SB14-014

Colorado Legislative Council Staff Fiscal Note

FINAL FISCAL NOTE

Drafting Number:	LLS 14-0152	**Date:**	June 18, 2014
Prime Sponsor(s):	Sen. Kefalas Rep. Pettersen	**Bill Status:**	Signed into Law
		Fiscal Analyst:	Alex Schatz (303-866-4375)

SHORT TITLE: PROP TAX RENT HEAT FUEL GRANTS FOR LOW-INCOME

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	Minimal increase.	
Cash Funds	See State Revenue section.	
State Expenditures	**$2,541,829**	**$2,609,652**
General Fund	2,538,186	2,605,703
Centrally Appropriated Costs**	3,643	3,949
FTE Position Change	0.5 FTE	0.5 FTE
Appropriation Required: $181,221 - Multiple agencies (FY 2014-15)***		

* *This summary shows changes from current law under the bill for each fiscal year.*
** *These costs are not included in the bill's appropriation. See the State Expenditures section for more information.*
*** *The bill also includes an appropriation for PTC rebates. See State Appropriations section..*

Summary of Legislation

Under current law, the Property Tax, Rent, and Heat Rebate (PTC) Program administered by the Colorado Department of Revenue (DOR) provides individuals and married couples of age 65 years and older, a surviving spouse aged 58 or over, and disabled claimants rebates for certain property tax or rent expenses and an additional rebate for heat expenses. This bill makes changes to the PTC Program by:

- increasing the maximum property tax and rent rebate for income-eligible claimants to $700;
- establishing a "flat rate" rebate for both the property tax and rent rebate and the heat rebate in an expanded range of income eligibility; and
- implementing certain recommendations of the August 2013 Legislative Audit of the program.

Income eligibility limits and rebate amount. Starting in tax year 2014, the bill resets the income threshold to receive the maximum PTC rebate. Under the bill, a claimant may receive the maximum rebate up to an income level of $6,639 for individuals and $10,731 for spouses.

For claimants with an income under $14,937 for individuals or $20,163 for spouses, the bill establishes a new "flat rate" maximum rebate, consisting of a $227 property tax and rent rebate plus a $73 heat rebate. The flat rate rebate applies if a claimant is not otherwise eligible for a PTC rebate, or if the flat rate rebate provides a greater benefit amount than the base rebate available to a claimant. The bill increases the maximum base rebate for the property tax or rent rebate from $600 to $700. In addition, all statutory income thresholds are annually adjusted for inflation starting in tax year 2015.

Table 1 summarizes the changes to income eligibility and rebate amounts under the PTC Program in tax year 2014.

Table 1. PTC Program Benefits in Tax Year 2014.

Current Law				**Senate Bill 14-014**			
Individual Filer Income*	**Joint Filer Income***	**Maximum Prop. Tax or Rent Rebate**	**Maximum Heat Rebate**	**Individual Filer Income**	**Joint Filer Income**	**Maximum Prop. Tax or Rent Rebate**	**Maximum Heat Rebate**
$6,796	$10,985	$600	$192	$6,639	$10,731	$700	$192
7,796	11,985	500	160	7,639	11,731	600	160
8,796	12,985	400	128	8,639	12,731	500	128
9,796	13,985	300	96	9,639	13,731	400	96
10,796	14,985	200	64	10,358	14,450	328	73**
11,796	15,985	100	32	***Flat Rate Rebate*****			
12,796	16,985	0	0	11,369	15,461	227	73
				12,720	17,146	227	73
				12,721	17,147	0	0

* Income thresholds for current law are calculated based on a 1.9 percent (2012) and 2.9 percent (2013) inflation rate, following the Legislative Council Staff Forecast, applied to current income thresholds.

** Because the maximum property tax or rent rebate is increased by the bill, while the maximum heat rebate remains at its current level, the income level at which the flat rate rebate applies differs between the two rebate components. See the State Expenditures section and the Technical Note for further discussion.

Other provisions. The bill substitutes "spouses" for "a husband and wife" in PTC program statutes. In addition, the bill directs that:

- DOR periodically update its PTC database to ensure that eligible households are receiving grants;
- the Department of Human Services (DHS) conduct outreach for the grants, particularly to participants in other social service and need-based programs, reporting to the General Assembly on its efforts in every odd-numbered year;
- DOR and DHS collaborate to efficiently administer the PTC Program;
- DOR may waive reimbursement and penalties in the event of an erroneous grant; and
- for the purposes of PTC eligibility, DOR must disregard distributions from a special needs trust as income.

Background

The PTC Program is also known as the Old Age Heat and Fuel and Property Tax Assistance Grant, as the program is denoted in the Long Bill. The PTC Program was instituted in 1972 to reimburse a portion of the property tax or rent expenses paid by low-income Colorado residents age 65 and over (or a surviving spouse at least 58 years old). The General Assembly added a rebate for heat and fuel expenses in 1980 and low-income disabled individuals became eligible for the program in 1987.

