

JOINT BUDGET COMMITTEE



SUPPLEMENTAL BUDGET REQUESTS FY 2022-23

DEPARTMENT OF REVENUE

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

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DEPARTMENT OF REVENUE

DEPARTMENT OVERVIEW

The Department of Revenue regulates, enforces, and administers the state's tax laws. The Department also issues and maintains records related to drivers' licenses, vehicle emission testing stations, registration and titling of motor vehicles, limited stakes gaming, liquor and tobacco retailers, horse racing and pari-mutuel betting, the automobile sales industry, and medical and recreational marijuana retailers, growing facilities, and manufacturing facilities. In addition, the Department operates the State Lottery, including state and multi-state games. The Department is divided into five divisions or business groups, four of which provide direct services to the citizens of the state, and one that provides support for the four direct-service providers.

THE EXECUTIVE DIRECTOR'S OFFICE

- Provides overall leadership and administration for the Department, including the central budget office, accounting and financial services, information technology, internal audit, human resources administration, and includes the Office of Research and Analysis, a citizens' advocate, and the Hearings Division.

THE TAXATION BUSINESS GROUP

- Collects, administers, and enforces individual and corporate income taxes, sales and use taxes, gasoline and special fuel taxes, and severance taxes, as well as all other taxes collected by the State;
- Provides assistance and information to taxpayers about compliance with Colorado's tax laws;
- Attempts to resolve taxpayer disputes before they reach the court system;
- Administers the cigarette tax rebate and the Amendment 35 distribution of cigarette taxes to the cities and counties; and
- Administers the Old Age Heat and Fuel and Property Tax Rebate Program.

THE DIVISION OF MOTOR VEHICLES (DMV)

- Enforces and administers the laws governing driver licensing and vehicle registration;
- Licenses drivers, maintains records of licensed drivers, and applies administrative sanctions against drivers who violate traffic laws, including for drunk driving and for excessive points;
- Oversees the vehicle emissions testing stations (including mobile testing stations);
- Registers and titles motor vehicles; and
- Administers the motor vehicle insurance identification database to prevent the registration of vehicles that are not insured.

THE SPECIALIZED BUSINESS GROUP

- Regulates and enforces laws related to the limited stakes gaming industry in three historic mining towns;
- Regulates and enforces laws related to the sports betting industry;
- Enforces laws regarding liquor and tobacco retailers, including laws against selling those products to minors, and licenses retailers and special events where alcohol is served;

- Regulates horse racing (dog racing is currently inactive) and pari-mutuel betting (including off-track betting);
- Regulates retailers and sales agents in the motor vehicle sales industry; and
- Regulates medical and recreational marijuana dispensaries, cultivation, and manufacturing facilities.

THE STATE LOTTERY DIVISION

Operates the State Lottery, which sells scratch ticket games and tickets for jackpot games (e.g. Powerball, Lotto, Cash 5, Pick 3, and Mega Millions). The net proceeds of the Lottery benefit the following funds and programs:

- The Conservation Trust Fund;
- Colorado Parks and Wildlife;
- Great Outdoors Colorado; and
- The Public School Capital Construction Assistance Fund.

