

DEPARTMENT OF REVENUE & STATE LOTTERY
FY 2021-22 JOINT BUDGET COMMITTEE HEARING AGENDA

Friday, January 8, 2021

9:00 am – 11:00 am

11:15 am – 11:45 am (State Lottery)

9:00-9:15 INTRODUCTIONS AND OPENING COMMENTS

Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

9:15-9:30 COMMON QUESTIONS

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Lorri Dugan, Chief Financial Officer

Topics:

- Implementation of FY 2020-21 HLD Decrease: Page 1, Question 1 in the packet
- COVID-19 Changes: Page 2, Question 2 in the packet

9:30-10:00 TAXATION DIVISION

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Brendon Reese, Sr. Director, Taxation Division
- Lorri Dugan, Chief Financial Officer

Topics:

- GenTax: Page 3, Question 4 in the packet
- Sales and Use Tax Simplification: Page 3-7, Questions 5a-5e in the packet, Slides 10-13
- Other Tax Changes: Page 7-9, Questions 6-7 in the packet, Slides 15-17

10:00-10:15 SPECIALIZED BUSINESS GROUP

Topics:

- R-06 Savings and Reductions: Page 9, Question 8 in the packet

10:15-11:00 DIVISION OF MOTOR VEHICLES

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Mike Dixon, Sr. Director, Division of Motor Vehicles
- Lorri Dugan, Chief Financial Officer

Topics:

- Trends and projections: Page 11-16, 19-21, Questions 9-13, 19-20 in the packet
- R-08 DMV Digital Transformation: Page 16-19 Questions 14-18 in the packet, Slides 18-25

11:00-11:15 Break

11:15-11:45 STATE LOTTERY DIVISION

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Tom Seaver, Sr. Director, Lottery Division
- Lorri Dugan, Chief Financial Officer

Topics:

- Overview and demographics: Page 21-22, Questions 21-23 in the packet, Slides 31-42
- Scratch ticket contract changes: Page 22, Question 24 in the packet, Slide 47
- Monitor games: Page 23, Questions 25-26 in the packet, Slides 43-46
- Other questions: Page 24-25, Questions 27-30 in the packet

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COMMON QUESTIONS FOR DISCUSSION AT DEPARTMENT HEARINGS

- 1 Please describe the Department's actions to implement the Health, Life, and Dental decrease in lieu of a 5.0 percent General Fund salary base reduction. Please include dollar and percentage share data on planned "allocations" of the decrease to all divisions and programs within the Department. Please describe the use of vacancy savings, delayed hiring, and the implementation of one-time or ongoing operating savings. Please describe the urgency of the Department's need to engage in a furlough in FY 2020-21 due to the inability to achieve savings in other ways.

The Department of Revenue (DOR) has utilized vacancy savings and postponed filling open, vacant positions across several divisions at the end of FY 2019-20 and in the beginning of FY 2020-21 to accommodate the 5% Health, Life, and Dental reduction. While DOR, as a larger agency, may have been able to accommodate the 5% reduction through vacancy savings and delayed hiring, it is understood that many smaller agencies could not and therefore furlough days were the least permanent, statewide solution in lieu of those other agencies potentially needing to lay off existing employees. The statewide furlough option allowed DOR to minimize customer service impacts and hire Coloradans to fill needed positions much quicker than would have been possible without the furlough.

The total \$2.1M General Fund reduction is allocated out to the division based on an FTE allocation as seen below:

5% Personal Service Reduction Allocation

<u>Division</u>	<u>GF</u>	
EDO	\$ 494,287	23.7%
Tax - Admin	\$ 17,251	0.8%
Tax - TAC	\$ 778,569	37.3%
Tax - TPS	\$ 533,767	25.6%
Tax - Conferee	\$ 49,555	2.4%
DMV - Admin	\$ 18,542	0.9%
DMV - Driver Services	\$ 154,646	7.4%
DMV - Vehicle Services	\$ 33,384	1.6%
SBG - Admin	\$ 303	0.0%
SBG - LED	\$ 7,440	0.4%
Total PS Reduction	\$ 2,087,744	

- 2 Please describe how the changes implemented in response to the COVID-19 pandemic have changed the nature of the Department's work. Please address programmatic, budgetary, and office space impacts.

The Department of Revenue (DOR) has embraced the new remote workforce environment and has incorporated this philosophy as part of the "reimagining government" initiative. In response to COVID-19, DOR was forced to initiate a remote working environment for the vast majority of employees. As part of the Department's forward thinking, DOR has vacated the Annex building entirely and will continue to plan for a shared office space at the Pierce location while primarily working remotely going forward. DOR has instituted this strategy in the Strategic Plan as one of the Department's Wildly Important Goals (WIGs) for FY 2020-21 and beyond and will maintain a 70% remote workforce on a permanent basis.

DOR has also embraced "Digital Transformation" and is transitioning many customer services as well as internal processes across all Divisions to be done digitally or virtually. This transformation will enable more DOR customers to access resources and complete transactions across all DOR business Divisions virtually.

EXECUTIVE DIRECTOR'S OFFICE

3. *[Sen. Rankin]* Please describe the components of the cost reduction in the Payments to OIT appropriation and how it relates to the shift of IT system responsibility from OIT to the Department. What administrative and management responsibilities will be shifted from OIT to the Department? Does the Department have the staff resources to manage these responsibilities?

DOR's reduction in Payments to OIT is not reflective of a large shift of responsibilities from OIT to the Department. DOR and OIT have undertaken a joint and concerted effort to focus on cost reductions across all IT services. For example, the department was able to realize savings on contractual costs paid to vendors by aggressively negotiating rates and deferring annual increases. OIT's preparation for the transition to real-time billing has resulted in a dramatic increase in the amount of data that OIT has been able to provide to departments on utilization and services. As a result, DOR has been able to more accurately estimate the FY 2021-22 utilization and costs. Additionally, the appropriation moving forward will be much more reflective of a true one year cost for OIT services because the base appropriation will no longer be skewed by very large swings, up or down, related to prior year true-up amounts. Some of the reduction for FY 2021-22 is reflective of large true-up adjustments for prior years where utilization was overestimated.

TAXATION DIVISION

GEN TAX

4. [*Sen. Moreno*] In recent years we've been hearing about and attempting to address data reporting limitations and complications in the GenTax system. Please provide an update on the Department's efforts to improve data reporting from the GenTax system. What are the ongoing limitations in data reporting that need to be addressed?

DOR's reporting limitations continue to be a balance between the ease of filing for a taxpayer and the desire for itemized data. The GenTax system is designed to administer and process the approximately 12 million returns filed by Colorado residents and businesses. All tax returns—and therefore the GenTax system—are designed to ensure that the proper amount of tax is reported and paid in a manner that is the easiest for the taxpayer to comply. DOR's goal is to make voluntary compliance, in a very complex structure, as simple and understandable as possible. DOR makes administrative decisions, such as aggregation of certain deductions and credits, to increase the likelihood of an accurate tax return filed by an individual or business. It would be untenable to design a tax return that separately lists all available deductions and credits and would further complicate the return resulting in less accurate returns which would negate the value of any unaudited data. One of the prior challenges to reporting, when new legislation was introduced, was the decision of whether to “map” the fields on the return and subsequently “map” the data to a database table. For the past several years, all legislative changes have been both return mapped and database mapped to allow future reporting.

SALES AND USE TAX SIMPLIFICATION

5. [*Sen. Moreno/Rep. Rankin/Rep. McCluskie*] Please provide a general project development history and update on the SUTS system implementation and address the following issues:

- a. How have the business community and small businesses in particular, responded to the SUTS system rollout?

For the November period, due on December 20, DOR registered more than 1,600 businesses in SUTS; however, only forty-five businesses filed for the November period. The low rate of filing does not reflect negatively on the system. Businesses may require expensive updates to their point of sale systems and filing software to leverage the simplified filing that SUTS provides. Businesses with sales into multiple jurisdictions are most likely to see immediate benefits by using the system. While small businesses will see benefit in using the system, the simplification in filing, registration, and identifying correct tax rates will more immediately benefit those businesses who sell into multiple self-collecting home-rule jurisdictions.

- b. What percent of home rule cities have opted into the system? Please provide data on adoption of the system by local governments and home rule cities.

As of December 10, 2020, 42 of 71, or 59 percent of, self-collecting, home-rule jurisdictions are either actively participating in the system or have signed agreements with DOR to fully participate in the system soon. Please note that most local governments with a sales tax rely on DOR to administer the tax. These jurisdictions are actively participating in the system without the need to agree to it.

Actively Participating	Signed Agreement, Full Participation Soon
Avon	Arvada
Black Hawk	Denver
Brighton	Greenwood Village
Canon City	Lamar
Carbondale	Littleton
Colorado Springs	Parker
Cortez	Steamboat
Craig	Windsor
Dacono	Breckenridge
Durango	
Englewood	
Evans	
Federal Heights	
Fort Collins	
Glendale	
Glenwood Springs	
Golden	
Gunnison	
Lone Tree	
Lafayette	
Longmont	
Loveland	
Montrose	
Mountain Village	
Mt Crested Butte	

Pueblo	
Ridgway	
Rifle	
Sheridan	
Silverthorne	
Snowmass Village	
Vail	
Winter Park	

- c. How does H.B. 20B-1004 (Qualified Retailer Retain Sales Tax for Assistance) relate to the SUTS system? Please describe how H.B. 20B-1004 will be implemented.

DOR will direct eligible businesses to deduct the appropriate sales tax via supplemental instructions on the sales tax return. DOR will communicate with affected businesses through a letter campaign, on our website, through social media, and other channels such as the Colorado Society of Certified Public Accountants. Through the use of supplemental instructions, DOR avoids the need to program either SUTS or GenTax to administer HB 20B-1004. Businesses will simply file their returns for the affected periods, and they will deduct the necessary amounts on an existing field on the returns. Due to the timing of the change (e.g., during year-end programming and a version upgrade in GenTax) and the quick turnaround required, it was not feasible to make system changes to accommodate the tax relief.

- d. What is the Department's perspective on or explanation for why the SUTS project was developed and completed at such a significant savings relative to the appropriation and anticipated cost in the fiscal note?

The results of the RFI process that was conducted pursuant to HB18-1022 were used to inform a potential range of cost that may be needed to develop the SUTS system. The Department received four responses to the RFI that ranged in cost from \$1.25 million to \$18.75 million with ongoing annual costs between \$5 million and \$8 million for the lower estimate and indeterminate ongoing annual costs for the higher estimate. (As noted in the published [fiscal note](#) for SB19-006.) These estimates varied both in price, and in vendor willingness and ability to deliver the full scope of product desired by the Sales and Use Tax Simplification Task Force. Since the purpose of an RFI is to do market research at a broad level with no promise of a contract awarded at the end of the process, responses can be limited as potential vendors must invest sometimes significant time and resources in structuring and providing responses and information,

and requirements are broad. Once the invitation to negotiate process was initiated with a budget appropriated under SB19-006, offerors were more willing and able to refine and improve requirements and discuss their capabilities, and the vendor was selected that provided the most advantageous outcome to the state.

Based on the information obtained for the RFI, the legislature appropriated \$18,750,000 to design the requested system. SUTS was developed using \$7,808,423 of the available appropriation and the remaining \$10,941,577 of the appropriation was returned to the State. The ongoing cost to support SUTS is \$2,218,566 annually as identified in the R-02 Decision Item for FY 2021-22 and thereafter.

- e. What is the anticipated timeline for complete rollout of the SUTS system, including a shift to destination-sourcing without exception?

DOR is encouraging those retail businesses already required to use destination sourcing (i.e., in excess of \$100,000 in retail sales) to register and use the system with a media push focused on the first quarter of 2021. DOR is using that time period to test and verify system adoption and the ability to handle the volume of filings expected. SUTS is available now and businesses are actively remitting sales tax without any issues. The quantity of businesses that are both registering and remitting sales tax is increasing daily. We anticipate SUTS will reach the necessary volume by April 1, 2021 to consider the critical milestone of volume verification successful. This will trigger the notification provisions of HB19-1240 and all retailers will then be required to use destination sourcing effective July 1, 2021.

As a point of reference, the Colorado Sales and Use Tax was completed and put in production well under nine months from the time the procurement was available for the vendor community. Projects of this magnitude generally take two years to complete but Colorado took a different approach that folds under the Governor's Vision of "Reimagine IT", fits well into the spirit if the deep skillset of the Colorado Technology Community, and was used as a "proof of concept" for launching the Business Innovation Group.