Funding and caseload. Rebates paid by the PTC Program are shown in the annual Long Bill as a General Fund expenditure. By law, the Long Bill shows this expenditure for informational purposes only. Grants are continuously appropriated from General Fund revenue held in the statutory income tax refund reserve. Personal services to support the PTC Program are appropriated through other lines in the DOR budget.

According to DOR, 20,863 recipients received a total of $6.9 million in PTC rebates during FY 2012-13. In recent years, over half of all PTC Program participants (54 percent in 2010, 59 percent in 2011) were eligible due to disability, as opposed to age. With an average rebate of $331, many claimants are eligible to receive a PTC rebate but do not have the required income or the eligible expenses necessary to receive the maximum rebate.

Declining participation. Rebates paid by the PTC Program have declined by over 50 percent in the last 10 years. DOR attributes this decline to inflation and increased income from other government programs that disqualifies prior PTC rebate recipients. The 2013 Legislative Audit found that only 37 percent of eligible households participated in PTC rebates, and that lack of awareness of the program may be a factor in low participation rates.

Percentage reduction factor. Both the property tax and rent rebate and the heat rebate provide a base benefit that tapers off at a defined rate above a certain income level. This rate of decline in the benefit paid is known as the "percentage reduction factor." When the income threshold for the maximum benefit was initially set at $6,000, the percentage reduction factor for each rebate was set at 10 percent of income above the threshold for the property tax and rent rebate, and at 3.2 percent of income above the threshold for the heat rebate. This resulted in both rebates falling to $0 when income reached $12,000. As the income threshold has increased with annual inflation adjustments since 2008, the $6,000 range subject to the percentage reduction factor has shifted to higher incomes. For 2012, based on current law, individual incomes between $6,481 and $12,481, and married incomes between $10,476 and $16,476, are subject to the percentage reduction factors for the two rebates.

DHS maintenance of effort. The PTC Program contributes towards maintenance of effort (MOE) requirements for the federal Supplemental Security Income (SSI) program. The state failed to satisfy MOE requirements in 2011 and 2012. Increased state expenditures for the PTC program improve the state's ability to meet MOE obligations and draw down federal funds, providing budget flexibility in other programs that currently contribute to MOE requirements.

State Revenue

Department of Human Services - gifts, grants, and donations for outreach. The DHS is authorized to seek and expend gifts, grants, and donations to cover the cost of outreach activities. No source of these cash funds has been identified at this time. The fiscal note assumes that cash funds collected by the DHS for outreach will be minimal.

State Expenditures

The bill increases state expenditures by $2,541,829 and 0.5 FTE in FY 2014-15 and $2,609,652 and 0.5 FTE in FY 2015-16. These costs, paid with General Fund moneys, include $2,356,965 of rebate costs in the first year and $2,551,965 in the second year. Other costs include DOR administration and one-time costs to update tax software and the Colorado Benefits Management System (CBMS), as summarized in Table 2 and the discussion below. PTC rebates do not require an appropriation.

Table 2. DOR Expenditures Under SB 14-014.		
Cost Components	**FY 2014-15**	**FY 2015-16**
DOR administration	**$177,129**	**$53,738**
Personal services	20,041	21,863
FTE	0.5	0.5
Standard operating costs	475	475
PTC operating (mail, data entry, etc.)	31,400	31,400
GenTax programming	120,510	0
Capital outlay	4,703	0
CBMS programming	**4,092**	**0**
PTC rebates	**2,356,965**	**2,551,965**
Base Property Tax/Rent Rebate	1,147,465	1,147,465
Flat Rate Heat Rebate Only	109,500	109,500
Flat Rate Combined Rebate	1,100,000	1,295,000
Centrally Appropriated Costs*	**3,643**	**3,949**
TOTAL	**$2,541,829**	**$2,609,652**

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

Assumptions. The fiscal note incorporates the following assumptions:

- A 16.6 percent increase in the maximum property tax and rent rebate ($100 added to the existing maximum of $600) will result in a 16.6 percent increase in the average rebate, or a $55 increase per claimant relative to current law.
- New PTC claimants eligible for the flat rate minimum rebate will generally be eligible for the full amount of the combined rebate, or $300. Of the estimated 6,100 or more households potentially eligible for the flat rate, 60 percent (3,667) will claim a PTC rebate in the first year of the flat rate. This participation rate also applies to future fiscal years.
- Only one-third of currently eligible claimants qualify for the maximum rebate; the remainder of claimants are subject to a reduced benefit due to income over the threshold of $6,481 for individuals and $10,476 for spouses.
- Outreach efforts will stabilize the PTC population, halting the current trend of declining participation.
- Property tax, rent, and heat expenses are growing at the rate of inflation or faster. Growth in the amount of eligible expenses across all PTC claimants will increase the average rebate. This effect is unrelated to the bill and, for the two-year period covered by this fiscal note, the effect is minimal.

- PTC rebates are paid on a quarterly schedule in the calendar year following the tax year in which eligible expenses are incurred. In the first quarter, only one-quarter of the total rebate may be paid. Beyond the fourth quarter of the next calendar year, payments for the full amount of the rebate may be claimed. For budget and accounting purposes, however, the fiscal note assumes that all DOR costs for a given tax year fall in the fiscal year following the commencement of that tax year. For tax year 2014, PTC payments and administrative costs are shown in FY 2014-15.