SUMMARY: FY 2022-23 APPROPRIATION AND RECOMMENDATION

| DEPARTMENT OF REVENUE: RECOMMENDED CHANGES FOR FY 2022-23 | | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|--------------------|----------------|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | REAPPROPRIATED FUNDS | FEDERAL FUNDS | FTE |
| FY 2022-23 APPROPRIATION | | | | | | |
| HB 22-1329 (Long Bill) | \$462,046,781 | \$138,605,322 | \$313,787,223 | \$8,492,481 | \$1,161,755 | 1,661.1 |
| Other legislation | 8,673,779 | 5,017,606 | 3,397,846 | 260,360 | (2,033) | 27.5 |
| CURRENT FY 2022-23 APPROPRIATION: | \$470,720,560 | \$143,622,928 | \$317,185,069 | \$8,752,841 | \$1,159,722 | 1,688.6 |
| RECOMMENDED CHANGES | | | | | | |
| Current FY 2022-23 Appropriation | \$470,720,560 | 143,622,928 | \$317,185,069 | \$8,752,841 | \$1,159,722 | 1,688.6 |
| S1 Racing compliance requirements | 210,414 | 0 | 210,414 | 0 | 0 | 4.0 |
| NPS1 Annual fleet vehicle true up | 17,513 | 2,452 | 15,061 | 0 | 0 | 0.0 |
| NPS2 OIT Real time billing | (318,837) | (218,403) | (100,434) | 0 | 0 | 0.0 |
| RECOMMENDED FY 2022-23 APPROPRIATION: | \$470,629,650 | \$143,406,977 | \$317,310,110 | \$8,752,841 | \$1,159,722 | 1,692.6 |
| RECOMMENDED INCREASE/(DECREASE) | (\$90,910) | (\$215,951) | \$125,041 | \$0 | \$0 | 4.0 |
| Percentage Change | (0.0%) | (0.2%) | 0.0% | 0.0% | 0.0% | 0.2% |
| FY 2022-23 EXECUTIVE REQUEST | | | | | | |
| Request Above/(Below) Recommendation | \$34,638 | \$0 | \$34,638 | \$0 | \$0 | (0.0) |

REQUEST/RECOMMENDATION DESCRIPTIONS

S1 RACING COMPLIANCE REQUIREMENTS: The request includes a \$245,052 increase in Racing Cash Fund spending authority and an increase of 4.0 FTE in FY 2022-23 for the anticipated workload increase due to the implementation of the federal Horseracing Integrity Safety Act. This new legislation has permanently increased the oversight necessary to protect equine athletes' health, safety, and welfare, and the Division of Racing requires additional resources to comply. The Department identified this request as data-informed. Staff recommends an increase of \$210,414 cash funds and 4.0 FTE.

PRIORITIZED SUPPLEMENTAL REQUESTS

S1 RACING COMPLIANCE REQUIREMENTS:

| | REQUEST | RECOMMENDATION |
|----------------------|------------------|------------------|
| TOTAL | \$245,052 | \$210,414 |
| FTE | 4.0 | 4.0 |
| General Fund | 0 | 0 |
| Cash Funds | 245,052 | \$210,414 |
| Reappropriated Funds | 0 | 0 |
| Federal Funds | 0 | 0 |

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? **YES**

[An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]

Explanation: JBC staff and the Department agree that this request is the result of an unforeseen contingency. According to the Department, the passage of the federal Horseracing Integrity and Safety Act significantly increased oversight responsibilities by the Division of Racing. The Division has needed time since the passage of the Act to decide the most efficient and practical approach to comply with this legislation.

DEPARTMENT REQUEST: The Department is requesting \$245,052 from the Racing Cash Fund spending authority and 4.0 FTE for FY 2022-23. The requested funding would be ongoing, and the Department has also submitted a request for \$583,300 Racing Cash Fund spending authority and 4.0 FTE as part of its FY 2023-24 budget package. This request is to comply with the newly implemented federal Horseracing Integrity and Safety Act enacted to protect thoroughbred racehorses and the horseracing industry. The Division of Racing requires additional resources to implement this federal legislation.

STAFF RECOMMENDATION: Staff recommends approving the request, with minor adjustments that are consistent with JBC policies.

STAFF ANALYSIS: The federal Horseracing Integrity and Safety Act (the Act) was passed in September of 2020. The Act created a private self-regulatory organization called the Horseracing Integrity and Safety Authority (HISA) and charged it with establishing and enforcing federal racetrack safety, anti-doping, and medication control rules. The legislation has two distinct components, the Racetrack Safety Program, which went into effect on July 1, 2022, and the Anti-Doping and Medication Program, which was scheduled to go into effect on January 1, 2023, but court challenges have delayed implementation. The recently passed federal Omnibus Bill includes an amendment that addresses these legal challenges. The Department feels that HISA, and its oversight capacity, will not be impacted by these legal challenges.

The Horseracing Integrity Safety Act includes two components:

- 1 The Racetrack Safety Program - includes track operational safety guidelines and national accreditation standards implemented to protect thoroughbred racehorses and reduce risks to jockeys. This program expands veterinary oversight, imposes track surface safety standards, and implements voided claim rules.

