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Fiscal Note

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Prime Sponsors: Sen. Priola; Jaquez Lewis Bill Status: Senate Transportation & Energy
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Bill Topic: METHODS TO INCREASE THE USE OF TRANSIT

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

For tax years 2024 through 2028, the bill creates a refundable state income tax credit equal to 30 percent of the amount spent by a taxpayer to purchase one or more transit passes. It also creates the Youth Fare Free Transit Grant Program, makes changes to the Ozone Season Transit Grant Program, and creates a statewide transit pass exploratory committee. It decreases state revenue and increases state expenditures.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of \$501,967 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the introduced bill, which was recommended by the Transportation Legislation Review Committee.

Table 1
State Fiscal Impacts Under SB 24-032

Table with 5 columns: Category, Fund Type, Current Year FY 2023-24, Budget Year FY 2024-25, Out Year FY 2025-26. Rows include Revenue (General Fund, Total Revenue), Expenditures (General Fund, Cash Funds, Centrally Appropriated, Total Expenditures), and Total FTE.

**Table 1**  
**State Fiscal Impacts Under SB 24-032 (Cont.)**

		<b>Current Year</b>	<b>Budget Year</b>	<b>Out Year</b>
		<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>
<b>Transfers</b>	General Fund	-	(\$14.0 million)	(\$14.0 million)
	Ozone Season Transit Grant Fund	-	\$7.0 million	\$7.0 million
	Youth Fare Free Transit Grant Program	-	\$7.0 million	\$7.0 million
	<b>Net Transfer</b>	-	<b>\$0</b>	<b>\$0</b>
<b>Other Budget Impacts</b>	General Fund Reserve	-	\$75,295	\$25,919
	TABOR Refunds	(\$7,100,000)	(\$15,200,000)	(\$17,300,000)

**Summary of Legislation**

**Transit pass tax credit.** For tax years 2024 through 2028, the bill creates a refundable income tax credit equal to 30 percent of the amount spent by a taxpayer to purchase one or more transit passes during the income tax year for which the credit is claimed. To claim the credit, a taxpayer is required to include a credit certificate issued by the Department of Transportation (CDOT) with their income tax return. CDOT is required to provide an electronic report of taxpayers receiving a credit certificate to the Department of Revenue (DOR) by January 1 each year.

**Youth Fare Free Transit Grant Program.** The bill creates the Youth Fare Free Transit Grant Program to provide grants to the Regional Transportation District (RTD) or transit agencies for fare free year-round transit services for youth riders. CDOT is required to establish policies governing the grant program and to report to the General Assembly annually on the program. The State Auditor must include the Regional Transportation District’s (RTD) use of grant money as part of its next performance audit. The bill creates the Youth Fare Free Transit Grant Program Fund, which consists of money the General Assembly appropriates or transfers to the fund, as well as any gifts, grants, or donations received for the program, and requires a \$7 million General Fund transfer to the fund on July 1, 2024, and each year thereafter. The fund is continuously appropriated to CDOT for administering the grant program.

**Ozone Season Transit Grant Program.** The bill relocates the Ozone Season Transit Grant Program to CDOT (from the Colorado Energy Office), eliminates the program’s schedules repeal, and requires a \$7 million General Fund transfer to the Ozone Season Transit Grant Program Fund on July 1, 2024, and each year thereafter. The fund is continuously appropriated to CDOT for administering the grant program.

**Transit pass exploratory committee.** The bill creates a fifteen-member statewide transit pass exploratory committee within CDOT to produce a proposal for implementing a statewide transit pass. The committee must be created by October 1, 2024, and produce a proposal by July 1, 2026, with an implementation goal of January 1, 2028. The committee members are appointed by the executive director of CDOT and must include representatives of a diverse group of transit agencies throughout the state.

## **Assumptions**

The eligible population for this new tax credit includes taxpayers purchasing one or more transit passes for the taxpayer's use during the income tax year for which the credit is claimed. Because there is no statewide data available on public transit expenditures by individuals in Colorado, this fiscal note uses a number of assumptions coupled with existing data about public transit programs in the state.