Some comments from the business community and Executive Council:

- "Since its inception in 2017, the Sales and Use Tax Simplification Task Force, in collaboration with the Joint Technology Committee, has been working towards the day when Colorado would have a centralized sales tax collection system between state and local governments; that day is here and the SUTS system has surpassed our expectations. CDOR/OIT created a stakeholder consortium of local jurisdictions and businesses to successfully build technology to meet the needs of a 21st century state government." - State Senator Jack Tate, General Assembly, Joint Technology Committee representative.

- “We appreciate the work that DOR has put into making this goal a reality. We appreciate the work of lawmakers and opportunity to participate in the conversation and take an active role in the selection process.” - Dave Davia, Vice President and CEO of the Colorado Association of Mechanical and Plumbing Contractors (CAMPC), Chairman and representative from Simplify Colorado Sales Tax Coalition.
- “I am truly amazed by the level of cooperation and focus on delivering a solution that not only simplifies sales and use tax filings in Colorado but also meets the needs of government and businesses. The SUTS team was truly impressive in the way they mobilized resources quickly to deliver a sales and use tax filing system that provides significant benefit to all users.” - Ezequiel Vasquez, Revenue Manager, City of Arvada, representative from Colorado Municipal League.
- “The Executive Council gave us a chance to see all sides of sales and use tax, the good and the bad. The feedback and collaboration from all sides of sales and use tax gave us a chance to create a system that works for all parties involved with sales and use tax.” - Ray Baca, Sales and Use Tax Analyst, El Paso County, representative from Colorado Counties, Inc.
- “The development of the Sales and Use Tax System has been a well-organized and thought-out process. The opportunity for all stakeholders, including the businesses of Colorado, to be deeply involved in this process has been extremely beneficial and has allowed for a well-considered product set up for success. The Department has listened and considered the thoughts and concerns of all involved in the process.” - Ashley Granger, CPA, Manager, State and Local Tax, Rubin Brown, representative from Colorado Chamber of Commerce.

OTHER TAX CHANGES

6. *[Sen. Moreno]* Colorado uses federal taxable income as the starting point. There have been discussions about changing this to instead use adjusted gross income. Provide a detailed accounting of the challenges that the Department would have in implementing such a change, and the resources that would be needed to effectuate that type of change.

Since 1987, Colorado’s income tax provisions have been structured to levy a tax against a taxpayer’s federal taxable income (FTI), with certain additions, subtractions/deductions, and credits applied. By structuring the income tax in this way, the state has been able to leverage the significant investments that the federal government has made in tax compliance and income validation and verification to result in more lean administration at the state level. Closely conforming to federal definitions of income means that the state has not needed to invest heavily in resources for tax administration that would be necessary to evaluate and verify a more complex definition of income.

A move to a definition of income that begins at federal adjusted gross income (AGI) rather than FTI would result in trade-offs for the state. If the state chose to tax AGI rather than FTI, the

General Assembly would be required to act by legislation in order to maintain conformity with changes made to Internal Revenue Code (IRC) that impact adjustments to income made after the calculation of AGI. Currently, the General Assembly must act by legislation in order to diverge from conformity with those IRC changes (by way of creating state specific additions to or subtractions from FTI).

In both cases, actions by the general assembly to “decouple” from the IRC result in an increased gap between the way the federal government measures income and the way the state measures income. The broader this gap, the less the Department can rely on validation and enforcement mechanisms that are developed and used by the IRS. Particularly for individuals, the Department is highly reliant on the ability to match amounts on the state return with amounts reported on the federal return. The state uses IRS data to check for errors, omissions, and non-filers, and requests supplemental information from taxpayers when mismatches are found. Nonconformity with the IRC may prevent some of this matching because the Department would be unable to differentiate between errors, omissions, and differences in law on a systematic basis.

Similarly, the state leverages IRS audits of individuals and corporations to validate federal taxable income and other lines of the return that are based on amounts reported federally. The IRS reports adjustments to the state, and the Department monitors the account for amended returns. The Discovery and Field Audit sections can then focus on uniquely state-level issues such as combined reporting, apportionment, and state-specific credits. Up-front processing checks by Taxpayer Services can also focus on state-specific issues reducing processing time.

Decoupling from the deductions claimed to get from AGI to FTI may be politically challenging. According to the Department’s 2016 statistics of income, approximately 35% of returns filed claimed itemized deductions at the federal level in lieu of the standard deduction. The largest itemized deductions were for home mortgage interest, state income taxes,¹ charitable contributions, real estate taxes, miscellaneous deductions,² and medical expenses, respectively. To the extent these deductions are undesirable, state statute can require all or part of these deductions to be added back to FTI.

Another consequence of decoupling is that the state must develop the law, and its analysis of the law, independent of federal statutes, rules, guidance publications, and court cases. The Department must promulgate more rules and independently develop and publish guidance, procedures, and instructions. Taxpayers and practitioners must also develop and maintain separate expertise that is unique to Colorado, which increases the costs and risks of living and doing business in the state. When the IRC changes, but the state’s law does not, case law must be developed by the state litigating in state courts rather than the IRS litigating in federal courts.

Even maintaining perfect parity with the Internal Revenue Code through state legislation will increase the Department’s caseload. The Department will be required to add staff to closely monitor federal legal developments, and develop additional expertise in the relevant provisions of federal law. Additional rules, forms, instructions, and guidance publications will be necessary.

¹ Colorado requires state income taxes to be added back to federal taxable income, which is consistent with the treatment of this deduction by most states.

² The Tax Cuts and Jobs Act suspended these deductions for tax years 2018 through 2025.

System checks of amounts claimed on state returns against the corresponding federal line items will need to be developed. Additional staff will be necessary to investigate discrepancies with the taxpayer and resolve disputes in the Tax Conferee Section. Increased litigation will require additional legal services spending.

7. *[Rep. Ransom]* When the federal tax law changed, state revenues increased. Please describe the relationship between the federal adjusted gross income and the resulting effects of the TCJA on individual taxpayers and State revenues.

Adjusted gross income (AGI) is a line that is higher up on the individual income tax return than federal taxable income (FTI). Prior to the Tax Cuts and Jobs Act (TCJA), there were generally two major adjustments to go from AGI to FTI: personal exemptions and the standard or itemized deductions. As the committee may recall, personal exemptions were a flat amount (\$4,050 for tax year 2017) that could be deducted for the taxpayer, his or her spouse, and each dependent. The standard deduction is also a fixed deduction that can be taken in lieu of computing and claiming a variety of itemized deductions. Taxpayers normally take the standard deduction or itemized based upon which will result in the lowest tax liability.

For tax years 2018 through 2025, the TCJA set the personal exemption to \$0. The act doubled the standard deduction and reduced or suspended certain itemized deductions. Finally, the TCJA created a new deduction for “qualified business income” generally equal to 20% of a taxpayer’s income from certain pass-through entities.

At the federal level, these changes broadened the base overall, increasing federal taxable income. That, in turn, increased Colorado’s starting point. Federally, these changes were coupled with increases in the child tax credit and decreases in the federal income tax rates. Because these two changes apply after the calculation of federal taxable income, they did not impact Colorado. Colorado has a child tax credit in statute that is a percentage of the federal credit (section 39-22-129). The Colorado credit was contingent upon Congress passing the “Marketplace Fairness Act of 2013” or similar legislation. That act never passed, and is not likely to pass given the Supreme Court’s decision in *South Dakota v. Wayfair*.

SPECIALIZED BUSINESS GROUP (ENFORCEMENT) REDUCTIONS

8. *[Rep. Ransom]* Please elaborate on the R6 request whether it means the Liquor Enforcement Division and Marijuana Enforcement Division will be doing less enforcement? If not, how else will the workload be decreased?

MED

The ongoing reduction of \$757,000 in spending authority will decrease the MED’s resources that could result in licensing and other delays along with a reduced level of outreach and education for the licensees. For example, where the MED generally engages in a wide range of intervention strategies (between outreach, education, risk-based investigations, targeted inspections, underage

sales investigations, and complaint-based investigations, among others), a \$757K reduction in spending authority is expected to require a higher reliance on “reactive” strategies, such as complaint-based investigations, in lieu of “proactive/preventative” strategies. Licensing timelines are subject to statutory deadlines which will become more challenging to meet with this reduction. This delay may particularly affect outdoor cultivation licensees, which may process employee license applications on a seasonal basis.

The General Assembly took actions that:

- Reduced the FY 2020-21 appropriations to DOR by \$10.4 million in total funds and;
- Refinanced \$750K of General Fund appropriation to DMV cash fund spending authority and;
- Established an annual ongoing transfer from DOR’s marijuana operating fund, the Marijuana Cash Fund (MCF), to the Colorado Department of Public Health and Environment (CDPHE) for the operation of their Laboratory Testing Reference Library and;
- Swept \$1.6 million from DOR’s marijuana operating fund (MCF) to the General Fund.

Both the ongoing annual transfer to CDPHE and the one-time cash fund sweep have accelerated the timeline that the MCF will drop to a negative fund balance. DOR has been operating at a net loss in the MCF for several years which has been one part of the long-term financial plan to manage the previously high fund balance. Fees have been kept artificially low for several years to allow for the fund balance to be utilized for operations. Application and renewal fees were reduced by on average 22 percent in 2016.

Another aspect of the right-sizing plan included several large outlays from the cash fund over the past few years including a one-time transfer of \$10 million to the Colorado Department of Agriculture for a testing laboratory, transfers of \$902 K over two years to the Colorado Bureau of Investigations (CBI) to combat gray and black-market activity, and the new annual transfer mentioned above to CDPHE of \$1.3 million.

The last part of the long-term financial plan was to restore fees to the appropriate level in FY 2020-21 to balance revenue with expenses for a solvent ongoing operational program. The original timeline, prior to COVID, had been to present the proposed fee adjustments during the summer of 2020 following a fee study that was conducted by a third party vendor with the support of the Marijuana Enforcement Division (MED). Revised fees would then have been effective January 1, 2021 after completing stakeholder engagement and rule-making. Based on the analysis, MED envisioned proposing fee increases in the 65 - 75 percent range. However, due to COVID, the stakeholder engagement process was put on hold to evaluate the impact of the pandemic on the industry before new fee levels were enacted. As of the writing of this response, there has been no final determination made. Future fee increases will be needed to

reverse the present course that illustrates that the Marijuana Cash Fund will have a negative fund balance during FY 2021-22.

LED

The Liquor Enforcement Division will see a significant reduction in the ability to respond to enforcement priorities with an additional impact to our licensing section which will affect customer service needs. These vacancies are currently being held open from directives in the previous year in conjunction with a poor cash situation in the LED cash fund which has been exacerbated by the inability for the Division to adjust fees during the pandemic.

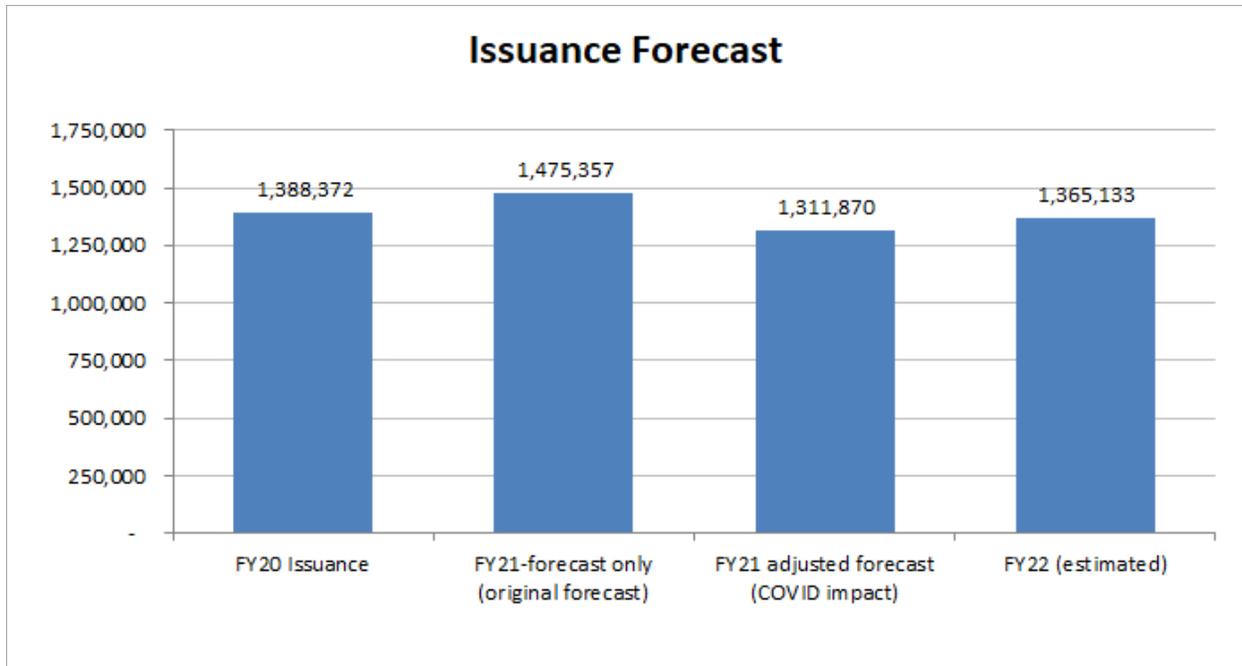
To date, the Division has been unable to implement HB20-1001 which resulted in a loss of appropriation dollars and 19.4 FTE during FY 2020-21.

