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Fiscal Note

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Prime Sponsors:

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Bill Topic: MINOR DRIVER'S EDUCATION REQUIREMENTS

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill requires anyone under the age of 21 to take a driver's education course before the individual can get an instructional permit or driver license. The bill also creates a tax credit for individuals who pay for a driver's education course. Starting in FY 2023-24, the bill decreases state revenue and increases state expenditures on an ongoing basis.

Appropriation Summary: For FY 2022-23, the bill requires appropriations totaling \$915,282 to the Department of Revenue.

Fiscal Note Status: The fiscal note reflects the draft bill requested by the Transportation Legislation Review Committee

Table 1
State Fiscal Impacts Under Bill 9

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	General Fund	(\$19.5 million)	(\$36.8 million)
	Total Revenue	(\$19.5 million)	(\$36.8 million)
Expenditures	General Fund	\$547,822	\$282,294
	Cash Funds	\$367,460	\$97,116
	Centrally Appropriated	\$137,235	\$105,539
	Total Expenditures	\$1,052,517	\$484,949
	Total FTE	8.6 FTE	6.6 FTE
Transfers		-	-
Other Budget Impacts	TABOR Refund	(\$19.5 million)	(\$36.8 million)
	General Fund Reserve	\$82,173	\$42,344

Summary of Legislation

The bill creates a tax credit for purchasing driving school or training for a minor and changes the requirements to receive a driver license and instructional permits for individuals under the age of 21.

Income tax credit. For tax years 2023 through 2032, the bill creates a state income tax credit for up to \$1,000 for qualifying taxpayers who incur certain driving instructional expenses on behalf of a minor. Qualifying expenses include either a 30-hour driver education course approved by the Department of Revenue (DOR) or 6 hours of behind-the-wheel training with a driving instructor. The tax credit is refundable, meaning if the amount exceeds the taxpayer's state income tax liability, the balance is refunded to the taxpayer. The maximum credit amount is adjusted for inflation each income tax year after 2023.

Driver license requirement. The bill changes the requirements to receive a Colorado driver license for individuals under the age of 21. For individuals who are receiving their license at 18 or younger, the bill adds the requirement that the individual successfully complete a 30-hour driver education course that is approved by the DOR, and receive a minimum of 6 hours of behind-the-wheel training with a driving instructor or 12 hours of behind-the-wheel training from a parent if no entity within 30 miles offers an approved training. For individuals 18 to 21, the bill adds the requirement that the individual successfully complete a four-hour prequalification driver awareness program or a 30-hour driver education course.

Instructional permit. The bill requires anyone under the age of 18 applying for an instructional permit to complete a 30-hour driver education course and for individuals between the ages of 18 and 21 to complete a 30-hour driver education course or a 4-hour prequalification driver awareness program.

Background checks. Finally, the bill requires commercial driving instructors to get a criminal background check before providing behind-the-wheel instruction to a minor.

Background

Instruction permit. Under current law, anyone over the age of 16 may receive an instructional permit without formal driving instruction. 15-year-olds are required to meet certain instruction requirements, with individuals aged 15 to 15.5 year olds required to take the 30-hour driver education course and individuals aged 15.5 years old to 16 years old required to take a four-hour prequalification driver awareness program. For a complete list of requirements to receive an instructional permit under current law, visit: <https://dmv.colorado.gov/minor-permit>.

Minor driver license. Under current law, a minor under the age of 16.5 must complete 6 hours of behind-the-wheel driving as well as hold their permit for 12 months. Those over the age of 16 and a half and younger than 18 do not require six hours of behind-the-wheel driving but do need to have held a permit for 12 months. For complete list of requirements for a minor's license please visit: <https://dmv.colorado.gov/minor-license#BTW%20Training>.

Assumptions

The fiscal note assumes that the state’s approximately 750 commercial driving instructors already undergo fingerprint background checks that review an individual’s criminal history; therefore, no revenue or expenditure impact from background checks is anticipated.

State Revenue

Tax credit for driving instruction. The bill is expected to decrease General Fund revenue by \$19.5 million in FY 2023-24 (half-year impact), by \$36.8 million in FY 2024-25, and by increasing amounts, due primarily to inflation, for each full year through FY 2031-32. The credit will repeal in FY 2032-33, in which a half-year impact will occur. The bill reduces individual income tax revenue, which is subject to TABOR. Credits claimed and costs per credit are shown in Table 2.

**Table 2
State Revenue Impacts Under Bill 9**

	Tax Year 2024			Tax Year 2025		
	Credits Claimed	Average Credit Amount	Total Revenue Reduction ¹	Credits Claimed	Average Credit Amount	Total Revenue Reduction ¹
30-Hour Driving Classes	97,000	\$180	\$17.5 million	66,000	\$190	\$12.3 million
Behind-the-Wheel Training	47,000	\$460	\$21.6 million	47,000	\$480	\$22.3 million
Tax Year Total¹	144,000		\$39.1 million	113,000		\$34.6 million
Fiscal Year Total¹			FY 2023-24: \$19.5 million			FY 2024-25 \$36.8 million

¹ Totals may not sum due to rounding. Tax year totals are based on the calendar year; fiscal year totals allocate tax revenue based on the state fiscal year, which runs from July 1 to June 30 each year.

The fiscal note assumes that taxpayers will claim the credit for about 144,000 minor drivers in calendar year 2023, and about 113,000 minor drivers in calendar year 2024 and similar numbers thereafter. In the first year, about 70 percent of credits are assumed to be claimed for the 30-hours driving course and 30 percent for behind-the-wheel training; in future years, this split is assumed to be approximately 60 percent and 40 percent, respectively. The fiscal note further assumes that the average credit claimed will be \$180 for the 30-hour driving course (including online options) and \$460 for the 6 hours of behind-the-wheel training based on data from a sample of 2022 prices listed by state-approved driving schools. These costs are adjusted for inflation for each year. In determining the instructional costs that may be claimed for the credit, the costs of written and driving tests, which are included in many driving instruction packages, are excluded as these are assumed to not be qualified expenses under the bill.