This fiscal note assumes that commuters who use public transit regularly will be most likely to obtain a credit certificate to claim the new tax credit. According to the Bureau of Census, American Community Survey, approximately 0.6 percent of Coloradans used public transit to commute to work in 2021. Applying this percentage to the estimated number of taxpayers in 2023, and assuming that the demand for public transit is relatively inelastic with respect to price, but will recover gradually toward pre-pandemic levels of over 1 percent regardless of price, the fiscal note assumes that approximately 33,000 taxpayers will obtain credit certificates and claim the new tax credit in tax year 2024. This number is assumed to grow by 10 percent per year for tax years 2025 through 2028.

This fiscal note assumes that credit claimants will spend on average \$1,439 per year in 2024 and \$1,490 per year in 2025 on transit passes. This is based on the price of a local monthly RTD pass, \$114 per month in 2023, grown by the Legislative Council Staff December 2023 forecast for Denver-Aurora-Lakewood inflation.

## **State Revenue**

The bill is expected to decrease state revenue by \$7.1 million in FY 2023-24, a half-year impact, by \$15.2 million in FY 2024-25, by \$17.3 million in FY 2025-26, and by increasing amounts in future years, until the credit expires in tax year 2028. These amounts reflect the assumptions stated above; however, the bill's actual impact may be higher or lower depending on the rate at which the credit is utilized and the ridership of public transit services. The bill decreases revenue from income taxes, which are subject to TABOR. Revenue impacts on a tax year basis and additional information are presented in Table 2.

The bill potentially increases state revenue to the Youth Fare Free Transit Grant Program from gifts, grants, or donations; however, no sources have been identified at this time. Gifts, grants, and donations are exempt from TABOR revenue limits.

**Table 2**  
**Revenue Reduction Under SB 24-032**

	<b>Tax Year 2024</b>	<b>Tax Year 2025</b>
Number of credits claimed	33,000	36,300
Average annual transit expense	\$1,439	\$1,490
Total qualifying expenditures	\$47.5 million	\$54.1 million
<b>State Revenue Impact</b>	<b>(\$14.2 million)</b>	<b>(\$16.2 million)</b>

Taxpayers are estimated to claim tax credits for approximately \$47.5 million of qualifying transit pass expenditures in tax year 2024 and \$54.1 million in tax year 2025. This amounts to a reduction in state income tax revenue of about \$14.2 million in tax year 2024 and \$16.2 million in tax year 2025 due to the 30 percent tax credit.

### **State Transfers**

Beginning in FY 2024-25, the bill requires the following transfers on July 1 each year:

- \$7 million from the General Fund to the Youth Fare Free Transit Grant Program Fund; and
- \$7 million from the General Fund to the Ozone Season Transit Grant Program Fund.

### **State Expenditures**

The bill increases state expenditures by \$16.0 million in FY 2024-25 and \$15.5 million in FY 2025-26, as shown in Table 3 below. Costs in DOR are paid from the General Fund, and costs in CDOT are paid from the State Highway Fund and various other cash funds available for the department's construction, maintenance, and operations budget. These costs are described in more detail below.

**Table 3  
Expenditures Under SB 24-032**

	FY 2024-25	FY 2025-26
<b>Department of Revenue</b>		
Personal Services	\$295,632	\$161,623
Operating Expenses	\$6,784	\$3,840
Capital Outlay Costs	\$46,690	-
Computer Programming and Testing	\$129,193	-
Research and Analysis	\$7,392	\$7,328
Document Management	\$16,276	-
Centrally Appropriated Costs <sup>1</sup>	\$88,703	\$49,673
FTE – Personal Services	5.3 FTE	3.0 FTE
<b>DOR Subtotal</b>	<b>\$590,670</b>	<b>\$222,464</b>
<b>Department of Transportation</b>		
Personal Services	\$195,937	\$240,172
Operating Expenses	\$3,072	\$3,840
Capital Outlay Costs	\$20,010	-
Computer Programming	\$125,000	\$5,000
Software Licenses	\$166,625	\$166,625
Contractor Expenses	\$700,000	\$700,000
Call Center	\$125,000	\$125,000
Grants	\$13,975,770	\$13,975,770
Centrally Appropriated Costs <sup>1</sup>	\$49,444	\$60,497
FTE – Personal Services	2.7 FTE	3.3 FTE
<b>CDOT Subtotal</b>	<b>\$15,360,858</b>	<b>\$15,276,904</b>
<b>Total Costs</b>	<b>\$15,951,528</b>	<b>\$15,499,368</b>
<b>Total FTE</b>	<b>8.0 FTE</b>	<b>6.3 FTE</b>

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

**Department of Revenue.** The DOR will have increased costs to implement the new tax credit and to process and review returns claiming the new tax credit as follows:

- **Staff.** The DOR will require an additional 5.3 FTE for tax examiners starting in FY 2024-25, 3.0 FTE for FY 2025-26 and subsequent years, through FY 2029-30. Standard operating and capital outlay costs are included, and account for the bill's effective date. The tax examiners are necessary to process and review additional returns claiming the new tax credit and to resolve errors in returns.