DIVISION OF MOTOR VEHICLES

TRENDS AND DEMOGRAPHICS

9. *[Sen. Moreno]* Can you provide a forecast of annual document issuance, taking COVID-19 disruptions into account?

Forecasts of DL/ID issuances are based on historical data using a simple average of monthly data. FY 2021-22 issuance is expected to be lower due to reduced throughput in offices due to public health orders of capacity limitations and online adoption declining once offices reopened. DMV is working to expand appointment throughput (TPH). Previous to COVID, office TPH was averaging 120k customers per month. With appointment only and office capacity barriers with public health orders, issuance is averaging 105k customers per month, which creates a backlog due to lack of allowable service capacity. While online renewals are available anytime, online renewals are stabilizing at a lower level than when offices were closed in March and April. The department is actively working to get leading indicators of expiring issuances to take action to notify customers and get ahead of the backlog.



10. [Rep. Herod] Please discuss the demographic trends driving DMV demand, and comment on to what extent ride-sharing and transit development factor into the projections. Is any related data available from other states?

Recent information from the Colorado Department of Local Affairs (DOLA) suggests no major population changes for the foreseeable future. This situation suggests revenue streams from DL/ID issuance will not be adversely impacted by population. While there have been numerous articles in recent years reporting a trend of the Millennials and Gen Z generations having less interest in obtaining a driver's license than prior generations, DOR has not experienced a drastic shift in issuance over the past 8 yrs.

DMV data from 2012 to 2019 indicates the numbers of driver's licenses issued to 16 to 21 year olds has increased with population growth.. Please notice in the chart below that the number of card holders continues to increase rather than decrease.

AGE GROUPS	2012	2013	2014	2015	2016	2017	2018	2019
16 Years	18,105	18,042	18,443	19,390	20,140	18,228	20,076	20,187
17 Years	34,078	34,112	34,660	35,198	36,252	35,942	36,205	36,710
18 Years	45,342	45,410	45,763	46,561	47,366	48,233	49,006	48,727

19 Years	51,209	51,597	51,912	52,729	52,902	55,019	55,448	56,756
20 Years	55,082	54,797	55,366	55,978	56,461	57,883	58,734	60,060
21 Years	52,679	53,428	53,662	54,824	54,644	57,920	57,856	58,908

The DMV has reached out to the American Association of Motor Vehicle Administrators (AAMVA) to request a national survey of demographic trends regarding younger drivers. The survey went out on December 18, 2020 and as of January 5th, 2021, 11 jurisdictions responded. 10 of the 11 jurisdictions indicated no change in trends with respect to licensure rates among minors. Georgia responded with a decrease of approximately 13k minor licenses from 2018 to 2020.

Colorado Demographic Data (Population by age and year, State Demographer's Website)								
AGE	2012	2013	2014	2015	2016	2017	2018	2019
16	66,254	66,629	67,560	69,644	72,109	72,716	72,898	74,341
17	66,876	66,750	67,108	68,400	70,270	72,316	73,304	73,339
18	72,112	71,893	71,765	72,532	73,614	75,522	77,423	78,235
19	76,091	75,694	75,517	75,926	76,520	77,777	79,331	81,018
20	74,511	77,885	77,538	77,775	78,103	78,305	79,866	81,202
21	73,265	75,125	78,457	78,540	78,710	78,747	79,140	80,504
DMV Issuace Data (# of DL's issued)								
16	18,105	18,042	18,443	19,390	20,140	18,228	20,076	20,187
17	34,078	34,112	34,660	35,198	36,252	35,942	36,205	36,710
18	45,342	45,410	45,763	46,561	47,366	48,233	49,006	48,727
19	51,209	51,597	51,912	52,729	52,902	55,019	55,448	56,756
20	55,082	54,797	55,366	55,978	56,461	57,883	58,734	60,060
21	52,679	53,428	53,662	54,824	54,644	57,920	57,856	58,908
% with a DL by age and year (DMV Data/Demographic Data)								
16	27%	27%	27%	28%	28%	25%	28%	27%
17	51%	51%	52%	51%	52%	50%	49%	50%
18	63%	63%	64%	64%	64%	64%	63%	62%
19	67%	68%	69%	69%	69%	71%	70%	70%
20	74%	70%	71%	72%	72%	74%	74%	74%
21	72%	71%	68%	70%	69%	74%	73%	73%

11. [Rep. Herod] In response to the data from the August 17th Denver Post article: Has the Department analyzed internet access issues with the data that indicates the percent of people who could do business online but choose to do so in person instead? In addition, discuss the challenges some individuals may face trying to conduct business online (e.g., literacy, comfort with technology, language barriers, etc.).

The Department is unable to determine the number of residents with internet access issues. We are able to determine who is eligible to renew their DL/ID online. The chart below contains data from FY 19 to the present. DL/ID renewals account for 61.6% of all issuances this year. 211,049 or 72.3% of those eligible to use the online renewal service.

FY	Total Issuances	Number of renewals completed	Renewal %of all issuances	Estimated eligible for online renewal	Actual online renewals
FY19	1,445,943	831,865	57.50%	696,402	205,051
FY 20	1,388,372	849,150	61.20%	734,807	353,412
FY 21 - To Date	551,130	339,369	61.60%	291,752	211,049

When customers arrive in our office, they are informed of our online services, but since they have taken the time to travel to obtain the service they generally choose to complete the transaction in person. From these encounters, we sometimes learn from residents that they do not have internet access. While we cannot determine the total number of residents who do not have internet access, we know they exist and we provide in person services to meet their needs.

The DMV works with numerous advocacy groups to address their community issues. We provide customers numerous accommodations to assist them in completing their transactions with the DMV. These accommodations vary from servicing customers outside of regular business hours, finding ways to provide service when medical conditions are challenging, and providing customers information on advocacy groups that can help provide resources to obtain documents needed to apply for a license or ID. The recent upgrade of the DMV webpage will assist in making improvements to information online.

SERVICE IMPACTS AND REQUEST ITEMS

12. [Sen. Moreno] Provide an update on the backlog of customers waiting for appointments for services that cannot be completed online. Can vehicle titles be transferred online?

Driver services, provided primarily by the State from 36 offices, with support from 13 counties in 20 offices, require appointments to comply with Public Health order guidelines to prevent the spread of COVID-19. Availability of appointments range from being able to schedule an appointment immediately to scheduling 8 weeks out. The DMV has been assisting residents who walk up without an appointment by assisting them in making an appointment and are often able to be seen the same day due to appointment cancellations. The backlog of transactions that should have occurred when offices fully closed down from mid-March to the first week of May was cleared by September 2020. However, since offices reopened, the DMV has identified a throughput issue using appointment-only services in order to comply with public health orders. The DMV is exploring ways to alleviate this throughput issue. Statewide, there is an estimated backlog of 1,271,217 vehicle transactions. Increased use of self-service kiosks and MyDMV online services are assisting in reducing the backlog.

Customer and employee feedback has been very positive regarding the use of appointments and the DMV is planning to maximize using the appointment model when the COVID-19 situation subsides.

Vehicle Services are offered exclusively from the Counties who serve as authorized agents of the DOR for titling and registration transactions. There are 105 County MV offices across the State. Each county independently determines the level of customer support that they offer and provide and inform their residents. The DMV assists in making information available to the public by tracking the current status of county offices on its website. As of December 16 there was one county MV office closed, 18 only operating via appointments only, 4 partially open, and 2 partially open but not allowing people within their facilities.

The availability of vehicle services greatly varies by county. Some counties are accepting applications via drop off sites, mail-in or other means. Residents within a County must contact their County to determine how that County can best service them. Status of each County can be obtained at <https://www.colorado.gov/pacific/dmv/closures-and-delays> or at each Counties individual website. It is difficult to predict how long this situation will continue, but latest reports suggest all offices will reopen by the end of January.

Another COVID-19 impact adversely impacting some residents is the backlog of 33,060 or 23.2% of annual print-on-demand, or specialty, license plates. This situation is due to the closure of the Department of Corrections Colorado Correctional Industries (CCi) program which was closed from October 14 to December 8. CCi has resumed limited operations and is working on the backlog that was created during their shut down.

One way that we are exploring reducing in-office visits is through changes in technology. Currently, vehicle titles cannot be transferred online. The electronic transfer of titles is one of the services being evaluated as part of the DMV's Wildly Important Goal (WIG) this year. In partnership with OIT, work is being done to assess the ability to leverage the myColorado app to allow the transfer of a Colorado to Colorado title electronically to a website format. It is too early to assess whether this portion of the project will be successful for this Colorado only solution. The DMV is part of a work group through AAVA that is exploring ways that titles can be transferred electronically from state to state. There is no current timeframe on when a national solution may be available.

13. *[Sen. Hansen]* Discuss anticipated impacts to physical locations (taking the pandemic and request items into account), in terms of number and costs? What savings can we expect, and how soon will these changes be reflected in the DMV's amount of physical space occupied?

We have not yet determined a timeline for the reduction of current offices due to current online services adoption levels, unknown customer willingness to use virtual services, and yet to be

determined ability of technology to meet requirements for issuance of all DMV services. Our digital transformation concept will require a customer focused technological service to be fully in place prior to the closure of any of our brick and mortar offices. We are committed to sustaining a high level of customer service, ease of access to all services, and providing solutions for all Coloradoans, not just tech savvy ones.

The current year lease cost for the DMV's Driver License Offices (DLOs) is \$ 2,072,369. Lease expenses vary greatly by office across the State. The current distribution of the 36 DLOs across the State complemented with the 20 county offices offers access to driver services to the vast majority of residents between 30 and 45 minutes. While we do not anticipate any reduction in office space in FY 2021-22, we did make reductions in space in FY 2019-20.

Last year due to efforts to reduce expenses, the DMV did not move forward with legislative authorized driver license office expansions for Boulder, Parker, Longmont, and Sterling. The DMV retained its current location for these offices, saving \$1,883,762 in expenditures in lease and office upgrade costs.

In addition, the DMV has given up office space at its headquarters at the 1881 Pierce Street location as part of the DOR effort to reduce its footprint. The DMV has been able to give up space due to assigning 32 percent of its workforce to telework. The Pierce Street location now hosts the Tax Division and the Executive Director's Office.

14. *[Rep. Herod]* Discuss the back-end components of the call center portion of R8. Is the vendor Colorado-based?

In June, 2015, the Department replaced an antiquated vendor-based system known as Contact Center with Century Link's call center platform. The Century Link solution brought the department's call center technology back in line with industry standards. However, since the move to CenturyLink, additional web-based technologies have taken the forefront in the industry which provide more cost effective service with increased capabilities and ease of use. The Amazon Connect virtual call center platform, with chat-bot capabilities is now being recommended by the Governor's Office of Information Technology as the next most logical and cost-effective solution to provide the best government services possible to Coloradans. Amazon is based out of Seattle, Washington. OIT has a current enterprise agreement with Amazon that will assist the DMV utilize the platform under the enterprise agreement.

The DMV's Call Center Upgrade plan will move CenturyLink call center technologies from on-site hardware, which includes servers and usage of dedicated physical phone lines, to a web-based Voice-Over-Internet-Protocol (VOIP) solution using Amazon Connect. All DMV call center employees will continue to work remotely using the new Amazon Connect solution. The estimated \$580,000 associated with this request will cover professional Amazon Consultant Services needed to map current systems, design and implement the Amazon Connect solution;

and engineer chat-bot logic and functionality by the end of FY 2021-22. The department's existing call center costs will be shifted from CenturyLink to the Amazon Connect solution's future ongoing costs.

15. *[Sen. Rankin]* A lot of this goes through MyColorado.gov and the recent change to online driver's licenses. What is the longer term plan? How quickly does the Department expect to reach its goal of 85 percent adoption of online services? What would be the cost savings resulting from investments in DRIVES and the proposed digital transformation?

