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Nonpartisan Services for Colorado's Legislature

Revised Fiscal Note

(replaces fiscal note dated March 17, 2022)

Drafting Number: LLS 22-0039 **Date:** May 2, 2022
Prime Sponsors: Rep. Valdez A. **Bill Status:** Senate Trans. & Energy
 Sen. Winter; Priola **Fiscal Analyst:** Will Clark | 303-866-4720
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Bill Topic: **VEHICLE TAXES & FEES LATE REGISTRATION**

Summary of Fiscal Impact:

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

The bill requires individuals who are late registering their vehicles to pay taxes and fees in arrears, imposes new late fees on temporary registrations, and requires the Department of Revenue to make these changes revenue neutral by lowering certain registration fees. The bill increases and decreases state and local revenue on an ongoing basis, increases state expenditures on an ongoing basis, and increases local expenditures in FY 2022-23 only.

Appropriation Summary: For FY 2022-23, the bill requires and includes an appropriation of \$248,249 to the Department of Revenue.

Fiscal Note Status: The revised fiscal note reflects the reengrossed bill. It has been updated to reflect new information.

Table 1
State Fiscal Impacts Under HB 22-1254

| | | Budget Year FY 2022-23 | Out Year FY 2023-24 ¹ |
|-----------------------------|------------------------------|---------------------------|-------------------------------------|
| Revenue | Cash Funds | \$283,484 | \$1,565,708 |
| | Total Revenue | \$283,484 | \$1,565,708 |
| Expenditures | Cash Funds | \$248,249 | \$243,821 |
| | Centrally Appropriated | \$26,148 | \$44,396 |
| | Total Expenditures | \$274,397 | \$288,217 |
| | Total FTE | 1.6 FTE | 2.7 FTE |
| Transfers | Licensing Services Cash Fund | (\$248,249) | (\$243,821) |
| | DRIVES Cash Fund | \$248,249 | \$243,821 |
| | Net Transfer | \$0 | \$0 |
| Other Budget Impacts | TABOR Refund | (\$526,880) | (\$81,276) |

¹ Actual revenue from FY 2023-24 through FY 2025-26 will depend on DOR fee adjustments; HUTF revenue in these years is assumed to be revenue neutral.

Summary of Legislation

Vehicle owners in Colorado are required to title and register their vehicle within 60 days of purchase, or within 90 days of becoming a state resident, and must renew their registration annually. When a vehicle owner does not register their vehicle on time, the Department of Revenue (DOR) assesses \$25 in late fees for each month late, up to a maximum of \$100, and they may be charged prorated Specific Ownership Tax (SOT). This bill requires vehicle owners to pay prorated registration fees and non-SOT taxes from the date they were required to register their vehicle, in addition to standard late fees. It also requires temporary registration permit holders to start paying late fees, and directs the DOR to adjust other registration fees on a temporary basis, subject to certain restrictions, to reduce local revenue and state revenue that is subject to TABOR as a result of the bill.

Vehicle registration for new residents. This bill requires new residents to provide documentation of their vehicle's previous registration and evidence of their Colorado residency date when registering their vehicle with the DOR. If a vehicle owner fails to register their vehicle within 90 days of becoming a resident, this bill requires them to pay prorated taxes and fees from the date the person became a resident to the date of vehicle registration. Back taxes and fees are not charged if the owner's vehicle is Class A personal property, which includes trucks, truck tractors, trailers, and semitrailers used to transport people or property as an interstate commercial carrier.

Temporary registration permits. Under current law, the DOR may issue a temporary 60-day registration permit to individuals who purchase a vehicle from another individual to give them time to complete an emissions test. The DOR may also authorize up to two temporary registration permits if an individual purchases a vehicle from a licensed Colorado dealer and work needs to be done to issue a title or perfect the lien. Temporary registration permit holders are currently exempt from late registration fees. This bill removes the exemption.

Vehicle title and registration fee reduction. Additional revenue collected under this bill from back registration fees and additional late fees will be allocated and used in the same manner as the late fees in current law. To compensate for some of these fee increases, the bill reduces Age of Vehicle (AOV) fees, which are additional registration fees that are credited to the Highway Users Tax Fund (HUTF) based on the age of a vehicle. The bill also reduces the fee charged for registering motor vehicles, trailers, and semitrailers that is sent to counties for their road and bridge funds. The DOR must adjust these fees over time to account for increases and decreases in statewide registration fee collection. The DOR is allowed to retain one dollar from AOV fees to offset the costs of implementing the bill. The AOV and road and county bridge fee decreases are repealed July 1, 2026.

