



**Legislative
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FISCAL NOTE

Drafting Number: LLS 19-0200
Prime Sponsors:

Date: September 27, 2018
Bill Status: Early Childhood and School
Readiness Legislative
Commission Bill Request
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Bill Topic: INCOME TAX CREDIT FOR EARLY CHILDHOOD EDUCATORS

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

The bill creates an income tax credit for eligible early childhood educators. It decreases state revenue and increases state expenditures through FY 2023-24.

Appropriation Summary: For FY 2019-20, the bill requires an appropriation of \$79,780 to the Department of Revenue.

Fiscal Note Status: This fiscal note reflects the bill draft requested by the Early Childhood and School Readiness Legislative Commission.

**Table 1
State Fiscal Impacts Under Bill 8**

		FY 2018-19 (current year)	FY 2019-20	FY 2020-21
Revenue	General Fund	(\$4.1 million)	(\$8.4 million)	(\$9.0 million)
	Total	(\$4.1 million)	(\$8.4 million)	(\$9.0 million)
Expenditures	General Fund	-	\$79,780	\$109,855
	Centrally Appropriated	-	\$22,057	\$40,996
	Total	-	\$101,837	\$150,851
	Total FTE	-	1.2 FTE	2.2 FTE
TABOR Refund	General Fund	(\$4.1 million)	(\$8.4 million)	not estimated

Summary of Legislation

For tax years 2019 through 2023, the bill creates an income tax credit for eligible early childhood educators. The amount of the credit is:

- \$500 for an Early Childhood Professional (ECP) I;
- \$1,000 for an ECP II;
- \$1,500 for an ECP III;
- \$2,000 for an ECP IV;
- \$2,500 for an ECP V; and
- \$3,000 for an ECP VI.

To be eligible, an educator must hold an early childhood professional credential, and, for at least six months of the year, be the head of or employed by a family child care home, or employed by a program that:

- has achieved at least a level two rating in the Colorado Shines Quality Rating and Improvement System; and
- either has a financial agreement with the Colorado Child Care Assistance Program (CCCAP) or meets federal Early Head Start or Head Start standards.

The Department of Revenue must adjust the credit amounts for inflation beginning in tax year 2020. The amount by which the credit exceeds the amount the educator is required to pay in taxes is refunded to the educator.

Background

The ECP is a voluntary, tiered credentialing system developed by the Colorado Department of Education for early childhood educators. An ECP credential is one of the options available for educators to meet the educational qualifications required by the Colorado Department of Human Services for certain early childhood educator positions. Other options for meeting the educational requirements vary by position and may include college degrees, outside certifications, and various combinations of coursework, trainings, and experience working with young children. Educators must have an ECP credential to be eligible for the income tax credit created by the bill.

State Revenue

The bill is expected to decrease General Fund revenue by \$4.1 million in the current FY 2018-19, \$8.4 million in FY 2019-20, and \$9.0 million in FY 2020-21. The estimate for FY 2018-19 represents a half-year impact for tax year 2019. Full-year revenue impacts will continue through FY 2022-23, with a half-year impact in FY 2023-24 as the credit is phased out.

The bill decreases income tax revenue, which is subject to TABOR. Revenue estimates are presented on a tax year basis in Table 2 and on a fiscal year basis in Table 3. Impacts for a single tax year are expected to be accrued across the two fiscal years that each comprise half of the tax year.

Table 2
Tax Year Revenue Impacts of Bill 8

Tax Year	2019	2020	2021	2022	2023
Eligible Population					
ECP I	975	1,020	1,063	1,103	1,142
ECP II	2,385	2,479	2,568	2,653	2,734
ECP III	1,929	2,006	2,079	2,149	2,215
ECP IV	700	728	755	780	805
ECP V	249	260	271	281	291
ECP VI	117	122	127	132	136
Total Eligible	6,355	6,615	6,684	7,099	3,323
Credit Amount					
ECP I	\$500	\$515	\$529	\$543	\$558
ECP II	\$1,000	\$1,029	\$1,057	\$1,086	\$1,115
ECP III	\$1,500	\$1,544	\$1,586	\$1,629	\$1,673
ECP IV	\$2,000	\$2,058	\$2,114	\$2,171	\$2,230
ECP V	\$2,500	\$2,573	\$2,642	\$2,713	\$2,786
ECP VI	\$3,000	\$3,087	\$3,170	\$3,256	\$3,344
Total Tax Credits					
ECP I	\$487,600	\$525,400	\$562,300	\$599,200	\$637,200
ECP II	\$2,384,600	\$2,550,700	\$2,714,600	\$2,881,400	\$3,048,400
ECP III	\$2,893,200	\$3,097,200	\$3,297,800	\$3,500,800	\$3,706,100
ECP IV	\$1,399,500	\$1,498,200	\$1,595,800	\$1,694,200	\$1,794,300
ECP V	\$621,600	\$669,300	\$716,200	\$763,700	\$811,700
ECP VI	\$350,900	\$377,200	\$403,000	\$429,200	\$455,700
Revenue Impact	(\$8,137,400)	(\$8,718,100)	(\$9,289,700)	(\$9,868,400)	(\$10,453,400)

ECP = early childhood professional. Tax year impacts are accrued across the two fiscal years that each comprise half of the tax year.