DMV's Digital Transformation plan is a multi-year effort that will build upon existing technology investments to move from an office to an online centric program. DRIVES (MyDMV online services), myColorado, and self-service kiosks were significant investments that provide the ability to expand electronically provided services. The DMV's Wildly Important Goal (WIG) for this fiscal year is to achieve 100 percent of services available online or virtually by June 30, 2021 from a baseline of 43 percent (40 of 94) to better serve all Coloradoans through the utilization of technology. Accomplishment of this challenging goal will set the conditions for offering the maximum number of online and virtual services from which to begin evaluation of the timing for transitioning to an online centric program in the future.

The DMV goal is to achieve 85 percent of eligible Coloradans renew their driver license or ID by June 30, 2021. This is a stretch goal from the prior year objective of 55 percent. The DMV is using existing appropriation and relying on its website, media messages, and sharing information in offices to inform the public and achieve this goal. Our current fiscal year to date (FYTD) renewal results through November 2020 is at 72 percent. The R-08 DMV Digital Transformation decision item contains a request to fund a comprehensive Online Marketing campaign in FY 2021-22. A multimedia campaign is expected to increase public awareness of DMV online and virtual services which will expand its usage.

Cost savings from technology investments are often not directly measured such as cost avoidance by replacing obsolete IT systems that prevent having to address catastrophic failures or offering previously unavailable online service offerings that residents who take advantage of save money by not having to travel to an office. Prior investment in the DRIVES system and requested investment in the R-08 DMV Digital Transformation decision item make possible the opportunity to accelerate the DMV's efforts to offer additional online, virtual, and alternate services.

Work this year is focused on expanding online services from DRIVES, self-service kiosks, and myColorado app. This work is possible because prior investments in technology are able to be upgraded while the legacy systems were unable to be modified.

The R-08 decision item provides an opportunity for investments that would have likely taken years to obtain general fund appropriation assistance to fund such as HB18-1299 (3rd Party Title & Registration Services) which was passed with an appropriation that required a gift, grant, or donation to implement; or establishing a mobile unit program which has been much discussed but was unable to be established with existing appropriations; or provide funding for a comprehensive state-wide online services marketing campaign that has never been possible due to limited operational appropriations.

In addition, the decision item offers the opportunity to leverage new technologies for its call centers and later used by other division call centers in the Department. Further, it will cover programming costs in DRIVES to expand services on self-service kiosks which is a program that has considerable support and interest from the County Clerks.

16. *[Sen. Moreno]* Some of these services may be within the capacity of existing vendors the Department contracts with. For each service, specify whether the Department plans to provide the service in-house rather than through a vendor, and provide cost differentials.

Fifty-four of the State's current services have been identified and are planned to be brought online in-house through myDMV. Some of those services will also be provided in-house through the myColorado mobile app. Existing operating and development resources are being utilized to accomplish this initiative.

A subset of services will also be available via kiosks provided by a current vendor. Kiosk transactions are at no cost to the state, vendor costs and support are covered by a transaction convenience fee.

Expanding the service offerings listed on the R-08 decision item will allow the DMV to offer these online services on the Kiosks platform using current vendor contracts to accomplish this work. This will allow Coloradans access to online services where they may not have access to a computer or other technology.

17. *[Sen. Rankin]* The Department provided mobile driver's licenses services in the past but discontinued the program. Please talk about what was provided previously and why the service ended. How much would it cost to restore the mobile services to their previous level? The request states the Department already has five units but does not have funds to operationalize them. Please clarify whether the Department already owns vehicles that were previously used to provide the service.

The Department has only experimented with mobile driver's license office technology and conducted pilots. The DLO-in-a-box technology has never functioned as expected. In January 2021, the DMV will obtain replacement devices that will allow WiFi access and allow remote operations. Due to insufficient appropriation, the DMV has been unable to make the capital

purchases necessary to obtain vehicles necessary to make the DLO-in-a-box devices portable. Further, until transitioning to appointment only services and ceasing State drive tests in May, the DMV did not have adequate FTE to establish a mobile unit program without adversely impacting existing DLO operations across the State. The DMV has supported Rio Blanco County in a manner that is similar to the mobile unit concept, but the DLO-in-a-box used in this case required connection to the DOR network via ethernet cable, and therefore was not truly “mobile”.

18. *[Rep. McCluskie]* Explain how you arrived at the number and types of vehicles requested. What services would be available through the mobile units (e.g., could a 16 year old be tested and receive their first driver’s license)?

The request for 7 SUV’s and 3 RV’s was based on establishing a mobile unit program to support the five regions DMV’s Drivers License Section is organized and to have a fleet that best supports the geographic disbursement of these regions. SUV’s have been proposed to meet travel needs during the winter months in Colorado weather. The RV’s would support the Front Range and NE Colorado, Southeast Colorado, and the Western Slope. The DMV is conducting further analysis to determine the best and most cost effective number of vehicles to purchase.

All services provided in a current driver license office can be provided through the mobile unit set up. Each mobile unit team using the DLO-in-a-box (SUV) device is expected to be able to process up to 25 customers a day. The RV units are expected to be able to process up to 85 customers a day. An example of the deployment of this program would be to schedule a mobile work unit to be at a specific remote location twice per month, such as the municipal building in Rangely, Colorado. Another example would allow an organization to request a mobile unit for a specific date and location – e.g., assisted living home, sporting event, or high school.

19. *[Rep. Ransom]* Does every adult in the state have either a drivers’ license or an ID card? It seems that one must have an ID to access medical care. Provide any available data on the proportion of Colorado adults with licenses or state identification documents.

The Department only can confirm numbers of individuals who have been issued drivers’ licenses and ID cards. Our ability to estimate the number of adults who do not have a DL or ID card is limited. DMV data on the percentage of DL/ID cards in force compared to 2010 population data from DOLA offers a rough means to estimate numbers who do not have DL/ID cards. There are 4,865,268 credentials in force and the population of Colorado in 2019 from DOLA was 5,763,976. Using credentials in force and population of Colorado by the percentage in the 70+ years age group category, there are an estimated 185,060 adults over 70 year of age without DL/ID cards.

Age Group	Percentage of DL/ID cards in Force	Breakout of Population from 2019 (DOLA)
16 Years	0.47%	1.60%
17 Years	0.88%	1.58%
18 Years	1.17%	1.67%
19 Years	1.33%	1.74%
20 Years	1.41%	1.75%
21 Years	1.38%	1.73%
22 Years	1.51%	1.72%
23 Years	1.63%	1.71%
24 Years	1.75%	1.74%
25-29 Years	9.63%	9.51%
30-34 Years	9.78%	9.38%
35-39 Years	9.02%	8.72%
40-44 Years	8.57%	8.07%
45-49 Years	8.58%	8.01%
50-54 Years	8.82%	7.50%
55-59 Years	9.01%	7.97%
60-64 Years	8.13%	7.41%
65-69 Years	6.59%	6.27%
70+ Years	10.33%	11.93%

Based on serving customers, the DMV is aware that underserved communities and populations exist, and we are taking steps to ensure these Coloradans have easy access to licensing services they need. DMV regularly works in conjunction with stakeholders such as Colorado Legal Services and CDHS to find ways to help get identification cards and licenses to all Coloradans.

20. *[Rep. Ransom]* Are there not-for-profit entities that provide financial assistance for individuals who need an ID but cannot afford it (e.g., seniors and low income individuals)? *[Senator Moreno]* Discuss the role that the “necessary documents” program administered by CDPHE plays in relation to the above questions.

The Department receives vouchers from 4 non-profit programs which provide assistance for individuals who cannot afford a driver license or identification card. These entities pre-pay into

accounts, then issue vouchers redeemable for credentials, with the relevant fees being deducted from the accounts.

The Necessary Documents program administered through CDPHE supports nonprofits that issue vouchers so that the DMV can serve individuals that do not have resources to pay for an ID or driver license. The necessary document program is scheduled to be repealed on September 1, 2021.

The following non-profit programs provide vouchers to individuals for obtaining a free ID cards:

- Grand Valley Catholic Outreach
 - FY 2018-19: 1 (\$28.00)
 - FY 2019-20: 3 (\$39.80)
- Metro Caring
 - FY 2018-19: 7,980 (\$119,000.30)
 - FY 2019-20: 6,032 (\$88,634.62)
 - FY 2020-21 (through Nov.): 1,379 (\$22,379.39)
- Urban Peak - Colorado Springs
 - FY 2018-19: 108 (\$1,443.30)
 - FY 2019-20: 79 (\$1,015.34)
 - FY 2020-21 (through Nov.): 11 (\$172.60)
- Urban Peak - Denver
 - FY 2018-19: 71 (\$918.00)
 - FY 2019-20: 78 (\$1089.10)
 - FY 2020-21 (through Nov.): 8 (\$137.09)

CDPHE also receives vouchers for birth certificates. Birth certificates are one of the key primary documents necessary to prove someone's name and citizenship.

STATE LOTTERY DIVISION

OVERVIEW AND DEMOGRAPHICS

21. *[Sen. Hansen]* Please describe what variables cause the ratio of distributions to total sales to vary from year to year.

The drop in the ratio of distributions to total sales in FY 2019-20 was primarily due to the increase of Scratch sales as a percentage of total sales. Scratch games have a much higher prize payout, averaging 67 percent, while Jackpot games average 50 percent. Prior to FY 2019-20, proceeds distributions had run pretty consistently at 24 percent of sales, with Scratch sales being consistently $\frac{2}{3}$ of total sales; in FY 2019-20, Scratch sales jumped to $\frac{3}{4}$ of total sales, as Jackpot

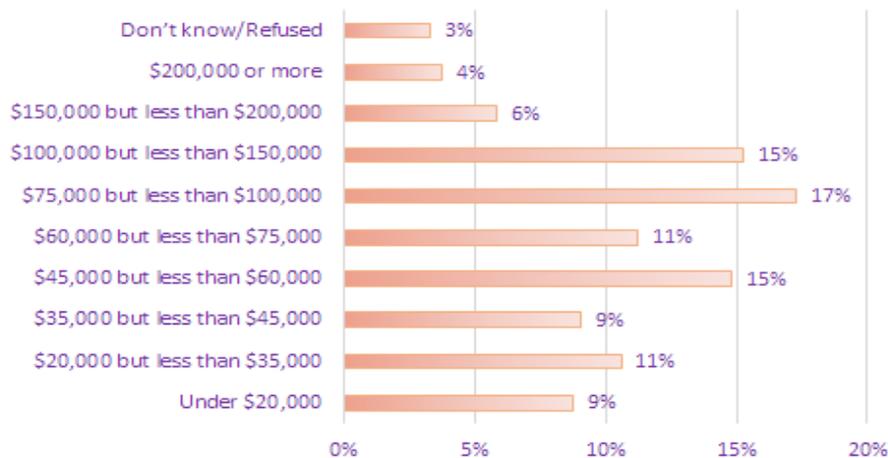
sales dropped due to a dearth of large jackpots. However, it is important to note that higher overall dollar sales for Scratch generate higher dollar transfers to beneficiaries. So, the percentage can go down and total dollars go up even with this shift in demand.

22. [Rep. Ransom] Discuss the basis for your estimate of the \$14.50 per capita increase that would result from R1.

Sales increases are estimated based on industry experience with the introduction of broadcast games and upgrades to the Scratch game program. The total sales increase in FY 2021-22 expected from the DI would be \$84.7M, which, when divided by the Colorado population, translates to \$14.50 per capita.

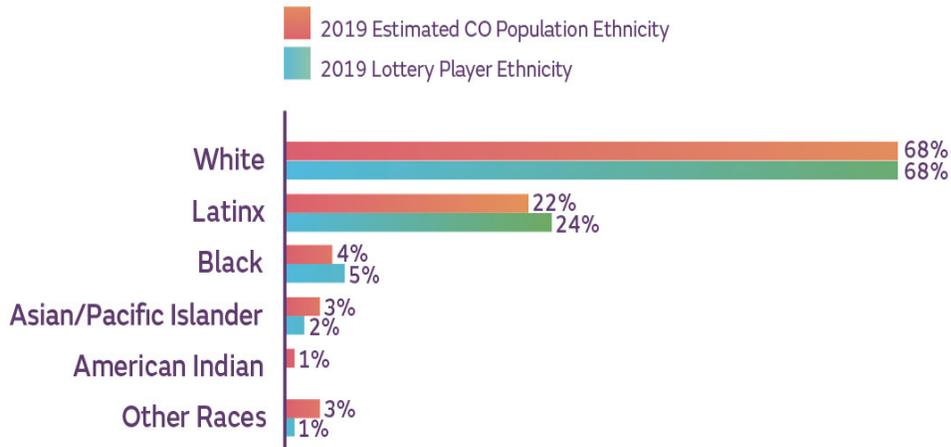
23. [Sen. Rankin] Provide more data on the demographics of lottery players, by game type if available. This could be viewed as a regressive tax to fund bike trails - does GOCO really need more funding?

