



JOINT BUDGET COMMITTEE STAFF FY 2019-20 BUDGET BRIEFING SUMMARY

Colorado General Assembly
Joint Budget Committee

Department of Revenue

The Department has three functional groups: the Taxation Business Group collects revenue for the state and for many local governments and assists taxpayers in tax related matters; the Division of Motor Vehicles regulates motor vehicle safety, issues personal identification documents, and regulates commercial vehicles; and the Enforcement Business Group regulates alcohol, tobacco, marijuana, horse racing and off-track betting, limited gaming, and automobile dealers and sales persons. The three functional groups are supported by the Executive Director's Office and Information Technology Divisions. The Department also operates the Colorado Lottery. The Department's FY 2018-19 appropriation represents approximately 1.2 percent of statewide operating appropriations and 1.0 percent of statewide General Fund appropriations.

FY 2018-19 APPROPRIATION AND FY 2019-20 REQUEST

DEPARTMENT OF REVENUE						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
FY 2018-19 APPROPRIATION:						
HB 18-1322 (Long Bill)	369,581,396	113,169,403	249,268,695	6,318,910	824,388	1,469.8
Other legislation	426,206	102,447	260,759	63,000	0	2.2
TOTAL	\$370,007,602	\$113,271,850	\$249,529,454	\$6,381,910	\$824,388	1,472.0
FY 2019-20 REQUESTED APPROPRIATION:						
FY 2018-19 Appropriation	\$370,007,602	113,271,850	\$249,529,454	\$6,381,910	\$824,388	1,472.0
R1 GenTax Support Enhancements	1,420,355	1,420,355	0	0	0	6.0
R2 Sales and Use Tax Collection	1,057,808	1,057,808	0	0	0	14.6
R3 Lottery Back Office Restructure	2,198,993	0	2,198,993	0	0	(2.0)
R4 Drivers License Documents	1,312,872	0	1,312,872	0	0	0.0
R5 DMV Leased Space	3,172,536	0	3,172,536	0	0	8.0
R6 Lottery Walmart Expansion	5,719,000	0	5,719,000	0	0	0.0
R7 Marijuana Enforcement Division Operations	2,138,418	0	2,138,418	0	0	8.0
NP1 DPA-IDS Increased Input Costs	28,903	0	28,903	0	0	0.0
NP2 Lottery OIT Staffing	0	0	0	0	0	(13.0)
OIT non-prioritized requests	708,456	274,857	433,599	0	0	0.0
Annualize prior year budget actions	3,662,659	0	3,662,659	0	0	0.0
PERA Direct Distribution common policy allocation	2,218,687	850,875	1,345,119	3,965	18,728	0.0
Centrally appropriated line items	245,424	(126,017)	156,719	25,847	188,875	0.0
Annualize prior year legislation	511,190	324,387	249,803	(63,000)	0	4.4
Indirect cost adjustments	164,346	384,485	(20,077)	(200,062)	0	0.0
Technical adjustments	(420,325)	(1,333,985)	913,660	0	0	1.0
TOTAL	\$394,146,924	\$116,124,615	\$270,841,658	\$6,148,660	\$1,031,991	1,499.0
INCREASE/(DECREASE)	\$24,139,322	\$2,852,765	\$21,312,204	(\$233,250)	\$207,603	27.0
Percentage Change	6.5%	2.5%	8.5%	(3.7%)	25.2%	1.8%

R1 GEN TAX SUPPORT ENHANCEMENTS: The FY 2019-20 request includes \$1.4 million General Fund and 12.0 FTE, including 6.0 FTE for the Department and 6.0 FTE for OIT. The request annualizes to \$2.8 million General Fund and 26.0 FTE (13.0 DOR, 13.0 OIT) in FY 2020-21. These Department and OIT staff resources are requested to enhance the Department's management of its tax administration IT system known as GenTax, provided by vendor, FAST Enterprises. This request item is addressed in an issue brief.

R2 SALES AND USE TAX COLLECTION: The request includes an increase of \$1.1 million General Fund and 14.6 FTE for FY 2019-20. The request annualizes to \$815,000 and 10.6 FTE for FY 2020-21 and ongoing. The request is for staff resources to enable the Department to collect sales taxes from out-of-state retailers as result of the Supreme Court's, *South Dakota v. Wayfair* decision on June 21, 2018. This request item is addressed in an issue brief.

R3 LOTTERY BACK OFFICE RESTRUCTURE: The request includes an increase of \$2.2 million cash funds from the Lottery Fund and a decrease of 2.0 FTE in FY 2019-20 and ongoing. The request is to allow the Lottery to purchase a "back office system" from the Lottery's current gaming system vendor. Currently the back office system is an internal, legacy IT system serviced by OIT. The Department and OIT have determined that the system has reached its end of life and requires replacement. Staff addresses the Lottery-related requests in an issue brief.