Background and Assumptions

Growth rate. The number of vehicle registrations, as applied to expenditure and revenue estimates throughout the fiscal note, has been adjusted to account for estimated annual growth of 1.62 percent. This rate is based on a 10-year average.

Late fee refunds. Vehicle owners may request exemptions from late fee assessments from the county clerk and recorder. If the county clerk and recorder denies the late fee exemption request, the owner can request a review from the DOR. The DOR can either initiate a refund or deny the request and inform vehicle owners about their ability to request a hearing. The fiscal note assumes there will be a 7 percent increase in late fee refund requests reviewed by the DOR as a result of the bill from increased enforcement and the addition of prorated taxes and fees for late vehicle registration penalties.

Out-of-state resident compliance. The fiscal note estimates that each year there are around 92,000 new out-of-state residents who do not register their vehicle in accordance with state law, primarily because they have an active vehicle registration in another state and are not aware of Colorado's ninety-day registration timeline. The total number of new residents requiring vehicle registration is based on 2019 Colorado migration numbers (240,600 new residents) and the proportion of the state population that has a driver license (75 percent). The fiscal note assumes that because of increased penalties and enforcement of the law under this bill, 25 percent of these new residents who would not otherwise have registered their vehicles will choose to do so.

State Revenue

This bill is anticipated to increase state revenue by \$283,484 in FY 2022-23 and by \$1.6 million in FY 2023-24 through FY 2025-26. After fee decreases in the bill are repealed, revenue will increase by around \$28.5 million in FY 2026-27 and future years. This revenue is shown in Table 2 and discussed below. Revenue under the bill from back-due vehicle registration fees and late fees is subject to TABOR, except for the portion of vehicles fees that will be paid to the Statewide Bridge Enterprise, which is excluded from the state's TABOR limit. This fiscal note estimates that state HUTF revenue collected from prorated back-due fees will be offset by reductions to Age of Vehicle (AOV) fees, which will result in net neutral HUTF revenue collection in out years through FY 2025-26. DOR will continue to collect late fees on an ongoing basis.

Table 2
Revenue Under HB 22-1254

| | FY 2022-23 | FY 2023-24¹ | FY 2026-27 |
|---|-------------------|-------------------------------|---------------------|
| Back Registration and Late Fees (HUTF) | \$12,570,495 | \$25,548,275 | \$26,810,144 |
| Back Registration and Late Fees (Other) | \$144,141 | \$292,951 | \$307,421 |
| Bridge Safety Enterprise | \$810,364 | \$1,646,984 | \$1,728,331 |
| Temporary Age of Vehicle Fee Reduction | (\$13,054,402) | (\$25,548,275) | - |
| Late Fee Refunds (HUTF) | (\$187,114) | (\$374,227) | (\$392,711) |
| Total Revenue | \$283,484 | \$1,565,708 | \$28,453,185 |

¹ Fee levels in FY 2023-24 will be adjusted by DOR to be HUTF revenue neutral based on actual fee collection. Amounts shown for FY 2023-24 and FY 2026-27 in Table 2 are estimates only, and may vary based on DOR fee adjustments and changes in behavior in response to the higher late penalties.

Back registration fees. The bill increases revenue from back registration fees by about \$5.7 million in FY 2022-23 (half-year impact) and \$11.7 million in FY 2023-24. These back-due fees apply to both new residents in Colorado who fail to register after the 90-day grace period after becoming a resident and persons who fail to register on time after purchasing a vehicle. On average, Coloradans pay \$203 in

registration fees and surcharges when registering a vehicle (excluding SOT), which would result in back-due fees of about \$17 for every month that a person does not properly register their vehicle. Back registration and late fees under the bill are deposited as normal into various cash funds, and most of this revenue is subject to TABOR. A portion of back registration fee revenue is for the bridge safety surcharge, which is credited to the Colorado Bridge Enterprise. This portion of the back registration fee revenue is exempt from TABOR.

Late fees for temporary registration permits and new residents. Currently, vehicle owners with a temporary registration permit are exempt from paying late fees when registering their vehicle with DOR. This bill removes this exemption. The late fee is set at \$25.00 per month, up to a maximum of \$100.00. For each late fee that is assessed, \$10 is retained by counties and the rest is deposited to the HUTF. Removing this exemption, and increased compliance with the law by new residents as a result of increased penalties and greater enforcement, is expected to increase state revenue by \$7.6 million in FY 2022-23 and \$15.4 million in FY 2023-24.