The Lottery does not have demographic data by game type. Lottery demographics are updated annually based on a quarterly tracking study. The study includes approximately 600 online surveys per quarter, which are quota balanced for age, gender and race/ethnicity to represent the state of Colorado. A more specific breakdown of the Lottery's player demographic by household income is as follows:

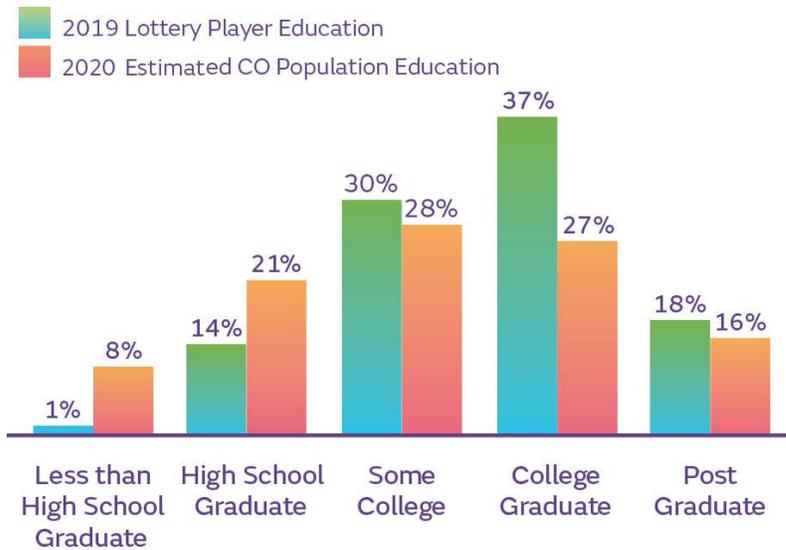


Here is some additional demographic information:

ETHNICITY COMPARISON

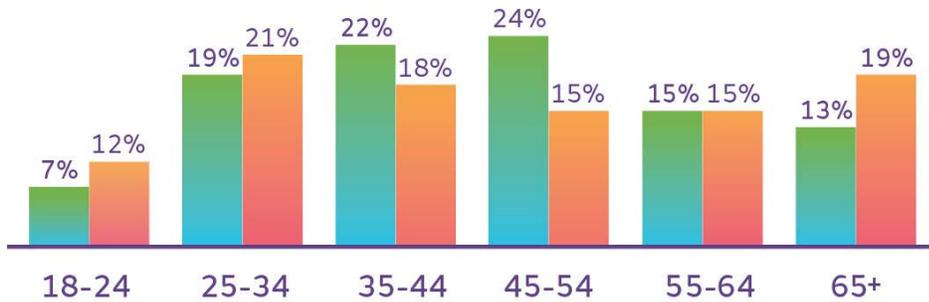


EDUCATIONAL COMPARISON



AGE GROUPS COMPARISON

■ 2019 Lottery Player Age Groups
■ 2020 Lottery Legal Purchase Age Estimated CO Population Age Groups



CPW has estimated that 92 percent of Coloradans recreate in the outdoors at least once every 2 weeks. This, coupled with the rapid population growth Colorado has experienced, has put tremendous strain on our outdoor spaces. CPW has already begun seeing capacity exceed that of our current resources and plans to dramatically increase the supply of public lands. The additional revenue CPW could receive from the Lottery would be critical in helping achieve this goal.

SCRATCH TICKET CONTRACT CHANGES

24. *[Rep. Ransom]* Elaborate on the fixed costs for the current contract with Scientific Games. Approximately what percentage of sales would be paid to the vendor under the new contract? Would the Lottery still have the same incentive to market under this arrangement? Did the Department consider a fixed price plus percentage contract?

Currently, Scratch tickets are purchased from Scientific Games (SG) on a fixed, cost per thousand basis. The current agreement is a contract to print scratch tickets. Additional services that would include printing scratch tickets, as well as other services and enhanced technology for retailers, are available via contract extension and would be paid for as a percentage of sales. The Lottery prefers an incentive based contract for all of the services it receives from the scratch ticket vendor, as it ensures that the Lottery’s expenses track with its sales. I.e., if sales go up, the Lottery spends more, but if sales suddenly go down, like they did in March & April of 2020, the Lottery is not obligated to pay fixed costs, regardless of need (scratch tickets are ordered up to 6 months in advance of the printing schedule). The spending authority request is based on a standard initial proposal received from the vendor of 2.2% of scratch sales. Through the negotiation process, including negotiations about the scope of the contract, the Lottery believes it can lower this percentage. However, negotiations cannot commence until the necessary spending authority has been authorized. These contract changes would have no impact on the Lottery’s

incentive to market its products, as marketing will remain an essential tool for supporting all lottery products.

MONITOR GAMES

25. *[Sen. Moreno and Rep. Ransom]* I [Moreno] understand that the courts have classified Keno as a slot machine, which constitutes limited gaming. Would an expansion to monitor games require voter approval? Is it constitutional to expand these monitor games as proposed?

The Colorado Lottery has offered KENO in the past from 1991 to 1998, and KENO is no different from any other in-state draw game (e.g. Lotto+, Cash 3, Pick 5) that the Colorado Lottery offers today. In response to this question, the Colorado Lottery sought a written legal opinion from its Assistant Attorney General which clarifies that the Colorado Lottery is constitutionally authorized to offer KENO. In short, the Lottery is a state-run lottery which is an exception to the general prohibition on lotteries pursuant to Colorado's Constitution. This is a separate and distinct exception from the "limited gaming" exception from which the casinos derive their constitutional authority. The "limited gaming" exception is more limited and does not apply to state run lotteries. Therefore, a vote of the people is not required each time the Lottery wants to offer a new product. Rather, the Lottery must seek approval from the Lottery Commission when it seeks to offer a new game.

The Lottery proposes offering Keno as "free standing", which means that winning numbers are drawn at a central location every 4 minutes and broadcast to monitors at retail locations. By contrast, "mechanical Keno" describes a game played on a gaming device like a slot machine, which creates a specific result, and is completely different from free standing Keno.

26. *[Sen. Moreno]* In other states, the Keno games are offered by kiosk. Is this the long-term plan? How would the Lottery monitor underage gambling? *[Sen. Hansen]* Why Keno rather than an incremental expansion of kiosks?

Most Lottery Keno retailers will have a large screen to broadcast results of the KENO drawings, and a standard Lottery terminal to process transactions which will be operated by retailer employees, who would be responsible for enforcing age restrictions in the same way as existing retailers (such as a convenience or grocery store). If self-service kiosks are employed in Colorado, they will be configured with age-control software which requires a potential player to insert their driver's license into the machine for age verification before they are allowed to play. They will also be placed within plain sight of the retailer's employees. The self-service kiosks will operate the same way lottery vending machines currently operate at existing retailers.

Adding broadcast games, like KENO, will not only significantly increase proceeds to beneficiaries, but it will also provide a post-pandemic economic stimulus to Colorado small business owners, particularly bars and restaurants, through Lottery sales commissions and bonuses which will be approximately 6.7% of broadcast game sales. The Lottery's current vending machines are mostly located in grocery stores and other retail locations that have remained open through the pandemic. In addition, broadcast games reach new and different players – expanding the already broad base of lottery players in Colorado which is important for

ensuring that the Lottery expands responsibly, consistent with its commitment to responsible gaming best practices.

OTHER QUESTIONS

27. *[Sen. Rankin]* Are gambling losses deductible? If so, what would be the revenue impact of increased gambling losses?

Gambling losses are only deductible if you itemize and are limited to the extent you have gambling income and cannot be used to offset other types of income. The deduction is aggregated with "other itemized deductions" on line 16 of Schedule A of the federal return. Since the process starts with Federal taxable income, the deduction is already taken at the federal level and passes through to Colorado. The Lottery does not have a way of knowing the impact of these deductions on overall state income tax revenue. The IRS website has more information regarding the deduction which can be found here: <https://www.irs.gov/taxtopics/tc419#:~:text=You%20may%20deduct%20gambling%20losses,you%20reported%20on%20your%20return>

28. *[Rep. McCluskie]* Describe what actions are required to reach Level 4 Responsible Gaming Certification and what resources will be required.

Certification by the World Lottery Association (WLA) requires that an applicant demonstrate a commitment to responsible gaming based on global standards in 10 program areas; research, employee training, retailer training, game design, remote gaming, marketing and advertising, player education, treatment referral, stakeholder engagement, and reporting and measurement. Level 4 certification requires fully developed programs in each of these areas with demonstrable metrics for continuous improvement. Level 4 lotteries must also have their applications verified by an external auditor prior to submitting to the WLA. The Lottery does not require funding beyond our existing budget to meet these standards.

More information can be found here: <https://www.world-lotteries.org/services/responsible-gaming/framework>

29. *[Sen. Moreno]* I have heard concerns about outsourcing by the Lottery and the resulting impact on state employees. Provide a history of services that have been outsourced, and any state employees or state positions that were impacted. Do you anticipate any further job losses as a result of contracting with Scientific Games?

No Lottery jobs have been impacted by outsourcing. There will be no outsourcing or displacement of state workers resulting from the contract extension with Scientific Games. Additional services provided by Scientific Games will compliment and supplement work that is currently done by Lottery staff.

30. *[Question came through the staff analyst]* Provide clarification on the difference between keno offered by the Lottery versus keno games at casinos? Additionally, can you clarify whether keno is currently offered in Colorado's limited gaming towns or if it will potentially be offered as a result of Amendment 77?

There is an important distinction between the Keno that the Lottery is proposing to offer versus the type of Keno that is currently offered on machines in some casinos in Colorado. The Lottery is proposing to offer what is referred to in the industry as “freestanding” Keno which is not the same as “mechanized Keno.” Free standing Keno is displayed on monitors that are not played or operated by the players. The monitors simply broadcast the results from a central drawing that occurs at Lottery headquarters in Pueblo, just like the Lottery’s other in-state draw games. Therefore, the winning numbers from each freestanding Keno drawing are the same for all tickets sold at retailers across Colorado. Mechanized Keno, on the other hand, is played on a machine that is like a slot machine and is actually operated by the player. Like slot machines, the winning results are generated only for the player who is playing that specific slot machine.

At this time, no casino is selling freestanding Keno in Colorado that we are aware of. However, it is our understanding that some casinos offer mechanized Keno. Since passage of Amendment 77, Blackhawk has passed a town ordinance that would allow their casinos to sell “freestanding” Keno, and it is expected that one or more casinos in Blackhawk may begin selling free standing Keno by May of 2021. We are unaware of any other cities that have passed ordinances regarding Keno. There is nothing that would prohibit casinos from offering freestanding Keno as a Lottery retailer, thereby benefiting from the same bonuses and commissions that other Keno retailers will receive. The Lottery already has casinos that are licensed retailers and sell other Lottery products -- Keno would be no different. This might be particularly attractive to smaller casinos who do not want to invest in the overhead/equipment it would require to offer Keno on their own.

Colorado Department of Revenue

FY 2021-22 Joint Budget Committee Hearing

January 8, 2021



Agenda

- I. Department Overview
- II. Legislative Initiatives
- III. Decision Items and Briefing Inquiries
 - A. Taxation
 - B. DMV
 - C. Lottery



OUR VISION

To empower businesses and individuals through quality customer service, innovation, and collaboration.

OUR MISSION

To become a trusted partner to every Coloradan, to help them navigate the complexities of government so they can thrive.

OUR MOTTO

Always Help!

Goals

Department of Revenue WIGS

Culture of Empowerment: Virtual DOR Services

Digitally transform the Department of Revenue to 95% of services being available virtually by June 30, 2021.

Fiscal Stewardship: Digital Transformation

Drive transformational improvements of business processes, systems and policies to increase effectiveness and create a long-lasting culture of innovation.

Executive Director Goals

Convert at least 90% of EDO procedures to virtual processes by June 30, 2021.

Achieve over 70% of a primarily remote workforce by June 30, 2021.