- 2 The Anti-Doping and Medication Control Program - creates a standardized testing and results management process and imposes uniform penalties for violations across the United States. The Horseracing Integrity and Welfare Unit, a newly formed independent agency, will oversee testing, inform stakeholders, accredit laboratories, and prosecute rule violations.

This legislation was passed to protect equine athletes' health, safety, and welfare and creates a unified set of national standards for the thoroughbred racing industry. The Act was spurred by recent track tragedies, including a significant spike in horse breakdowns at Santa Anita race track in California in 2019, which received widespread national media attention. Additionally, prominent doping scandals have recently plagued the sport, including a post-race failed drug test which stripped the 2021 Kentucky Derby winner of their title. Before the Act, there was no uniform set of track guidelines, meaning that sanctions imposed in one jurisdiction were not necessarily binding in another. This lack of consistency and uniformity in the horseracing industry was detrimental to the horses, jockeys, and the overall sport.

The request includes \$245,052 from the Racing Cash Fund and 4.0 FTE, prorated in FY 2022-23, and ongoing funding to implement the additional horseracing industry oversight necessitated by the Act. The four additional FTE requested include the following:

- 1 Regulatory Veterinarian I – a permanent position overseeing the temporary veterinary staff during the race season and performing regulatory out-of-competition testing on horses during the off-season.
- 2 Criminal Investigator II – a permanent position that would report to the agent in charge at the track and whose primary responsibility would be to perform inspections at places where horses are stabled. Additionally, this position would support the regulatory veterinarian by witnessing and ensuring the chain of custody security for biological samples collected at stabling locations.
- 3 Permanent State Steward (Program Manager II) – a permanent position that would replace one temporary steward during the race meet. Temporary stewards are challenging to hire due to the specific skill set, training, and time demands required. This position would bring stability and consistency to the steward role, a principal goal of the HISA Act.
- 4 Auditor IV – a full-time position that would ensure that proper accounting principles are followed. Previously purse funding was reviewed and audited by a third-party examination agency. This position would provide a more cost-effective and consistent approach to ensure proper accounting and financial management protocols are followed.

The recommendation and request are outlined in the table below. Differences are primarily driven by centrally appropriated line items, which, per JBC policy, are not typically appropriated in the request year.

| S1 RACING COMPLIANCE REQUIREMENTS | | | |
|-----------------------------------|------------------|------------------|-----------------|
| | REQUEST | RECOMMENDATION | DIFFERENCE |
| FTE | 4.0 | 4.0 | 0.0 |
| Personal Services | \$97,838 | \$89,954 | 7,884 |
| Operating expenses | 120,460 | 120,460 | 0 |
| Centrally appropriated costs | 26,753 | 0 | 26,753 |
| Total | \$245,052 | \$210,414 | \$34,638 |

In addition to this FY 2022-23 supplemental request, the Department has submitted a corresponding request (R3 Racing Compliance Requirements) for FY 2023-24. The funding details of the two requests are outlined in the table below. All appropriations related to this request are from the Department’s Racing Cash Fund.

| S1 / R3 RACING COMPLIANCE REQUIREMENTS | | |
|--|--------------------|--------------------|
| | FY 2022-23 REQUEST | FY 2023-24 REQUEST |
| FTE | 4.0 | 4.0 |
| Personal Services | \$97,838 | \$399,450 |
| Operating expenses | 120,460 | 92,460 |
| Centrally appropriated costs | 26,753 | 91,390 |
| Total | \$245,052 | \$583,300 |

STATEWIDE COMMON POLICY SUPPLEMENTAL REQUESTS

These requests are not prioritized and are not analyzed in this packet. The JBC will act on these items later when it makes decisions regarding common policies.