In 2021, around 500,000 vehicles were registered with an expired temporary registration permit. The fiscal note assumes that the annual number of temporary permit holders who do not register on time will remain constant. However, if the bill results in more temporary permit holders registering their vehicles on time to avoid penalties, actual additional late fee revenue collection will decrease in future years.

Future revenue impacts. The bill reduces AOV fee and county road and bridge fees through FY 2025-26. These temporary reductions are repealed in FY 2026-27, which will eliminate the annual reduction in state revenue under the bill of \$26 million from AOV fees and over \$5 million from county late registration fees.

Late fee refunds. The fiscal note assumes that around 21,000 refund requests will be processed by the DOR in FY 2022-23, and around 42,500 will be processed in FY 2023-24 and out years. The fiscal note also assumes an average refund approval rate of 22 percent, an average refund of \$50 per approved refund, and that \$40 of each refund on average will come from HUTF revenue. The exact amount of annual refunds will depend on the number of approved requests and the actual amount per refund. Late fee refunds are anticipated to reduce HUTF revenue by around \$190,000 in FY 2022-23 and by around \$375,000 in FY 2023-24 and future years.

HUTF adjustments. Most of the back registration and late fee increases in the bill are considered HUTF revenue. One of these fees, the AOV fee, will be adjusted to make total HUTF fee increases under the bill revenue neutral. The bill also allows DOR to collect \$1 from every AOV fee that would otherwise have been deposited in the HUTF. Revenue will also decrease from late fee refunds. As a result of these adjustments, actual revenue to the HUTF will decrease by \$3.3 million in FY 2022-23 and by \$5.7 million in FY 2023-24 as shown in Table 3 below.

**Table 3
Changes to HUTF Under HB 22-1254**

| | FY 2022-23 | FY 2023-24¹ |
|-------------------------------------|----------------------|-------------------------------|
| New HUTF Revenue Under Bill | \$12,570,495 | \$25,548,275 |
| Estimated Decrease AOV Fees | (\$13,054,402) | (\$25,548,275) |
| Estimated Decrease Late Fee Refunds | (\$187,114) | (\$374,227) |
| DOR Share of AOV Diverted from HUTF | (\$2,610,880) | (\$5,306,354) |
| Total Adjustment | (\$3,281,901) | (\$5,680,581) |

¹ Actual HUTF adjustment in FY 2023-24 will depend on DOR fee setting. Amounts shown for FY 2023-24 in Table 3 are estimates only.

Colorado Department of Transportation. Of the HUTF revenue from registration back and late fees, 65 percent is credited to the State Highway Fund (SHF) for expenditure by the Department of Transportation, 26 percent is credited to counties, and 9 percent is credited to municipalities. Table 4 outlines estimated changes to HUTF revenue distribution under this bill.

**Table 4
Estimated HUTF Distributions Under HB 22-1254**

| | FY 2022-23 | FY 2023-24¹ |
|--|----------------------|-------------------------------|
| Revenue: State Highway Fund (65 percent) | (\$2,133,236) | (\$3,692,378) |
| Revenue: Counties (26 percent) | (\$853,294) | (\$1,476,951) |
| Revenue: Municipalities (9 percent) | (\$295,371) | (\$511,252) |
| Total Revenue | (\$3,281,901) | (\$5,680,581) |

¹ Changes to the HUTF distribution in FY 2023-24 will depend on DOR fee adjustments. Amounts shown for FY 2023-24 in Table 4 are estimates only.

State Transfers

The fiscal note estimates that the bill will require transfers of roughly \$248,249 in FY 2022-23 and \$243,821 in FY 2023-24 and future years from the Licensing Services Cash Fund to the DRIVES Cash Fund, as shown in Table 5 and discussed below.

**Table 5
Transfers Under HB 22-1254**

| | FY 2022-23 | FY 2023-24¹ |
|------------------------------|-------------------|-------------------------------|
| Licensing Services Cash Fund | (\$248,249) | (\$243,821) |
| DRIVES Cash Fund | \$248,249 | \$243,821 |
| Net Transfer | \$0 | \$0 |

The amount of transfers each fiscal year will equal total state expenditures required to implement the bill. Funding from the Licensing Services Cash Fund will come from the DOR's share of the AOV fee as provided in the bill.

State Expenditures

The bill increases state expenditures in the DOR by \$274,397 in FY 2022-23 and \$288,217 in FY 2023-24 and ongoing, paid from the DRIVES Cash Fund. Expenditures are shown in Table 6 and detailed below.