- **Computer programming and testing.** For FY 2024-25 only, the DOR will have one-time costs of \$129,193 for computer programming and testing. Programming costs are estimated at \$51,912 representing 224 hours of contract programming at a rate of \$231.75 per hour. Costs for testing to ensure that programming changes are functioning properly are estimated at \$77,281, representing 1,515 hours for the Systems Support Office at \$35 per hour, and 758 hours of user acceptance testing at a rate of \$32 per hour.
- **Research and analysis.** Beginning in FY 2024-25, the Office of Research and Analysis within DOR will expend \$7,392 each year to collect and report data on the new tax credit.
- **Tax form changes.** For FY 2024-25 only, the bill requires \$16,276 in expenditures to implement tax form changes and document management. These expenditures will take place in the Department of Personnel and Administration using reappropriated funds from the DOR.

**Department of Transportation.** The bill increases expenditures in CDOT to administer the exploratory committee, grant programs, and tax credits in the bill. Standard operating and capital outlay costs are included. Costs are paid from continuously appropriated fund sources in CDOT.

- **Staff.** CDOT requires 1.0 FTE in FY 2024-25 and FY 2025-26 to administer stakeholder outreach, meetings, and research associated with the exploratory committee, and 2.0 FTE for a program manager and assistant to design, implement, and manage the transit pass tax credit certificate program. Standard operating and capital outlay costs are included and prorated in the first year assuming a September 1, 2024 start date. CDOT will also require 0.3 FTE to manage both grant programs, including developing grant policies, reviewing applications and reports, monitoring, and reporting to the legislature.
- **Computer programming and software licenses.** CDOT will require \$291,625 in FY 2024-25 and \$171,425 in FY 2025-26 for computer programming and software licenses to process applications for tax credit certificates. This includes \$125,000 for computer programming in the first year, and \$5,000 for ongoing maintenance of software, as well as \$166,625 for Salesforce software licenses in FY 2024-25 and ongoing.
- **Other services.** CDOT requires \$700,000 per year starting in FY 2024-25 for a contractor to process tax credit certificate requests and \$125,000 for call center services to answer questions from taxpayers. These costs continue over the life of the tax credit.
- **Grants.** After administrative expenditures, the remaining money transferred for the grant programs is available for CDOT to award grants to transit associations and RTD.

**Office of the State Auditor.** Auditing the new tax credit and the Youth Fare Free Transit Grant Program in RTD increases workload in the Office of the State Auditor. Since the RTD audit takes place during RTD's next performance audit, and since state law requires RTD to cover the costs of its audits, no change in appropriations is required. The increased workload for the tax audit can be accomplished with existing resources.

**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.

## **Local Government**

The bill may increase workload for transit associations, transit agencies, and RTD to apply for, implement, and report on grants. Transit agencies and RTD selected to receive grant funds will have increased revenue and additional costs to operate the free fare programs. In addition, in any year in which a grant award is less than the cost of implementing a free-fare program, the difference in cost will, on net, increase operating costs for the agency or RTD and reduce funding available for other services. Because program participation and local free fare program design depend on decisions by local entities, and grant award amounts will be determined by CDOT, these impacts are not estimated in the fiscal note. For informational purposes, RTD estimates that foregone fare collections during ozone season are about \$7 million per month, and that providing free fares to youth reduces fare collects by up to \$5 million per year.

## **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 2023 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 takes effect upon signature of the Governor, or upon becoming law without his signature, except the provisions related to the Ozone Season Transit Grant Program, which take effect July 1, 2024.

## **State Appropriations**

For FY 2024-25, the bill requires a General Fund appropriation of \$501,967 to the Department of Revenue, of which \$16,276 is reappropriated to the Department of Personnel and Administration.

**State and Local Government Contacts**

Colorado Energy Office  
Revenue

Information Technology  
State Auditor

Personnel  
Transportation

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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: [leg.colorado.gov/fiscalnotes](http://leg.colorado.gov/fiscalnotes).