NPS1 ANNUAL FLEET SUPPLEMENTAL TRUE-UP

| NPS1 ANNUAL FLEET VEHICLE TRUE UP | | | | |
|--|-----------------|----------------|-----------------|------------|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | FTE |
| NPS1 Annual fleet vehicle true-up | \$17,513 | \$2,452 | \$15,061 | 0.0 |

STAFF RECOMMENDATION: The staff recommendation for this request is pending Committee action on common policy supplementals. Staff will include the corresponding appropriation in the Department's supplemental bill based on Committee action on common policy supplementals. If staff believes there is reason to deviate from the common policy, staff will appear before the Committee at a later date to present the relevant analysis.

NPS2 OIT REAL TIME BILLING

| NPS2 OIT REAL TIME BILLING | | | | |
|-----------------------------------|--------------------|--------------------|--------------------|------------|
| | TOTAL FUNDS | GENERAL FUND | CASH FUNDS | FTE |
| NPS2 OIT Real time billing | (\$318,837) | (\$218,403) | (\$100,434) | 0.0 |

STAFF RECOMMENDATION: The staff recommendation for this request is pending Committee action on common policy supplementals. Staff will include the corresponding appropriation in the Department's supplemental bill based on Committee action on common policy supplementals. If staff believes there is reason to deviate from the common policy, staff will appear before the Committee at a later date to present the relevant analysis.

NUMBERS PAGES

JBC Staff Supplemental Recommendations - FY 2022-23
Staff Working Document - Does Not Represent Committee Decision

Appendix A: Numbers Pages

| | FY 2021-22 Actual | FY 2022-23 Appropriation | FY 2022-23 Requested Change | FY 2022-23 Rec'd Change | FY 2022-23 Total w/Rec'd Change |
|--|----------------------|-----------------------------|--------------------------------|----------------------------|------------------------------------|
|--|----------------------|-----------------------------|--------------------------------|----------------------------|------------------------------------|

DEPARTMENT OF REVENUE
Mark Ferrandino, Executive Director

S1 Racing compliance requirements

(1) EXECUTIVE DIRECTOR'S OFFICE

(A) Administration and Support

| | | | | | |
|--|-------------------|-------------------|---------------|----------|-------------------|
| Health, Life, and Dental | <u>16,884,143</u> | <u>19,305,563</u> | <u>14,086</u> | <u>0</u> | <u>19,305,563</u> |
| General Fund | 6,547,644 | 8,514,392 | 0 | 0 | 8,514,392 |
| Cash Funds | 10,328,497 | 10,626,881 | 14,086 | 0 | 10,626,881 |
| Reappropriated Funds | 8,002 | 4,073 | 0 | 0 | 4,073 |
| Federal Funds | 0 | 160,217 | 0 | 0 | 160,217 |
| Short-term Disability | <u>162,697</u> | <u>164,290</u> | <u>149</u> | <u>0</u> | <u>164,290</u> |
| General Fund | 73,725 | 74,569 | 0 | 0 | 74,569 |
| Cash Funds | 88,898 | 88,239 | 149 | 0 | 88,239 |
| Reappropriated Funds | 74 | 44 | 0 | 0 | 44 |
| Federal Funds | 0 | 1,438 | 0 | 0 | 1,438 |
| S.B. 04-257 Amortization Equalization Disbursement | <u>4,786,269</u> | <u>5,173,740</u> | <u>4,635</u> | <u>0</u> | <u>5,173,740</u> |
| General Fund | 1,997,077 | 2,344,687 | 0 | 0 | 2,344,687 |
| Cash Funds | 2,786,870 | 2,782,485 | 4,635 | 0 | 2,782,485 |
| Reappropriated Funds | 2,322 | 1,394 | 0 | 0 | 1,394 |
| Federal Funds | 0 | 45,174 | 0 | 0 | 45,174 |