R4 DRIVERS LICENSE DOCUMENTS: The request includes an increase of \$1.3 million cash funds spending authority from the Licensing Services Cash Fund for FY 2019-20 and annualizing to an increase of \$1.7 million cash funds in FY 2020-21. The request is entirely related to volume projections for driver's license documents. The Department pays a \$4.60 per-card cost to a vendor to provide the document materials as well as all verification processing related to the document. This cost is driven generally by population growth and specifically by actual customer demand for documents. The Department also requests continuous spending authority for this line item due to the non-discretionary nature of this expense. The Department typically submits this "true-up" request every few years to maintain adequate spending authority. *Staff recommends that rather than providing statutory continuous spending authority for this line item, that annual adjustments be treated as technical adjustments rather than request items in the budget process.*

R5 DMV LEASED SPACE: The request includes an increase of \$3.2 million cash funds spending authority from the Licensing Services Cash Fund and 8.0 FTE for FY 2019-20. The request annualizes to \$954,000 cash funds and 8.0 FTE in FY 2020-21 and ongoing. This request addresses the first-year move and build-out costs for expiring leases for driver's license offices (DLOs) in Littleton, Parker, Boulder, and Longmont. The Department operates 34 DLOs across the State and this is essentially an annual request for funds to address increased and changed space needs for four or five of those DLOs. This request item is further addressed in an issue brief.

R6 LOTTERY WALMART EXPANSION: The request includes an increase of \$5.7 million cash funds spending authority from the Lottery Fund for FY 2019-20; annualizing to \$2.3 million cash funds in FY 2020-21 and ongoing. This request is to lease 200 additional Gemini vending machines to be located in Walmart Super Centers. The Department states that this expansion should increase Lottery sales by \$29 to \$40 million, providing approximately \$6 to \$9 million in additional proceeds for Lottery beneficiaries. Staff addresses the Lottery-related requests in an issue brief.

R7 MARIJUANA ENFORCEMENT DIVISION OPERATIONS: The request includes an increase of \$2.1 million cash funds from the Marijuana Cash Fund (not the Marijuana Tax Cash Fund), the Department's marijuana regulation program cash fund, and 8.0 FTE for FY 2019-20. Of the \$2.1 million, \$914,416 will be transferred to the Marijuana Tax Cash Fund (MTCF) to fund 5.0 FTE in the Colorado Bureau of Investigation (CBI) to combat black market activity. The request annualizes to \$1.8 million and 8.0 FTE (including \$890,901 transferred to the MTCF to fund 5.0 FTE in the CBI) in FY 2020-21 and \$949,000 and 8.0 FTE in FY 2021-22 and ongoing, with no continuation of funding for CBI resources from the Marijuana Cash Fund beyond the second year. The Department states that this

request is the result of a request from local law enforcement across the state for CBI to address illegal and unregulated residential cultivation of marijuana.

NP1 DPA-IDS INCREASED INPUT COSTS: The request includes a decrease of \$1,216,425 General Fund for FY 2018-19 and ongoing. This appropriation was included in H.B. 11-1300 (Conservation

NP2 LOTTERY OIT STAFFING: The request includes a net-neutral funding adjustment and a decrease of 13.0 FTE for FY 2019-20 and ongoing.

OIT NON-PRIORITIZED REQUESTS: The request includes adjustments related to budget requests made by the Governor's Office of Information Technology that affect the Department of Revenue in FY 2019-20, which are summarized in the following table.

OIT NON-PRIORITIZED REQUESTS				
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FTE
NP5 OIT Securing IT operations	\$567,896	\$220,324	\$347,572	0.0
NP4 OIT Essential database support	79,130	30,700	48,430	0.0
NP6 OIT Application refresh and consolidation	45,461	17,639	27,822	0.0
NP7 OIT Optimize self-service capabilities	15,969	6,194	9,775	0.0
TOTAL	\$708,456	274,857	\$433,599	0.0

ANNUALIZE PRIOR YEAR BUDGET ACTIONS: The request includes a net increase of \$3,662,659 total funds for prior year budget actions, summarized in the following table.

ANNUALIZE PRIOR YEAR BUDGET ACTIONS					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FTE
Annualize FY18-19 R1 DRIVES maintenance and support (FAST Enterprises contract)	\$3,802,240	\$0	\$3,802,240	\$0	0.0
Annualize prior year salary survey	0	0	0	0	0.0
Annualize FY18-19 BA2 DMV Staffing	(128,971)	0	(128,971)	0	0.0
Annualize FY18-19 BA1 DRIVES production support	(10,610)	0	(10,610)	0	0.0
TOTAL	\$3,662,659	0	\$3,662,659	\$0	0.0

PERA DIRECT DISTRIBUTION COMMON POLICY ALLOCATION: The request includes an increase of \$2.2 million total funds including \$850,875 General Fund for the PERA Direct Distribution allocation submitted for all agencies by the Governor's Office of State Planning and Budgeting. This adjustment is summarized in the following table for comparison to the items included in the centrally appropriated line items table that follows.