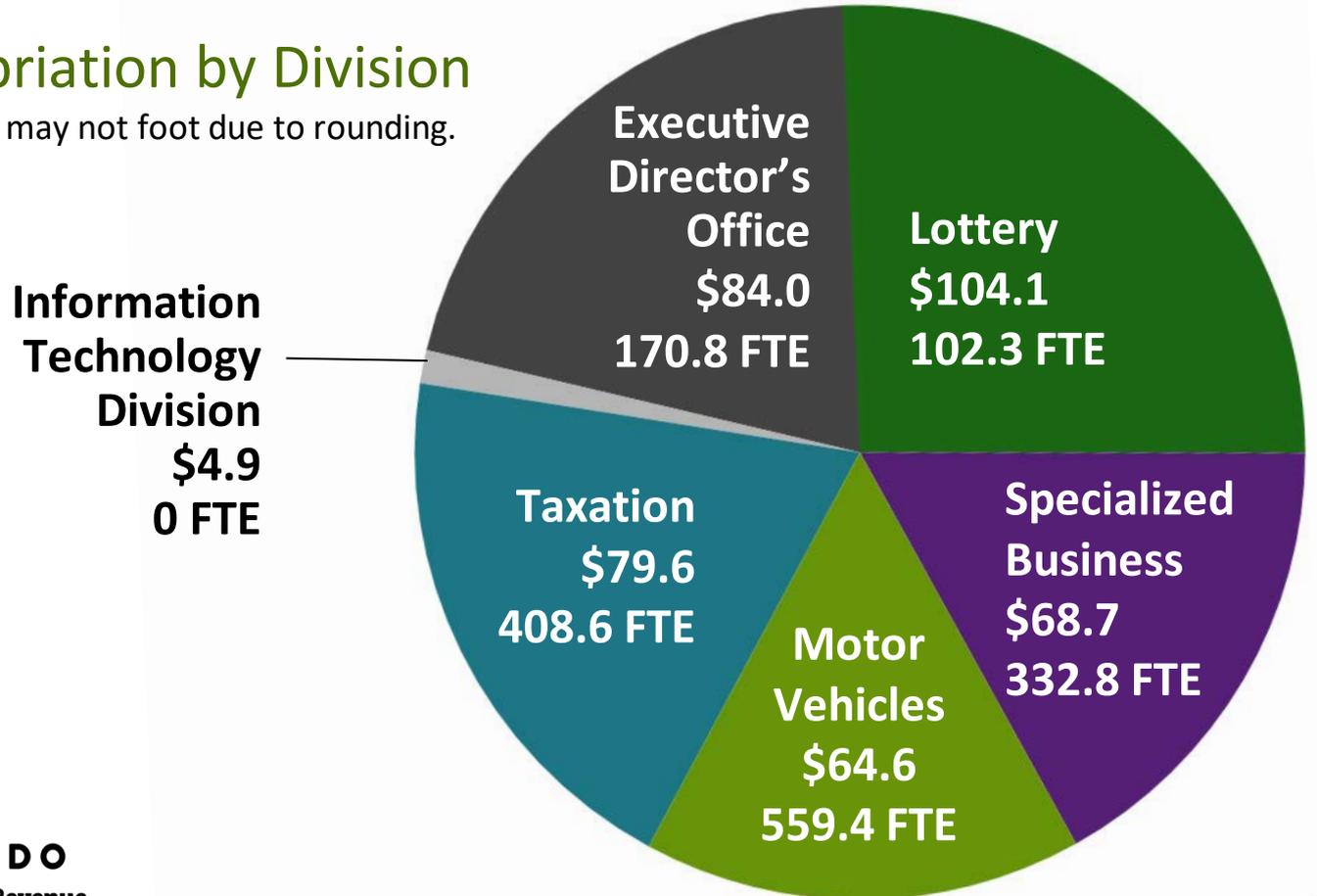
Structure



FY 2020-21

Long Bill Appropriation by Division

Amounts in millions. Totals may not foot due to rounding.

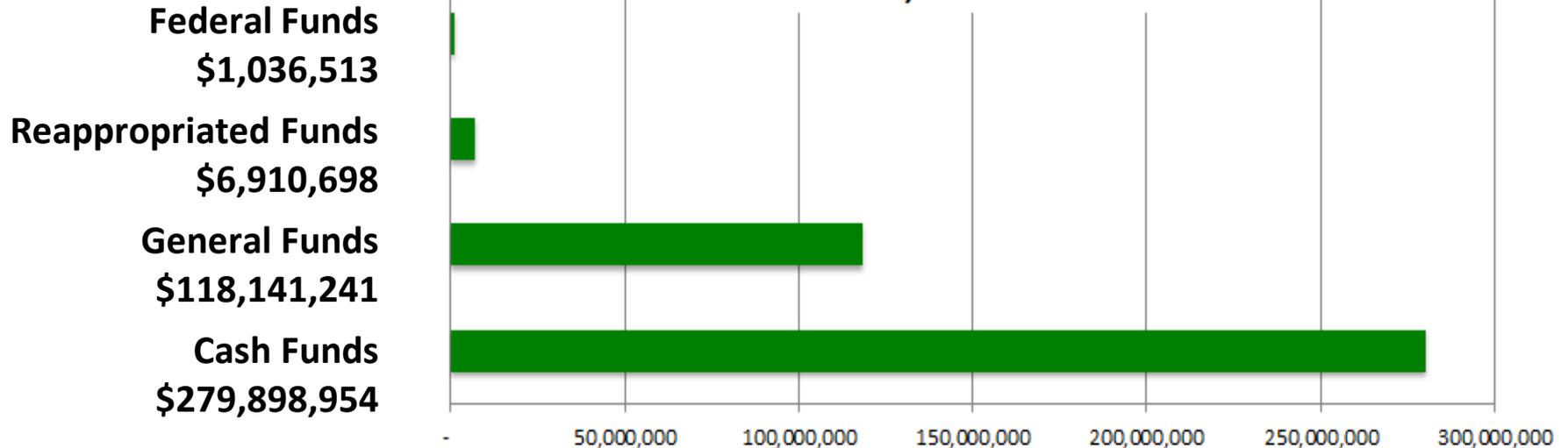


FY 2020-21

Long Bill Appropriation by Fund Type

Total Funds: \$405,987,406

1,573.9 FTE



DOR Legislative Agenda

1

TAX:

Streamline fuel excise tax to first point of transfer

3

DMV:

Allow people 65 and older to renew their driver's license online

2

TAX & DMV:

P.O.S.T. Board certification for motor vehicle criminal investigators and criminal tax enforcement special agents

4

SBG/MED:

Reinstate ability for cannabis businesses to co-locate recreational and medicinal sales



Decision Items/Reductions and Briefing Inquiries

Taxation Division
Division of Motor Vehicles



R-02

Sales and Use Tax Simplification System Support & Maintenance

SIMPLIFY THE SALES TAX FILING PROCESS

A properly maintained SUTS system creates significant efficiencies for taxpayers by reducing their tax calculation and filing workload.

FY 2021-22



General Fund
\$2.2 M



5.0 FTE

FY 2022-23
and Thereafter



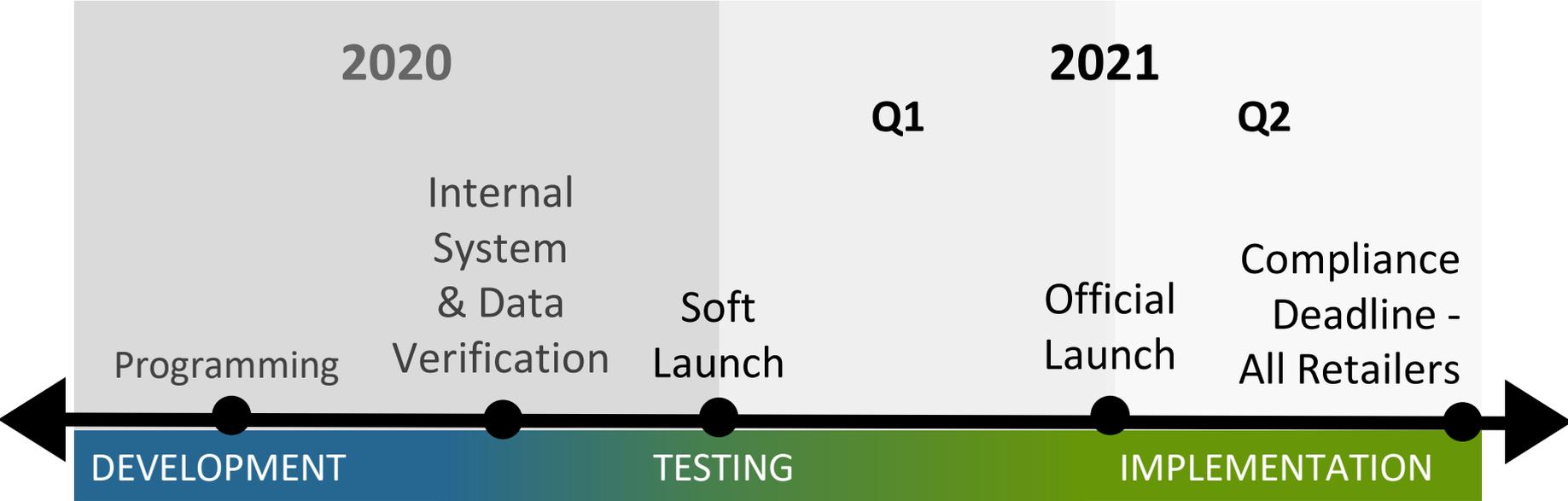
General Fund
\$2.2 M



5.0 FTE



Sales and Use Tax Simplification Timeline



SUTS Communications Outreach

- Active enrollment of businesses with more than \$100,000 in retail sales began in November.
- Updated tax.colorado.gov platform for clearer and more timely content updates.
- Utilize social media, website announcements, press releases
- Additional communications efforts to targeted stakeholder groups are forthcoming.
- For more information about SUTS, visit <https://tax.colorado.gov/SUTS-info>

SUTS Adoption

SUTS Outreach is making progress:

- July 2020
 - 118 businesses were registered in SUTS
 - 18 home-rule jurisdictions participating
- December 2020
 - More than 1700 businesses were registered in SUTS
 - 44/70 home-rule jurisdictions participating



Consideration of Transitioning Colorado Income Tax Model

ADJUSTED GROSS INCOME VS. FEDERAL TAXABLE INCOME



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Differences between AGI and FTI

<p>Adjusted Gross Income (AGI)</p> <p>Gross income with a few specific deductions</p>	<p>Deduct:</p> <p>Personal exemptions and standard or itemized deductions</p>	<p>Federal Taxable Income (FTI)</p> <p>Current starting point</p>
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Pros and Cons of Decoupling

Pros

- Control over whether to adopt federal changes to certain deductions
- Flexibility to tailor deductions and exemptions to Colorado
- Uniformity with other states

Cons

- Additional complexity
- Increased administrative costs for taxpayers and state
- Decreased ability to rely on federal audits and data and increased manual, state-level review



Budget Impacts of Changing

- New forms, instructions, and programming
- Additional error checking and data matching (if possible)
- Increased taxpayer touchpoints:
 - Increase in call center traffic
 - Billing and collections (more chances for errors)
 - Protests and litigation
- State-specific rules, guidance, and legal expertise

R-08

DMV Digital Transformation

Background

Office to Online-Centric Operations

Decision Item Request

1. Increase Services on Kiosks
2. Call Center Technology Upgrade
3. 3rd-Party Title and Registration Services
4. Online Service Marketing Campaign
5. Mobile DLO Program

FY 2021-22		FY 2022-23 and Thereafter	
	General Fund \$5.0 M		General Fund \$ -
	0.0 FTE		0.0 FTE

Background

- COVID 19 - Colorado was prepared with 40 Online Services and 30 Kiosks in 13 counties
- Department Cost Reduction Effort & Cash Fund Sustainability
- Working to expand online / kiosks services this year
- Over 65 DL Renewals legislative request
- DMV Digital Transformation

Office to Online-Centric Operations

From Brick and Mortar

- DMV strategy has been focused on improving customer experience in offices
- Online services, kiosks, and myColo app provided alternate service offering while reducing demand in offices



To Digital Convenience

- New strategy is to make online and virtual services the main focus with offices and mobile units becoming secondary services
- DMV WIG to increase number of online services this FY is first step

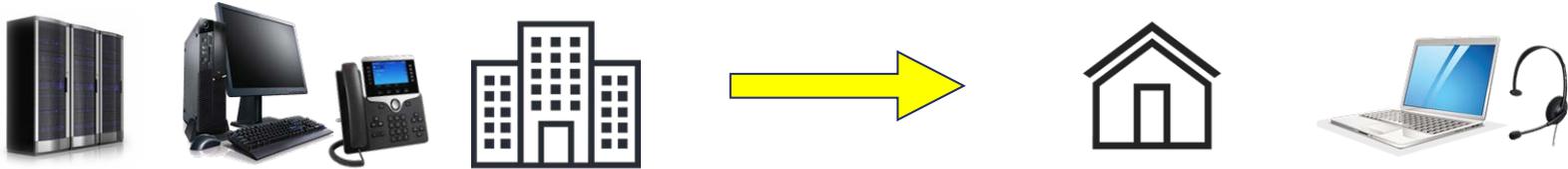


R-08 Item 1 - Increase Services on Kiosks

- Successful County Pilot concluded
 - 49 kiosks in 13 counties
 - 50% increase in transactions FY 21
- State-managed contract
- 6 Additional Services June 30
 - Request a duplicate title
 - Request a duplicate registration card
 - Replace tabs
 - Add/change a vehicle address
 - Check a title status
 - Renew a DL/ID
- Increase number of kiosks across State in FY 22
- 15 more services on kiosks added (R-08) \$900K