JBC Staff Supplemental Recommendations - FY 2022-23
Staff Working Document - Does Not Represent Committee Decision

| | FY 2021-22 Actual | FY 2022-23 Appropriation | FY 2022-23 Requested Change | FY 2022-23 Rec'd Change | FY 2022-23 Total w/Rec'd Change |
|--|----------------------|-----------------------------|--------------------------------|----------------------------|------------------------------------|
| S.B. 06-235 Supplemental Amortization Equalization | | | | | |
| Disbursement | <u>4,786,269</u> | <u>5,173,740</u> | <u>4,635</u> | <u>0</u> | <u>5,173,740</u> |
| General Fund | 1,997,077 | 2,344,687 | 0 | 0 | 2,344,687 |
| Cash Funds | 2,786,870 | 2,782,485 | 4,635 | 0 | 2,782,485 |
| Reappropriated Funds | 2,322 | 1,394 | 0 | 0 | 1,394 |
| Federal Funds | 0 | 45,174 | 0 | 0 | 45,174 |
| Temporary Employees Related to Authorized Leave | | | | | |
| General Fund | <u>0</u> | <u>143,618</u> | <u>417</u> | <u>0</u> | <u>143,618</u> |
| Cash Funds | 0 | 89,250 | 417 | 0 | 89,250 |
| Reappropriated Funds | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 |
| Vehicle Lease Payments | | | | | |
| General Fund | <u>579,595</u> | <u>738,765</u> | <u>2,832</u> | <u>0</u> | <u>738,765</u> |
| Cash Funds | 111,224 | 103,731 | 0 | 0 | 103,731 |
| Reappropriated Funds | 468,371 | 635,034 | 2,832 | 0 | 635,034 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 |

(5) SPECIALIZED BUSINESS GROUP

(D) Division of Racing Events

| | | | | | |
|----------------------|----------------|----------------|---------------|---------------|------------------|
| Personal Services | <u>965,745</u> | <u>983,678</u> | <u>97,838</u> | <u>89,954</u> | <u>1,073,632</u> |
| FTE | 7.7 | 7.7 | 4.0 | 4.0 | 11.7 |
| General Fund | 0 | 0 | 0 | 0 | 0 |
| Cash Funds | 965,745 | 983,678 | 97,838 | 89,954 | 1,073,632 |
| Reappropriated Funds | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 |

JBC Staff Supplemental Recommendations - FY 2022-23
Staff Working Document - Does Not Represent Committee Decision

| | FY 2021-22 Actual | FY 2022-23 Appropriation | FY 2022-23 Requested Change | FY 2022-23 Rec'd Change | FY 2022-23 Total w/Rec'd Change |
|--|----------------------|-----------------------------|--------------------------------|----------------------------|------------------------------------|
| Operating Expenses | <u>166,554</u> | <u>202,268</u> | <u>120,460</u> | <u>120,460</u> | <u>322,728</u> |
| General Fund | 0 | 0 | 0 | 0 | 0 |
| Cash Funds | 166,554 | 202,268 | 120,460 | 120,460 | 322,728 |
| Reappropriated Funds | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 0 | 0 | 0 | 0 | 0 |
| Total for S1 Racing compliance requirements | 28,331,272 | 31,885,662 | 245,052 | 210,414 | 32,096,076 |
| <i>FTE</i> | <u>7.7</u> | <u>7.7</u> | <u>4.0</u> | <u>4.0</u> | <u>11.7</u> |
| General Fund | 10,726,747 | 13,436,434 | 0 | 0 | 13,436,434 |
| Cash Funds | 17,591,805 | 18,190,320 | 245,052 | 210,414 | 18,400,734 |
| Reappropriated Funds | 12,720 | 6,905 | 0 | 0 | 6,905 |
| Federal Funds | 0 | 252,003 | 0 | 0 | 252,003 |
| Totals Excluding Pending Items | | | | | |
| REVENUE | | | | | |
| TOTALS for ALL Departmental line items | 508,520,738 | 470,720,560 | 245,052 | 210,414 | 470,930,974 |
| <i>FTE</i> | <u>1,626.8</u> | <u>1,688.6</u> | <u>4.0</u> | <u>4.0</u> | <u>1,692.6</u> |
| General Fund | 123,778,927 | 143,622,928 | 0 | 0 | 143,622,928 |
| Cash Funds | 376,961,309 | 317,185,069 | 245,052 | 210,414 | 317,395,483 |
| Reappropriated Funds | 7,780,502 | 8,752,841 | 0 | 0 | 8,752,841 |
| Federal Funds | 0 | 1,159,722 | 0 | 0 | 1,159,722 |