DOR administration. Administrative costs are estimated at $56,619 in FY 2014-15 and $53,738 in FY 2015-16, based on increased workload, standard operating cost, and PTC-specific costs for the Taxation Business Group in DOR. Approximately 1,100 hours per year, or 0.5 FTE, are required for a Tax Examiner I to field calls concerning changes to the PTC Program and review applications from additional PTC claimants.

In addition to standard operating and capital expenses, other PTC operating costs will increase for printing and forms ($1,976), postage ($17,135), data entry ($9,403), and imaging ($2,886). These PTC Program operating costs are performed by the Department of Personnel and Administration (DPA) at the direction of DOR, with funding for these tasks reappropriated to DPA.

Processing PTC rebates under the bill requires one-time software updates to the DOR's GenTax system by the state's contractor. These updates require 585 hours at a contract rate of $206 per hour, or $120,510 General Fund in FY 2014-15.

PTC rebates. The bill increases PTC rebate costs in two ways: by enlarging the base rebate for property tax and rent expenses, and by establishing the flat rate rebate for both heat and rent expenses for persons in an expanded income range. These impacts are described below.

Increased base rebate (property tax and rent). The bill increases the base property tax and rent rebate for all claimants currently receiving the benefit. An average increase of $55 applied to 20,863 claimants results in an increase of $1,147,465 General Fund.

New flat rate rebate (heat expenses only). Heat rebates are subject to the flat rate rebate at a lower income threshold than the property tax or rent rebate. For example, in FY 2014-15 the percentage reduction factor causes the base heat rebate to equal the $73 flat rate heat rebate at an income of $10,358 for individual filers, while application of the percentage reduction factor for the property tax or rent rebate causes this base rebate to exceed the $227 flat rate rebate until an individual's income is $11,369 or more (see Table 1). With an estimated 3,000 claimants in the affected income range, and an average increase of $36.50 to the base heat rebate over this income range, the bill results in an increase of $109,500 in heat rebates each year.

New flat rate rebate (combined property tax and rent and heat). Based on 3,667 potentially eligible households claiming both the flat rate property tax or rent rebate and the flat rate heat rebate, together totaling $300, the bill results in an increase of $1,100,000 for combined flat rate rebates in FY 2014-15. In future fiscal years, inflation adjustments will enlarge the relative size of the income range eligible for the combined flat rate rebate. In FY 2015-16, this effect will increase the size of the participating population by approximately 800 households, resulting in $195,000 in additional combined flat rate rebates.

CBMS. To facilitate DOR and DHS collaboration, PTC database updates, and reporting requirements under the bill, one-time updates to CBMS require $4,092 for 33 hours of contractor work in FY 2014-15. These costs require funding in the Governor's Office of Information Technology (OIT) from various fund sources, including reappropriated funds from DHS and the Department of Health Care Policy and Financing (HCPF).

DHS outreach efforts. The bill increases workload for DHS staff, who will provide information regarding the PTC Program to the various populations it serves or contacts under existing programs, and coordinating with DOR to identify potential new PTC participants or existing participants with a change in eligibility. New DHS duties under the bill are consistent with the current scope of DHS responsibilities and the increase in workload will not require new appropriations.

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 SB 14-014*

Cost Components	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$2,251	$2,254
Supplemental Employee Retirement Payments	1,392	1,695
TOTAL	**$3,643**	**$3,949**

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

Technical Note

The base heat rebate would meet the flat rate rebate at the $73 benefit amount at the same income level as the property tax or rent rebate (for example, $11,369 in tax year 2014) if the percentage reduction factor for the heat rebate were adjusted to approximately 2.5 percent.

Effective Date

The bill was signed into law by the Governor on May 22, 2014, taking effect July 1, 2014, and applies to tax year 2014 and subsequent tax years.

State Appropriations

The bill requires, and includes, an appropriation of $177,129 General Fund to the Department of Revenue in FY 2014-15, and an allocation of 0.5 FTE. Of this amount, $31,400 is reappropriated to the Department of Personnel and Administration.

The bill includes a FY 2014-15 appropriation of $2,356,965 General Fund for PTC rebates, which is assumed to supplement the $6,900,000 informational appropriation to the Department of Revenue in the FY 2014-15 Long Bill (HB 14-1336).

The bill also requires, and includes, a total appropriation of $4,092 for CBMS changes in FY 2014-15, as follows:

- $1,397 to HCPF ($684 from the General Fund, $9 from the Children's Basic Health Plan Trust, $4 from the Old Age Pension Cash Fund, and $700 from federal funds), of which the whole amount is reappropriated to the DHS; and
- $4,092 to DHS ($976 from the General Fund, $131 from the Old Age Pension Cash Fund, $1,588 from federal funds, and $1,397 reappropriated funds from HCPF), of which the entire amount is reappropriated to OIT.

State and Local Government Contacts

Revenue	Office of State Planning and Budgeting	Human Services
Property Taxation	Office of Information Technology	Treasury
Law		