Table 3
Fiscal Year Revenue Impacts of Bill 8

	FY 2018-19 (current year)	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenue Impact	(\$4,068,700)	(\$8,427,800)	(\$9,003,900)	(\$9,579,000)	(\$10,160,900)	(\$5,226,700)

Fiscal year impacts comprise half-year impacts for each of the two component tax years.

Assumptions. The Department of Human Services reports that, as of September 2018, there are:

- 5,631 early childhood professionals who currently satisfy the eligibility criteria for the tax credit;
- 5,053 credentialed early childhood professionals who do not satisfy the eligibility criteria; and
- 896 early childhood professionals whose eligibility status is unknown.

For 2019, the eligible population is assumed to comprise all currently eligible early childhood professionals, half of the early childhood professionals with unknown status, and five percent of ineligible early childhood professionals, including the currently ineligible and half of those with unknown eligibility. An additional five percent of the ineligible population is assumed to become eligible each year for which the tax credit remains in effect, based on caseload growth and the assumption that the presence of the tax credit will incentivize professionals to work in this field.

The credit amounts are grown by expectations for the Denver-Aurora-Lakewood consumer price index published in the September 2018 Legislative Council Staff forecast. For years beyond 2020, the annual rate of inflation is assumed to be 2.7 percent. The fiscal note does not assume any change in the distribution of educators across credential tiers.

State Expenditures

The bill is expected to increase General Fund expenditures by \$101,837 and 1.2 FTE in FY 2019-20 and by \$150,851 and 2.2 FTE in FY 2020-21. Expenditures are summarized in Table 4 and detailed below.

**Table 4
Expenditures Under Bill 8**

	FY 2019-20	FY 2020-21
Department of Revenue		
Personal Services	\$55,446	\$107,765
Operating Expenses and Capital Outlay Costs	\$15,344	\$2,090
Computer Programming and Testing	\$6,590	-
Document Management	\$2,400	-
Centrally Appropriated Costs*	\$22,057	\$40,996
Total Cost	\$101,837	\$150,851
Total FTE	1.2 FTE	2.2 FTE

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

Department of Revenue. General Fund expenditures for the department will increase by \$101,837 and 1.2 FTE in FY 2019-20 and by \$150,851 and 2.2 FTE in FY 2020-21. All expenditures for FY 2020-21 are for ongoing tax credit administration and continue through FY 2023-24. The majority of the expenditure increase is attributable to staffing costs in the Taxpayer Service area to review tax credits claimed, identify and address taxpayer errors, and manage call and correspondence volume associated with the new tax credit. For FY 2019-20, estimated personnel costs assume a January 1, 2020, start date to administer tax credits claimed on 2019 tax forms. In FY 2019-20 only, the department requires 0.1 FTE in the Office of Research and Analysis to add the credit to the department's reports.

This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of \$250 per hour. The changes in this bill are expected to increase General Fund expenditures by \$2,750, representing 11 hours of programming. All GenTax programming changes are tested by the department. Testing for this bill will require expenditures for contract personnel totaling \$3,840, representing 160 hours of testing at a rate of \$24 per hour.

For FY 2019-20 only, the bill requires changes to two tax forms at a cost of \$1,200 per form. Expenditures for form changes occur in the Department of Personnel and Administration using reappropriated Department of Revenue funds.

Department of Human Services. The Department of Human Services covers the cost of user licenses in three computer systems: the Colorado Shines Professional Development Information System for educators to receive and maintain their credentials, the Colorado Shines Technology System for early childhood education programs to receive a quality rating, and the Attendance Tracking System for programs that have a fiscal agreement with CCCAP. User licenses for these systems are purchased in blocks, meaning that the cost increases once a certain threshold of new users is reached. To the extent that the income tax credit incentivizes new educators or childcare facilities, the department may be required to purchase additional user licenses in future years. Any future increase in appropriations will be requested through the annual budget process.

TABOR Refunds. The bill is expected to decrease state General Fund obligations for TABOR refunds by \$4.1 million for the current FY 2018-19 and \$8.4 million for FY 2019-20. Under current law and the June 2018 revenue forecast, TABOR refunds are expected to be paid in the following year via reimbursements to local governments for senior and disabled veteran property tax exemptions. The bill will not affect the amount of these reimbursements.

The TABOR assumptions in this fiscal note reflects the June 2018 forecast, which did not include a projection of state revenue subject to TABOR beyond FY 2019-20.

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, supplemental employee retirement payments, and leased space, are estimated to be \$22,057 in FY 2019-20 and \$40,996 in FY 2020-21.

Effective Date

The bill takes effect August 2, 2019, if the General Assembly adjourns on May 3, 2019, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2019-20, the bill requires a General Fund appropriation of \$79,780 to the Department of Revenue with an allocation of 1.2 FTE. From this amount, \$2,400 should be reappropriated to the Department of Personnel and Administration.

State and Local Government Contacts

Education

Human Services

Personnel

Revenue