PERA DIRECT DISTRIBUTION COMMON POLICY ALLOCATION						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
PERA Direct Distribution	\$2,218,687	\$850,875	\$1,345,119	\$3,965	\$18,728	0.0
TOTAL	\$2,218,687	850,875	\$1,345,119	\$3,965	\$18,728	0.0

CENTRALLY APPROPRIATED LINE ITEMS: The request includes an increase of \$245,424 total funds including a decrease of \$126,017 General Fund related to employee benefits and other centrally appropriated items. This total includes the following changes:

CENTRALLY APPROPRIATED LINE ITEMS						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
Merit pay adjustment	\$2,549,907	\$1,060,062	\$1,463,678	\$4,903	\$21,264	0.0
Legal services adjustment	1,065,055	659,611	405,444	0	0	0.0
Leased space adjustment	224,063	20,044	204,019	0	0	0.0
AED adjustment	223,944	(28,715)	213,971	2,741	35,947	0.0
SAED adjustment	223,944	(28,715)	213,971	2,741	35,947	0.0
Salary survey adjustment	28,227	364	27,863	0	0	0.0
Health, life, and dental adjustment	22,779	(98,255)	11,160	15,371	94,503	0.0
Payment to risk management/property funds adjustment	18,448	4,756	13,692	0	0	0.0
Short-term disability adjustment	6,354	(1,477)	6,526	91	1,214	0.0
Payments to OIT adjustment	(3,640,303)	(1,412,326)	(2,227,977)	0	0	0.0
Capitol Complex leased space adjustment	(223,384)	(195,253)	(28,131)	0	0	0.0
Workers' compensation adjustment	(145,754)	(65,448)	(80,306)	0	0	0.0
CORE adjustment	(71,141)	(34,994)	(36,147)	0	0	0.0
DPA Annual fleet vehicle request	(22,685)	(5,671)	(17,014)	0	0	0.0
Shift differential adjustment	(11,971)	0	(11,971)	0	0	0.0
ALJ adjustment	(2,059)	0	(2,059)	0	0	0.0
TOTAL	\$245,424	(126,017)	\$156,719	\$25,847	\$188,875	0.0

ANNUALIZE PRIOR YEAR LEGISLATION: The request includes a net decrease of \$511,190 total funds to reflect the FY 2019-20 impact of bills passed in previous sessions, summarized in the following table.

ANNUALIZE PRIOR YEAR LEGISLATION					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FTE
Annualize HB18-1185 Market Sourcing for Bus Inc Tax Apport	\$260,662	\$260,662	\$0	\$0	0.0
Annualize SB18-141 Income Tax Check-off Nonprofit Donation	239,510	0	239,510	0	1.8
Annualize SB17-267 Sustainability of Rural Colorado	53,064	53,064	0	0	0.6
Annualize HB18-1217 Inc Tax Credit for Employer 529 Contrib	50,000	0	50,000	0	0.0
Annualize HB18-1060 Income Tax Deduction Mil Retirement	35,038	35,038	0	0	0.0
Annualize HB18-1350 Machine Tool Sales Tax Exemption	24,328	24,328	0	0	0.4
Annualize HB18-1267 Income Tax Credit for Retrofitting	12,162	12,162	0	0	0.1
Annualize HB18-1208 Expand Child Care Exp Inc Tax Credit	11,040	11,040	0	0	0.0
Annualize HB13-1110 Alternative Fuels	10,196	0	10,196	0	0.0
Annualize SB18-108 Eligibility CO Road and Comm Safety Act	6,879	0	6,879	0	1.5
Annualize HB17-1012 Pueblo Chile License Plate	183	0	183	0	0.0
Annualize HB17-1212 Aviation Special License Plate	182	0	182	0	0.0
Annualize SB18-233 Elections Clean-up	(63,000)	0	0	(63,000)	0.0
Annualize HB18-1339 Background checks employees access	(35,590)	(35,590)	0	0	0.0
Annualize SB18-243 Retail Sales Alcohol Beverages	(17,796)	0	(17,796)	0	0.0
Annualize SB18-259 Local Government Retail Marijuana Taxes	(15,840)	(15,840)	0	0	0.0
Annualize HB18-1280 Court Appointees for Marijuana Bus	(14,032)	0	(14,032)	0	0.0
Annualize SB18-271 Improve Funding for Marijuanan Research	(10,656)	0	(10,656)	0	0.0
Annualize HB18-1042 Private Interstate Comm Vehicle Reg	(10,607)	(10,607)	0	0	0.0
Annualize HB18-1285 Remuneration-exempt Disability Parking	(9,870)	(9,870)	0	0	0.0
Annualize HB18-1255 Childhood Cancer License Plate	(7,252)	0	(7,252)	0	0.0
Annualize HB18-1025 Move Title 12 Liquor to Title 44	(3,091)	0	(3,091)	0	0.0
Annualize HB18-1244 Submarine Veterans License Plate	(2,220)	0	(2,220)	0	0.0
Annualize SB18-036 Relocate Title 24 Tobacco Sales	(2,100)	0	(2,100)	0	0.0
TOTAL	\$511,190	324,387	\$249,803	(\$63,000)	4.4