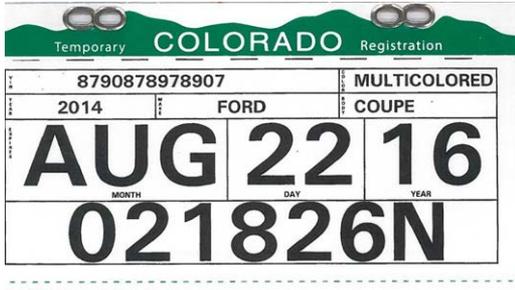


R-08 Item 2 - Call Center Technology Upgrade



- 1.125 M calls received annually with 370 K (32.8%) unanswered
- DMV call centers transitioned to teleworking
- Current tech limitations in remote recording and monitoring
- \$580K to implement Artificial Intelligence for 24/7 access and reduced wait times
 - Facility-based to cloud-based solution supports teleworking
 - Provide recording and improved monitoring tools
 - Simplify management of call center software

R-08 Item 3 - Third-Party Title & Registration Services



- HB18-1299 Electronic Filing Motor Vehicle Title & Registration relied on gifts, grants, and donations
- Authorized electronic titling as well as 3rd-party vendors to provide vehicle dealers' customers one-stop service
- An increasing number of states have been adding 3rd-party services
- Colorado County Clerks support the law
 - Relieves 10.5% or 1.6 million transactions from county workload
 - Eliminate frustration for many vehicle owners in completing T&R actions after purchase
- \$1.7 million programming and implementation costs to establish 3rd-party vendor services

R-08 Item 4 - Online Service Marketing Campaign

Prior online marketing campaigns were limited and regional.

"Dude, it works on my phone!"

Renew your Driver's License on your mobile device today.

Guy VROOM

Save Time. Renew Online!
www.Colorado.gov/vroom

Please say YES to the GIFT OF LIFE

You're Always First in Line!

You're Always First In Line!
at Colorado.gov/DMV

Renew your driver license Renew your vehicle registration Make an appointment

SAVE TIME, VISIT US ONLINE

Next time #SkipTheTripCO with
myDMV.COLORADO.GOV

Skip the Trip!

Enjoy Colorado's great outdoors and skip the line at the DMV.

- Past efforts positive result, but not enough
 - \$50 K to \$114 K operational funds
 - Website and Social Media
- Until COVID, online renewals remained relatively flat over the previous three FYs
- Last FY, there was an increase of 147 K, or nearly 72% year-over-year
- Request of \$331,227 will be used to hire an advertising agency to:
 - create a unified messaging strategy;
 - assist with content and media buys; and
 - increase awareness and greater adoption of new virtual and other service options statewide for FY 2021-22.

R-08 Item 5 - Mobile DLO Program



- No program established due to lack of available FTE, funding, and technology
- Conducted pilots connecting via Ethernet
- Technology upgrade will allow WiFi use
- \$1.6 M to create mobile unit program by purchasing necessary vehicles
- FTE & operating available from appropriation due to appointment-only operations and not conducting drive tests
- Expect to support rural areas, nursing homes, special events, to serve residents without internet access



R-03:R-07

FY 2021-22 Budget Reductions

		FTE	Total Funds FY 2021-22 and Thereafter
R-03	IT Management Reorganization & Streamlining		-\$703 K
R-04	Reductions from Virtual Government - Hearings	-5.0	-\$803 K
R-05	DMV Reductions	-16.1	-\$6.8 M
R-06	Specialized Business Group Reductions		-\$1.2 M
R-07	Taxation Business Group		-\$421 K
Total Reductions		-21.1	-\$10 M



NP-02

DOR Printing and Mail Migration to Integrated Document Solutions (IDS)

- Consolidation per audit recommendation
- Small first-year budgetary increase generates ongoing Statewide savings of \$1.6 M (per DPA R-02)
- Avoid costs of rebuilding DOR print shop after the Annex is vacated

FY 2021-22	FY 2022-23 and Thereafter
 General Fund \$347 K	 General Fund \$2.2 M
 -5.5 FTE	 0.0 FTE

Questions?

Break Before Lottery Division Discussion



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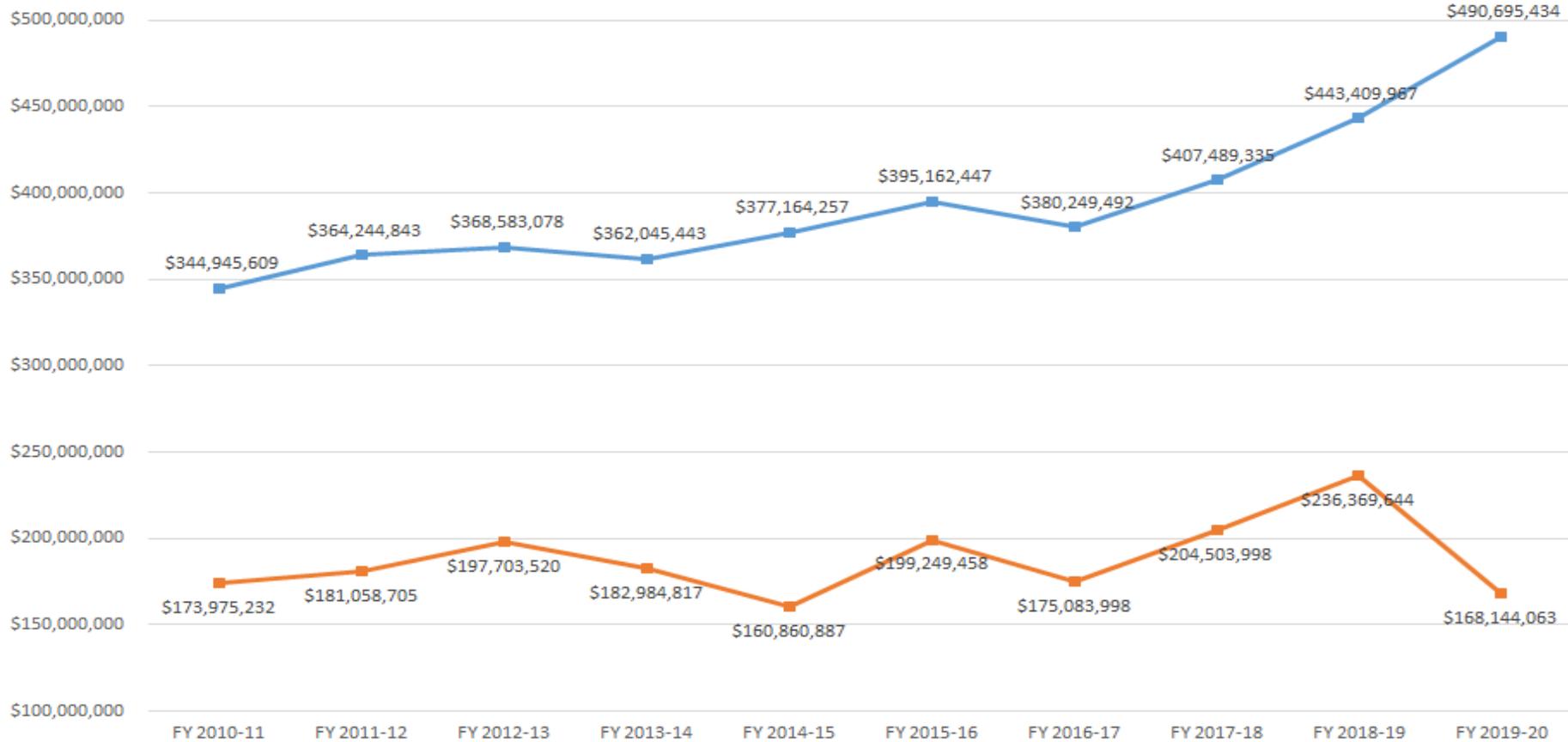
Decision Items and Briefing Inquiries

Lottery Division





Colorado Lottery Sales History



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Scratch Jackpot

End of FY 2016-17

Colorado ranked 35th
out of 47 U.S. lotteries
in per capita sales.



COLORADO
Department of Revenue

End of FY 2018-19

Colorado ranked 32nd
and closing in on
Arizona.



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Department of Revenue



Reaching \$1 billion
would rank
Colorado 27th,
but 3rd west
of Mississippi.



COLORADO
Department of Revenue

Who Plays the Lottery?

LOTTERY PLAYER HOUSEHOLD INCOME

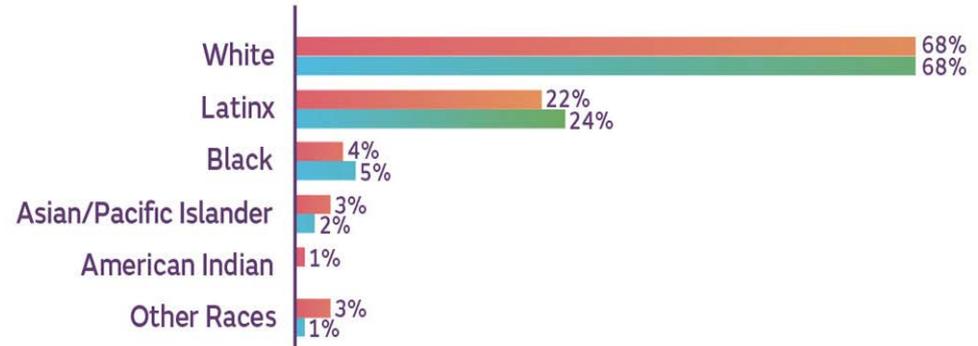
\$60,000+ (Over half of Lottery players had an average household income of greater than \$60,000)

\$75,000+ (Over 40% of Lottery players had an average household income greater than \$75,000)

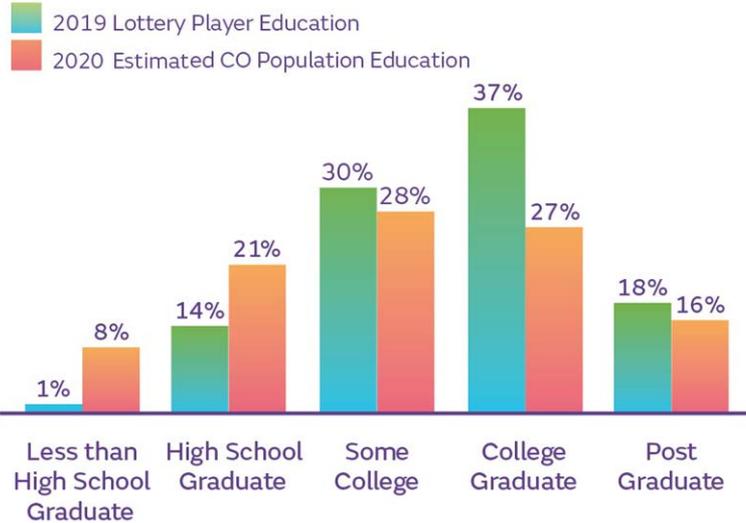


ETHNICITY COMPARISON

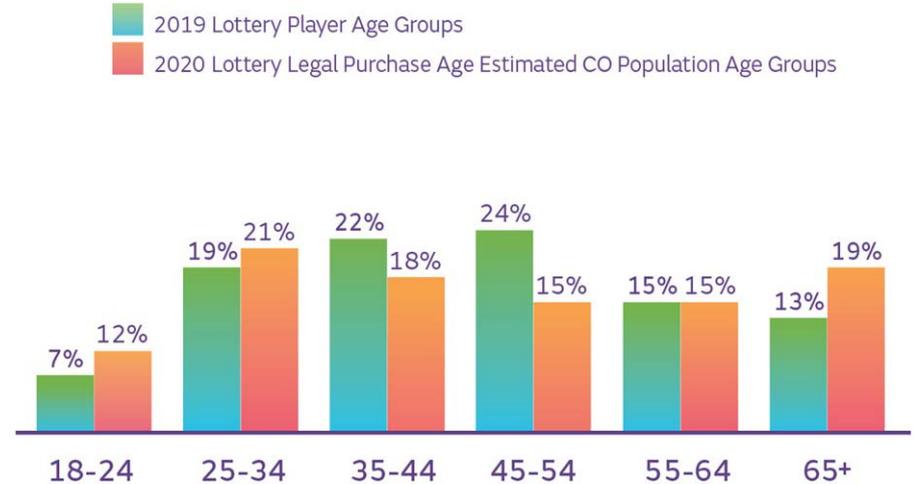
2019 Estimated CO Population Ethnicity
2019 Lottery Player Ethnicity



