	$6,670	-
Tax Program Audit	-	-	$150,000
Legal Services	-	$76,812	-
Market Study	$50,000	-	$50,000
Centrally Appropriated Costs[1]	$21,715	$29,066	$38,180
FTE – Personal Services	1.0 FTE	1.3 FTE	1.7 FTE
FTE – Legal Services	-	0.3 FTE	-
CEO Subtotal	**$177,932**	**$250,881**	**$420,895**

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Table 2
Expenditures Under HB 24-1352 (Cont.)

	FY 2024-25	FY 2025-26	FY 2026-27
Department of Revenue			
Personal Services	$59,772	$110,771	$110,771
Operating Expenses	$1,280	$2,048	$2,048
Capital Outlay Costs	$6,670	$6,670	-
Computer Programming	$33,333	$66,667	-
Data Reporting	-	$7,328	$7,328
Document Management and Tax Form	$2,725	$22,176	-
Centrally Appropriated Costs[1]	$17,224	$28,977	$28,977
FTE – Personal Services	1.0 FTE	1.6 FTE	1.6 FTE
DOR Subtotal	**$121,004**	**$244,637**	**$149,124**
Dept. of Public Health and Environment			
Personal Services	-	-	$123,250
Operating Expenses	-	-	$1,664
Capital Outlay Costs	-	-	$6,670
Legal Services	-	-	$46,087
Centrally Appropriated Costs[1]	-	-	$26,544
FTE – Personal Services	-	-	1.3 FTE
FTE – Legal Services	-	-	0.2 FTE
CDPHE Subtotal	**-**	**-**	**$204,215**
Total	**$298,936**	**$495,518**	**$774,234**
Total FTE	**2.0 FTE**	**3.2 FTE**	**4.8 FTE**

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

Colorado Energy Office. The bill increases costs to study gaps in financial incentive coverage, coordinate with DOR on tax credit administration, participate in public utility rate setting proceedings, and create guidance documentation for state agencies that administer financial support for construction projects. For all staff costs, standard operating and capital outlay costs are included, as applicable.

- **HVAC financial incentives.** The bill requires the CEO to conduct occasional market studies of covered HVAC equipment, evaluate the cost burden on income-qualified households, and submit a report to the General Assembly on any gaps in incentive coverage. The market studies take place every other year and are estimated to cost $50,000.
- **New cold-climate and ground-source heat pump tax credit.** The amount that an HVAC installer can claim for the new tax credit depends on a variety of factors, and the CEO will work with DOR to establish criteria and guidance for tax credit eligibility and receiving information from taxpayers or DOR, as applicable. This requires 1.0 FTE beginning in FY 2025-26. The CEO will audit HVAC installations for compliance with the tax credit requirements every other year beginning in FY 2026-27.
- **Public utility rate setting.** The CEO requires a total of 0.9 FTE from April 2025 through February 2026 to analyze proposed voluntary rate structures and to engage with the public hearing process. This requires 600 hours of legal services to intervene in public utility rate setting in FY 2024-25 only. Legal services are provided by the Department of Law at a rate of $128.02 per hour.
- **Energy Star guidance.** The CEO requires about 1.0 FTE in FY 2024-25 only to create guidance documentation to distribute to state agencies regarding Energy Star appliances in new construction projects. Workload may increase minimally in subsequent years to update the guidance as necessary.

Department of Revenue. The bill increases expenditures to administer the tax credits for HVAC installations, heat pumps, and thermal energy networks.

- **Staffing.** DOR requires 1.0 FTE beginning in FY 2025-26 to collaborate with the CEO on tax credit criteria, evaluate and review information received from taxpayers, and communicate with taxpayers. Examining additional claims for the existing tax credit requires 1.0 FTE in FY 2024-25 and 0.6 FTE in subsequent years. Standard operating and capital outlay costs are included.
- **Computer programming and testing.** For FY 2024-25 and FY 2025-26 only, this bill requires expenditures of up to $100,000 to program, test, and update database fields in the DOR's GenTax software system. This cost is estimated based on previous updates; the actual amount will be updated in a revised fiscal note based on feedback from the vendor.
- **Data reporting.** Beginning in FY 2024-25, the Office of Research and Analysis (ORA) within DOR will collect and report data on the new tax credit. This costs $7,392 in FY 2024-25 and $7,328 in subsequent years.
- **Document management.** The bill requires changes to five tax forms and the creation of two new tax forms at a cost of $24,901 over two years. Changes to tax forms are accomplished in the Department of Personnel and Administration and paid using reappropriated DOR funds.

Department of Public Health and Environment. Beginning in FY 2026-27, the bill increases costs to regulate HVAC compliance.

- **Staffing.** Adopting rules regarding eligible HVAC equipment, responding to allegations of violations, assessing compliance, and reporting to the General Assembly requires 1.4 FTE. This workload may decrease in future years if compliance increases over time. Standard operating and capital outlay costs are included.
- **Legal services.** The department requires 360 hours of legal services per year beginning in FY 2026-27 to support rulemaking, provide general counsel, and to take up noncompliance as recommended by CDPHE. Legal services are provided by the Department of Law at a rate of $128.02 per hour.

Judicial Department. The bill increases expenditures in trial courts to the extent that additional civil actions are filed. The number of new actions is expected to be minimal and no change in appropriations is required.

Other state agencies. State agencies that administer state financial assistance for construction projects may have increased workload to ensure that the bill's Energy Star requirements are met or to process waivers as applicable. This workload is expected to be minimal.

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 decrease the TABOR refund obligation, but result in no net change to the amount of General Fund 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 takes effect upon signature of the Governor, or upon becoming law without his signature, and applies to conduct occurring on or after this date.

State Appropriations

For FY 2024-25, the bill requires the following General Fund appropriations:

- $156,217 to the Colorado Energy Office, and 1.0 FTE; and
- $103,780 to the Department of Revenue, and 1.0 FTE, of which, $2,725 is reappropriated to the Department of Personnel and Administration.

Departmental Difference

The costs for the CEO differ from the agency estimate for implementation of guidance to other state agencies that provide financial assistance for construction projects. According to the CEO, this requires 2.3 FTE in FY 2024-25 and ongoing, plus $250,000 in the first year for a web interface and $250,000 per year for help desk support. The fiscal note instead assumes that this requires 2.0 FTE only until the guidance is published on December 31, 2024, that the guidance can be posted online within existing resources, and that annual updates to the guidance can be accomplished within existing resources.

The Department of Law estimates that advising the Department of Revenue regarding the tax credits requires 450 hours of legal services in FY 2024-25 at a cost of $57,609. The fiscal note instead assumes that the bill can be addressed within existing legal services appropriations.

State and Local Government Contacts

Colorado Energy Office	Information Technology
Judicial	Law
Local Affairs	Office of Economic Development
Personnel and Administration	Public Health and Environment
Regulatory Agencies	Revenue

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.