HB15-1132

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 15-0375	**Date:**	February 5, 2015
Prime Sponsor(s):	Rep. Coram; Becker K.	**Bill Status:**	House Transportation & Energy
		Fiscal Analyst:	Larson Silbaugh (303-866-4720)

BILL TOPIC: RESIDENTIAL ENERGY EFFICIENCY TAX CREDIT

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016	FY 2016-2017
State Revenue	($292,000)	($584,000)	($584,000)
Revenue Change General Fund	($292,000)	($584,000)	($584,000)
State Expenditures		**$71,416**	**$43,603**
General Fund		$64,828	$36,486
Centrally Appropriated Costs**		$6,588	$7,117
TABOR Set Aside		($584,000)	($584,000)
FTE Position Change		0.5	0.5
Appropriation Required: $38,188 - COE (FY 2015-16), $26,640 - DOR (FY 2015-16)			

* *This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.*

** *These costs are not included in the bill's appropriation. See the State Expenditures section for more information.*

Summary of Legislation

This bill creates an income tax credit for qualified improvements that increase the energy efficiency of residential property. The tax credit is based on the level of energy savings achieved. Taxpayers apply for the credit through the Colorado Energy Office (CEO). The CEO is to adjust the tax credit to account for other incentive programs and provide taxpayers with a certificate to claim the credit. Taxpayers can submit the certificate when they file their income tax return. The credit is not refundable but may be carried forward for up to five years and is available in tax years 2015 through 2019.

State Revenue

This bill will **reduce General Fund revenue by $292,000 in FY 2014-15, $584,000 in FY 2015-16, and $584,000 in FY 2016-17.**

Assumptions. The bill creates an individual income tax credit to offset the cost of improving the energy efficiency of residential property. The credit amount is determined by the energy savings achieved and the amount of other incentives available through other sources like utility companies and the federal government.

To qualify for the credit, taxpayers must have their residential property inspected by a certified home energy rater who recommends improvements to save energy. The taxpayer must make energy saving improvements and have the home reinspected. The taxpayer may then apply to the CEO for the energy efficiency tax credit and submit the pre and post-improvement inspection reports.

The CEO is required to certify the energy reduction achieved through the improvements and the cost of the improvements. Then, the CEO is required to adjust the credit amount allowed to take into account other incentives that may be available for certain improvements through utility companies or other sources. For example, there are rebates for new water heaters or wall insulation which would likely be recommended to achieve a certain amount of energy savings. Table 1 shows the maximum credit amount allowed based on the reduction in energy, measured in millions of British thermal units (MMBTU), and the anticipated average adjusted credit amount.

Table 1. Credit Available for Energy Reduction Under HB 15-1132

Energy Reduction	Maximum Credit	Adjusted Credit Amount
Reduction of 30 to 45 MMBTU	$1,000	$500
Reduction of 45 to 60 MMBTU	$1,500	$1,000
Reduction of greater than 60 MMBTU	$2,000	$750

The adjusted credit amount in Table 1 refers to the average credit amount that will actually be certified by the CEO. Based on the housing stock in Colorado, there are certain improvements that will likely be made to reach the energy reduction criteria in the bill. A majority of taxpayers can take advantage of the following existing incentives: $200 for ceiling insulation, $200 for an energy efficient furnace, and $100 for a hot water heater. These incentives account for a $500 adjustment in the credit amounts specified in the bill. Wall insulation is likely necessary to reach a 60 MMBTU reduction, which has a $750 incentive.

Xcel Energy has an energy audit program, which had 515 participants in 2014. Based on the energy efficiency achieved in those 515 homes, 470 of the participants would qualify for an average energy efficiency tax credit of $808. Xcel Energy serves about 65 percent of residential properties in the state so there are expected to be 723 tax credits certified by the CEO per year.

Based on the Xcel Energy program, there are expected to be a total of $584,000 credits claimed per tax year beginning in 2015. Accounting for state fiscal years, this will reduce General Fund collections by $292,000 in FY 2014-15, and $584,000 in the following four fiscal years.

TABOR Impact

This bill reduces state revenue from individual income taxes in FY 2014-15, but based on the December Legislative Council Staff forecast, a TABOR surplus is not expected. A TABOR surplus is expected beginning in FY 2015-16 through the forecast period, so this bill will reduce the amount required to be refunded under TABOR in those years.

State Expenditures

This bill will increase state General Fund expenditures by $71,416 in FY 2015-16 and $43,603 in FY 2016-17. The expenditures are shown in Table 2.

Table 2. Expenditures Under HB 15-1132

Cost Components	FY 2015-16	FY 2016-17
Personal Services - COE	$33,010	$36,011
FTE -COE	0.5	0.5
Operating Expenses - COE	5,178	475
Computer Programing - DOR	25,440	
Document Management - DPA	1,200	
Centrally Appropriated Costs*	6,588	7,117
TOTAL	**$71,416**	**$43,603**

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

Colorado Energy Office. The CEO is required to process all of the energy efficiency tax credit applications and review the energy audits to determine eligibility. The CEO is also required to provide the taxpayer with a credit certification to be submitted with the individual income tax return. To accomplish this, the CEO requires 0.5 FTE beginning in FY 2015-16. After accounting for the payday shift, this costs $33,010 in FY 2015-16 and $36,011 in FY 2016-17. Standard operating costs and one-time capital outlay costs are also required.

Department of Revenue. The state's tax administration software will need to be programmed to accommodate the new credit on the individual income tax form. This will take the vendor 120 hours to implement and test the changes and require $25,440 in FY 2015-16. Because the CEO certifies the credit amounts the DOR is able to handle any additional audit functions within existing appropriations.

Department of Personal and Administration. The Department of Personnel and Administration (DPA) receives, opens, preps, scans, enters and shreds tax correspondence on behalf of DOR. DPA's scanning and imaging software would need to be programmed to accept the additional supporting documentation for the energy efficiency tax credit, which would cost $1,200 in FY 2015-16.

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. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB 15-1132*		
Cost Components	**FY 2015-16**	**FY 2016-17**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$4,029	$4,035
Supplemental Employee Retirement Payments	2,559	3,082
TOTAL	**$6,588**	**$7,117**

**More information is available at: http://colorado.gov/fiscalnotes*

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. The tax changes are effective for tax year 2015, which starts January 1, 2015.

State Appropriations

To implement this bill the Colorado Energy Office will need a $38,188 General Fund appropriation and the Department of Revenue will need a $26,640 General Fund appropriation in FY 2015-16. The Department of Revenue will reappropriate $1,200 to the Department of Personnel and Administration for document management costs.

State and Local Government Contacts

Revenue Colorado Energy Office Personnel and Administration