EDUCATIONAL COMPARISON



AGE GROUPS COMPARISON



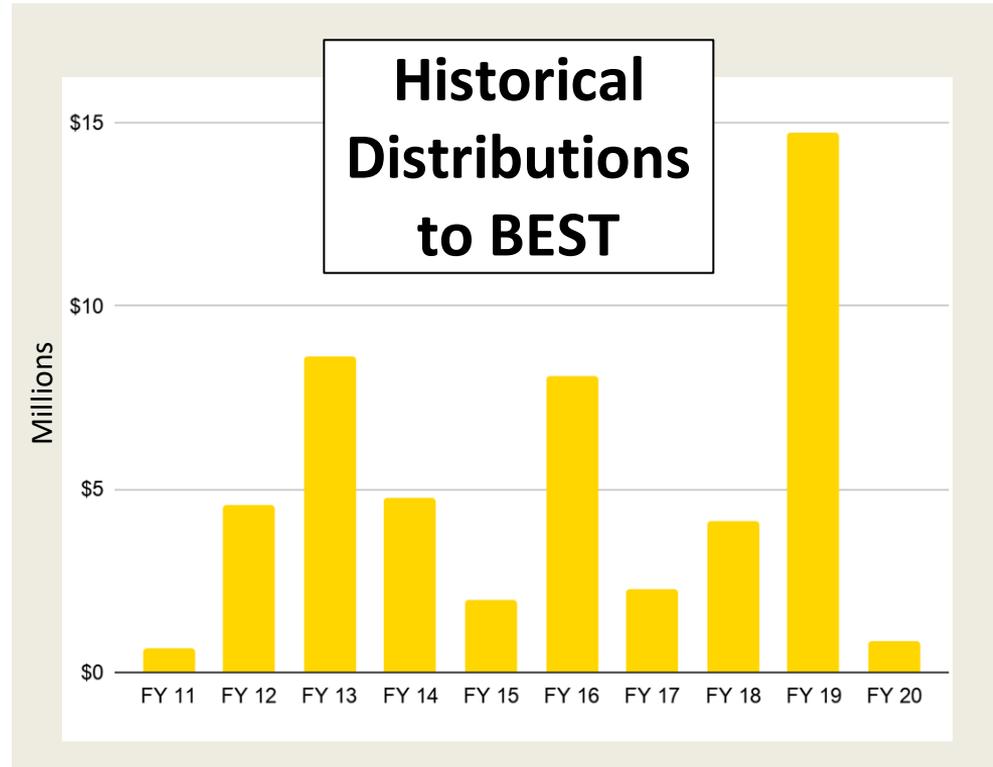
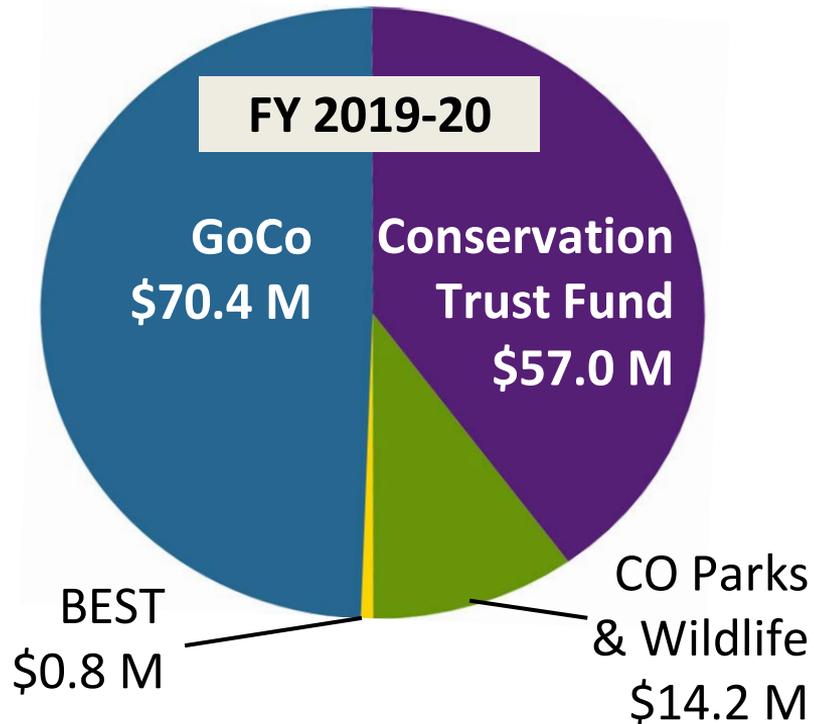
Responsibility is Core to What We Do

- WLA Level 3 Responsible Gaming (RG) Certification
- WLA Responsible Gaming Program Elements: research, employee training, retailer training, game design, remote gaming, marketing and advertising, player education, treatment referral, stakeholder engagement, and reporting and measurement.
- The Colorado Lottery is a longtime partner with the Problem Gambling Coalition of Colorado.

Where Does the Money Go?



Proceeds Distributions to Beneficiaries



The Lottery is Dedicated to Conservation and Outdoor Recreation

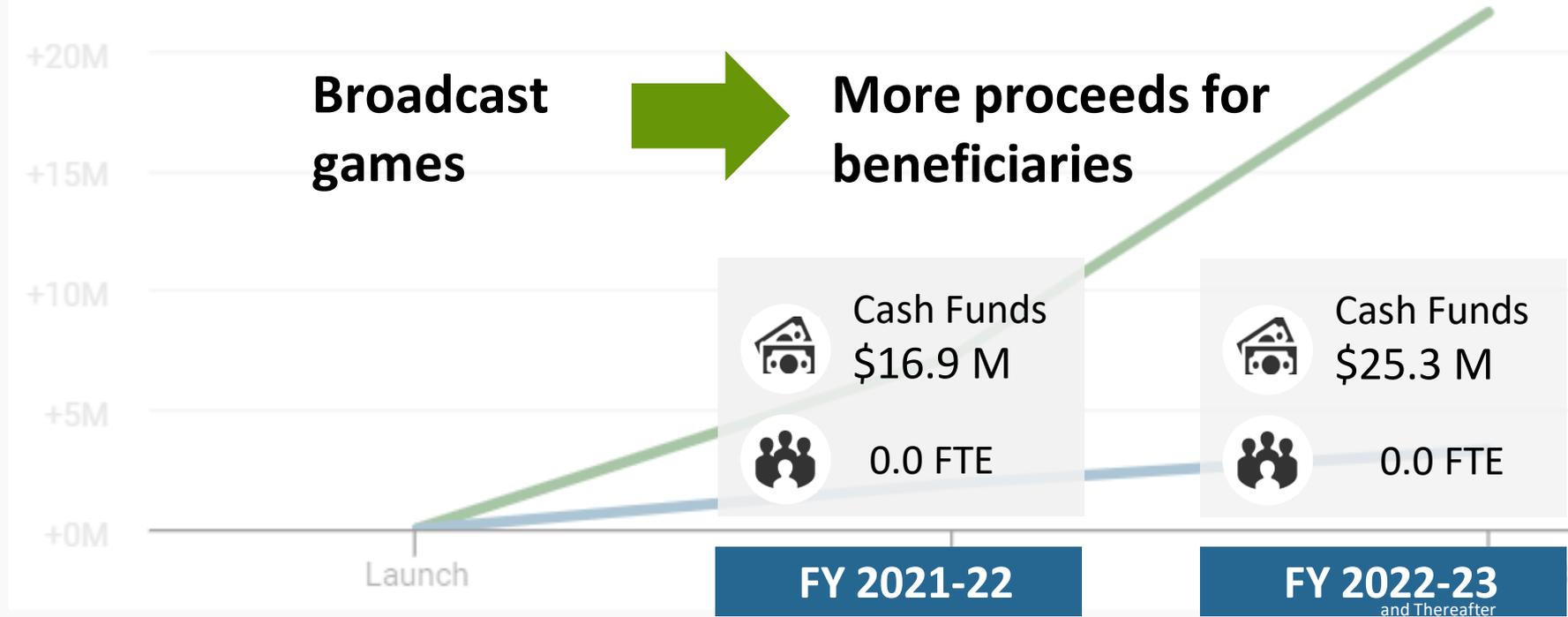
- 92% of Coloradans recreate in the outdoors at least once every few weeks.
- Over \$17 million in Lottery funds were instrumental in making Fishers Peak State Park a reality.

The Constitution Authorizes a State-Supervised Lottery Without Limitation

- The Lottery is a "state-supervised lottery" authorized pursuant to Colo. Const. art. XVIII, § 2.
- The Constitution gives the legislature broad authority to establish a state-supervised lottery with no limit on game types or location.
- As such, no constitutional amendment is required to authorize new games, including Keno.
- Limited Gaming is authorized pursuant to Colo. Const. art. XVIII, § 9 and does not apply to a state-supervised lottery.
- “Any provision of this constitution to the contrary notwithstanding, the general assembly may establish a state-supervised lottery.” *See* Colo. Const. art. XVIII, § 2(7).
- The Lottery Commission’s power to approve new games through rulemaking is broad. § 44-40-109(2)(a), C.R.S.

R-01

Lottery Reimagined For Beneficiaries



What is a Broadcast Game?

Broadcast games are drawing games that are “broadcast” to a monitor at retail locations - this monitor is NOT a gambling device, i.e. the device is not interactive. It is not “played” or engaged in any way by players.

Keno is the most popular broadcast game.

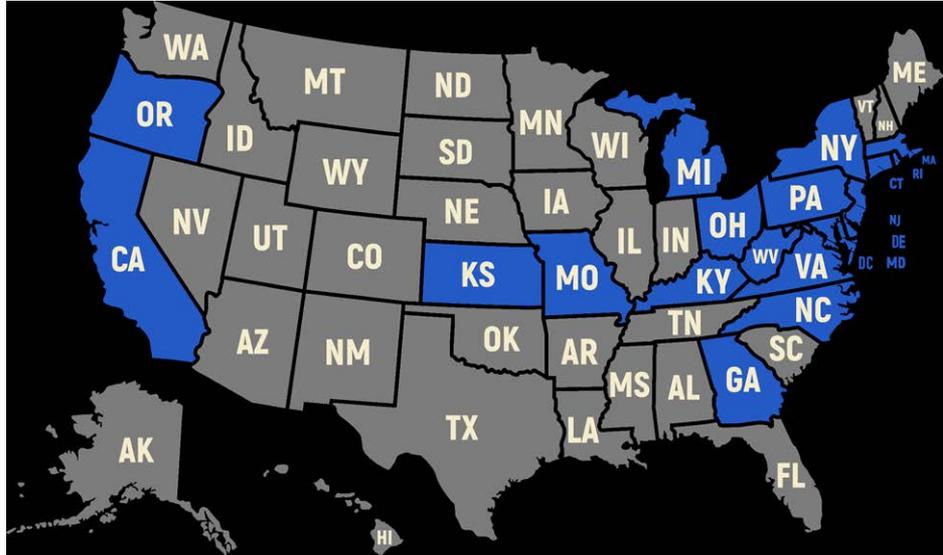


Why Offer Broadcast Games?

- Currently, 19 other state lotteries offer broadcast games.
- A more diverse selection of games is an industry-recognized responsible gaming best practice.
- Post-pandemic economic relief for local governments, and bars & restaurants (2-year projections):
 - \$26.7 million in additional proceeds for beneficiaries
 - \$6.2 million in commissions/bonuses for broadcast game retailers



US LOTTERIES WITH KENO



US LOTTERIES WITH VARIABLE PRICE CONTRACTS



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Department of Revenue

Why Switch to an Incentive-Based Scratch Ticket Contract?

- Provides additional services and technology not included in the fixed cost contract that will supplement existing state Lottery jobs, but not replace them.
- Pegs vendor costs to changing market conditions, like the pandemic, and incentivizes the vendor to increase sales revenue.
- In FY 2020-21, lotteries utilizing this type of agreement grew scratch ticket sales by an average of 20%, compared to an average of 9% for those that do not.
- Contract negotiations will follow the State's Procurement Code.

Questions?