If the new requirements result in fewer minors under age 18 seeking a permit or license, if the cost of driving instruction is less than assumed, or if a larger number of minors meet the qualifications for parental- or guardian-supervised behind-the-wheel training, the revenue impact of the bill will be less than estimated. If the refundable income tax credit creates an incentive for more minors to obtain a

permit or driving license or if the cost of driving courses and behind-the-wheel driving instruction is greater than assumed under this fiscal note, the revenue impact of the bill will be higher than estimated.

Permit and licensing fees. To the extent that changing the requirements to receive an instructional permit or driver licenses decreases the number of individuals eligible to receive a permit or license, revenue to the DOR will decrease. The exact number of individuals who would not get a permit or license under the bill cannot be determined at this time.

State Expenditures

The bill increases state expenditures in the DOR by \$1.1 million in FY 2023-24 and \$484,949 in FY 2024-25, with costs paid from the General Fund and the DRIVES Vehicle Services Account. Expenditures are shown in Table 3 and detailed below.

**Table 3
Expenditures Under Bill 9**

Cost Components	FY 2023-24	FY 2024-25
Department of Revenue – Division of Motor Vehicles		
Personal Services	\$127,124	\$94,686
Operating Expenses	\$3,240	\$2,430
Capital Outlay Costs	\$20,010	-
Computer Programming	\$217,086	-
Centrally Appropriated Costs ¹	\$38,341	\$28,694
FTE – Personal Services	2.4 FTE	1.8 FTE
DMV Subtotal	\$405,801	\$125,810
Department of Revenue – Tax Division		
Personal Services	\$326,754	\$255,967
Operating Expenses	\$9,450	\$6,480
Capital Outlay Costs	\$53,360	-
Computer Programming	\$143,736	\$8,750
Form Changes	\$14,522	\$11,097
Centrally Appropriated Costs ¹	\$98,894	\$76,845
FTE – Personal Services	6.2 FTE	4.8 FTE
Tax Division Subtotal	\$646,716	\$359,139
Total	\$1,052,517	\$484,949
Total FTE	8.6 FTE	6.6 FTE

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

Division of Motor Vehicles. Starting in FY 2023-24, expenditures in the Division of Motor Vehicles within the DOR will increase to audit additional documents and to make changes to the department's Driver License, Record, Identification, and Vehicle Enterprise Solutions (DRIVES) system.

- **Auditing license and permit documentation.** Starting in FY 2023-24, the Division of Motor Vehicles will require 2.9 FTE in FY 2023-24 and 1.8 FTE in FY 2024-25 to audit additional documents to ensure that minors are completing the requirements for a license or permit under the bill. Staffing assumes that the division will receive around 250,000 additional documents in FY 2023-24 and 154,000 additional documents in FY 2024-25 and that 1.0 FTE can review around 90,000 documents per year. The decrease in documents in FY 2024-25 reflects that individuals applying for a license in FY 2024-25, would have completed the requirement for a class in FY 2023-24. Costs in FY 2023-24 are prorated for a September 1 start date and the General Fund paydate shift.
- **DRIVES programming.** In FY 2023-24, the DOR will be required to update DRIVES to eliminate the current tiered system for driver education and testing, and to program the system to meet the new requirements under the bill. Programming costs are calculated at 700 hours at a rate of \$225 per hour for a total of \$157,500. In addition, programming and testing within the innovation strategy and delivery team, which maintains the DRIVES system, will cost \$59,586, of which \$37,521 is reappropriated to the Office of Information Technology.

Tax Division. Expenditures in the Tax Division within the DOR will increase to administer the tax credit, to update the GenTax system, and make form changes.

- **Tax credit administration.** The Tax Division will require 8.2 FTE in FY 2023-24 and 4.8 FTE in FY 2024-25 to administer the tax credit based on current DOR staff levels. Staff will review and verify credits and correspond with taxpayers to ensure that required information is verified. Costs in FY 2024-25 are prorated for a September 1 start date.
- **GenTax programming.** In addition, this bill requires expenditures of \$143,736 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at \$40,500, representing 180 hours of contract programming at a rate of \$225 per hour. Costs for testing at the department are estimated at \$69,475 for 1,985 hours of support at \$35 per hour and \$25,011 of user acceptance testing at 992.5 hours at a contract rate of \$25.20 per hour.

Expenditures in the Office of Research and Analysis are also required for changes in the related GenTax reporting system so that the department can access and document tax statistics related to the new tax policy. These costs are estimated at \$8,750, representing 250 hours for data management and reporting at \$32 per hour.

- **Form changes.** Finally, the DOR will need to make changes to its tax forms. The changes are expected to cost \$14,522 in FY 2023-24 and \$11,097 in FY 2024-25. This work will be performed by the Department of Personnel and Administration using reappropriated funding 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.

Other Budget Impacts

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, which will decrease the amount of General Fund available for other purposes.

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 June 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2023-24. 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.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2023-24, the bill requires the following appropriations to the Department of Revenue:

- \$547,822 from the General Fund, and 6.2 FTE, with \$14,522 reappropriated to the Department of Personnel and Administration; and
- \$367,460 from the DRIVES Vehicle Services Account, and 2.4 FTE, with \$37,521 reappropriated to the Office of Information Technology.

State and Local Government Contacts

Information Technology
Public Safety
Transportation

Judicial
Revenue

Personnel
State Auditor