INDIRECT COST ADJUSTMENT: The request includes net adjustments to indirect costs across the Department.

TECHNICAL ADJUSTMENTS: The request includes technical adjustments, summarized in the following table.

TECHNICAL ADJUSTMENTS				
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FTE
DPA-IDS Tax Pipeline adjustment	\$932,415	\$932,415	\$0	0.0
Limited Gaming continuous appropriation adjustments	868,667	0	868,667	1.0
FAST Enterprises contract escalator	341,160	166,440	174,720	0.0
Adjustment for revenue forecast	(2,562,567)	(2,432,840)	(129,727)	0.0
TOTAL	(\$420,325)	(1,333,985)	\$913,660	1.0

SUMMARY OF ISSUES PRESENTED TO THE JOINT BUDGET COMMITTEE

R1 GEN TAX SUPPORT ENHANCEMENTS AND GEN TAX IT SYSTEM CONCERNS: The Department requests a two-year build-out of an in-house technical team in the Department and in the Governor's Office of Information Technology (OIT) for GenTax, the State's tax administration IT system. This build-out represents a change in strategy for managing the GenTax system in which the Department and OIT expect to play a more hands-on and directed management approach to the system, which previously was relinquished by default to the vendor, FAST Enterprises. While the Department's objective appears to be a step in the right direction, the State should more aggressively address the fundamental problems with the GenTax system as well as its weak economic position relative to the vendor.

R2 SALES AND USE TAX COLLECTION AND OUT-OF-STATE RETAILER SALES TAX COLLECTION: States were previously prohibited from imposing sales tax obligations on retailers who lacked a physical presence within a state. The U.S. Supreme Court reversed its position on the physical presence requirement in its *South Dakota v. Wayfair* decision on June 21, 2018. With the elimination of the physical presence requirement, the Department is now required to collect sales taxes from out-of-state retailers. The Department promulgated two rules related to this change and the Department requests resources to update the GenTax registration process to minimize or eliminate manual registration processes and increase staff resources to provide customer service related to these sales tax collections.

R5 DMV LEASED SPACE, STATE-BUILD-AND-OWN DLOS, AND DOR SPACE NEEDS: The Department requests additional cash funds resources for leased space increases and improvements for Division of Motor Vehicles, driver's license offices (DLOs) in Littleton, Parker, Boulder, and Longmont. The Department operates 34 DLOs across the state, and typically includes a request for leased space renewals, increases, and improvements for 4 to 5 of the DLOs each year. The Department leases space for DLOs from private commercial property owners and there may be an opportunity for the State to save money over a 20- to 30-year lifecycle by building and owning DLOs rather than leasing. Further, the Department's current occupancy of the Capitol Annex building – identified as the highest priority renovation project in the Capitol Complex Master Plan – may not be the best long-term location for the Department's public-facing operations. With funding becoming available in FY 2019-20 in the Capitol Complex Master Plan Implementation Fund, the Statewide Planning Unit in the Office of the State Architect might be directed to initially focus their efforts on identifying a long-term location and plan for a consolidated Department of Revenue headquarters building or campus.

R3 AND R6 LOTTERY REQUESTS: The Department includes two requests for the Lottery. The Department seeks to replace its back-office, legacy IT system maintained by the Governor's Office of Information Technology (OIT) with access to a seamless IT system available from and hosted by the current gaming system vendor that would be paid on the basis of a percentage of total Lottery sales. Additionally, the Department seeks to lease 200 lottery vending machines to be located at Walmart Super Centers. Both items increase Lottery expenses by \$7.8 million in the first year, or approximately 7.7 percent on the Lottery's base appropriation, reducing net lottery proceeds to beneficiaries by the same amount. However, the Department projects that the additional vending machines may result in increased annual sales of \$29 to \$40 million.

FOR MORE INFORMATION

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TO READ THE ENTIRE BRIEFING: http://leg.colorado.gov/sites/default/files/fy2019-20_revbrf.pdf