**Table 6
 Expenditures Under HB 22-1254**

| | FY 2022-23 | FY 2023-24 |
|---|------------------|------------------|
| Department of Revenue | | |
| Personal Services | \$112,815 | \$193,397 |
| Operating Expenses | \$2,160 | \$3,645 |
| Capital Outlay Costs | \$18,600 | - |
| Refund Document Costs | \$23,389 | \$46,779 |
| Computer Programming | \$91,285 | - |
| Centrally Appropriated Costs ¹ | \$26,148 | \$44,396 |
| Total Cost | \$274,397 | \$288,217 |
| Total FTE | 1.6 FTE | 2.7 FTE |

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

Refund processing staff. Based on the assumptions above, the DOR will require 1.6 FTE in FY 2022-23 and 2.7 FTE in FY 2023-24 and out years to process additional refund requests from persons who were required to pay late fees or back registration fees. This assumes 8 minutes of staff time per request to process 42,526 refund requests. First-year staff costs are prorated for a December 1, 2022 start date, and standard operating and capital outlay costs are included.

Printing and postage. Expenditures in the DOR will increase to print and mail responses to refund requests. These costs include \$0.03 for paper, \$0.49 for printing and \$0.58 for mailing the response for each request.

Computer programming. In FY 2022-23, one-time programming costs of \$91,285 are required to update the Driver License, Record, Identification and Vehicle Enterprise Solutions (DRIVES) system. Programming costs, to be paid from the DRIVES Cash Fund, are based on 320 hours of programming at a rate of \$225 per hour, as well as \$19,285 in other implementation costs, which include implementation support to the vendor from DOR staff and quality assurance support from the Office of Information Technology.

Other DOR impacts. The DOR will be required to update rules, forms, manuals, and the department's website to reflect the change in law. Additionally, the DOR will provide training to authorized agents, Title and Registration Section staff, and law enforcement. Any workload increases or costs associated with these activities can be accomplished within existing 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. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 6.

Other Budget Impacts

TABOR refunds. The bill is expected to decrease the amount of state revenue required to be refunded to taxpayers by \$526,880 in FY 2022-23 and by \$81,276 in FY 2023-24. This estimate assumes the December 2021 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, changes to cash fund revenue will impact the amount of General Fund available to spend or save. Revenue to the Bridge Safety Enterprise is not subject to TABOR, and is therefore not reflected in these TABOR refund amounts.

Local Government

The bill increases county revenue from late fees and prorated registration fees and taxes, reduces revenue to county road and bridge funds, and reduces the local portion of the Highway Users Tax Fund. These impacts are shown in Table 7 and discussed below.

**Table 7
 Changes to County Revenue Under HB 22-1254**

| | FY 2022-23 | FY 2023-24 ¹ |
|-------------------------------------|------------------|-------------------------|
| Back Registration and Late Fees | \$3,198,211 | \$6,500,044 |
| County Road and Bridge Fee Decrease | (\$1,462,093) | (\$5,463,533) |
| HUTF Decrease | (\$853,294) | (\$1,476,951) |
| Total Revenue | \$882,823 | (\$440,440) |

¹ Actual county revenue in FY 2023-24 will depend on DOR fee adjustments. Amounts shown for FY 2023-24 in Table 7 are estimates only.

County clerks and recorders currently keep \$10 from every late registration fee. The bill decreases the County Road and Bridge fee from \$1.50 to \$0.94 in FY 2022-23 to adjust for increases and decreases to HUTF revenue from back registration and late fees, as well as revenue from temporary permit late fees. The fiscal note assumes that HUTF revenue from back registration and late fees will be neutral in FY 2023-24 through FY 2025-26, but that counties will receive \$5.5 million in additional revenue from their \$10 share of temporary permit late fees. Therefore, the fiscal note assumes the County Road and Bridge Fee will be decreased to compensate for this increase in late fee revenue in FY 2023-24 through FY 2025-26.

Workload will also minimally increase for county clerks and recorders that act as authorized agents to update registration and fee requirements. The portion of HUTF to municipalities will decrease by the amounts shown in Table 4 above.

Effective Date

The bill takes effect on January 1, 2023, assuming no referendum petition is filed, and applies to vehicles required to be registered on or after the effective date.

State Appropriations

For FY 2022-23, the bill requires and includes an appropriation of \$248,249 to the Department of Revenue from the DRIVES Cash Fund and 1.6 FTE; of this amount, \$12,128 is reappropriated to the Office of Information Technology.

State and Local Government Contacts

Counties

Municipalities

Treasury

County Clerks

Revenue

Information Technology

Transportation