

DEPARTMENT OF REVENUE
FY 2024-25 JOINT BUDGET COMMITTEE HEARING AGENDA

Wednesday, December 13, 2023
9:00 am – 10:30 am

9:00-9:05 INTRODUCTIONS AND OPENING COMMENTS

Presenter: Heidi Humphreys, Executive Director

9:05-9:15 COMMON QUESTIONS

Main Presenters:

- Heidi Humphreys, Executive Director
- Lorri Dugan, Chief Financial Officer

Topics:

- Question 1: Page 1-2, Question 1 in the packet, Slide 9
- Question 2: Page 2-4, Question 2 in the packet, Slides 10
- Question 3: Page 4, Question 3 in the packet

9:15-9:25 R1 GENTAX & DRIVES SUPPORT FUNDING

Main Presenter:

- Heidi Humphreys, Executive Director

Topics:

- Ongoing FTE: Page 4-5, Question 4 in the packet, Slides 14-15

9:25-9:35 R2 DEPARTMENT SPACE PLANNING

Main Presenter:

- Heidi Humphreys, Executive Director

Topics:

- Funding in out years: Page 5, Question 5 in the packet, Slide 22
- Increased cost per square foot: Page 5, Question 5 in the packet, Slide 23
- Historical context, Annex, etc: Page 5-6, Question 6 in the packet, Slide 23

9:35-9:40 R3 DMV FRAUD INVESTIGATION RESOURCES

Main Presenter:

- Lorri Dugan, Chief Financial Officer

Topics:

- Division & auto theft prevention in CO: Page 6, Question 7 in the packet, Slide 26
- Interaction with Department of Public Safety: Page 6, Question 8 in the packet, Slide 26

9:40-9:55 R5 MED SUPPORT FUNDING

Main Presenters:

- Lorri Dugan, Chief Financial Officer
- Heidi Humphreys, Executive Director

Topics:

- Marijuana market in CO: Page 6-7, Question 9 in the packet, Slides 27-33
- Rate increase & MCF solvency status: Page 7-8, Question 10-11 in the packet, Slide 34

9:55-10:00 R7 ALIGNMENT OF EXISTING APPROPRIATIONS

Main Presenters:

- Heidi Humphreys, Executive Director

Topics:

- OIT policy change: Page 9, Question 12 in the packet, Slide 42

DEPARTMENT OF REVENUE
FY 2024-25 JOINT BUDGET COMMITTEE HEARING

Wednesday, December 13, 2023
9:00 am – 10:30 am

COMMON QUESTIONS FOR DISCUSSION AT DEPARTMENT HEARINGS

- 1 Please describe one-time state and federal stimulus funds that have been allocated to the Department but are not expended as of September 30, 2023, by bill, budget action, executive action, or other source that allocated funds. The description should include but is not limited to funds that originate from one-time or term-limited General Fund or federal funds originating from the American Rescue Plan Act (ARPA)/State and Local Fiscal Recovery Funds/Revenue Loss Restoration Cash Fund. Please describe the Department's plan to obligate or expend all allocated funds that originate from ARPA by December 2024.

Response: Below is a table detailing DOR's stimulus funds. In total, DOR has expended 67 percent of all combined funds and is projecting to spend all available dollars during the current fiscal year prior to the expiration of the funds, with the exception of the Liquor Task Force that will end with a \$258,000 underspend.

Item	Description	Total Funding	Total Expenditure	Total Projected Expenditure	Remaining Available	Expiration Date
1	DMV DRIVES System Support	\$ 1,167,868	\$ 1,068,848	\$ 1,167,868	\$ -	6/30/2024
2	OIT DRIVES System Support	\$ 1,351,242	\$ 540,008	\$ 1,351,242	\$ -	6/30/2024
3	mDL	\$ 2,250,000	\$ 1,525,000	\$ 2,250,000	\$ -	7/31/2024
4	Tax Policy and Call Center Support	\$ 1,035,708	\$ 900,104	\$ 1,035,708	\$ -	6/30/2024
5	Liquor Task Force	\$ 416,000	\$ 81,500	\$ 158,000	\$ 258,000	12/31/2023

Please further describe any budget requests that replace one-time General Fund or ARPA funded programs with ongoing appropriations, including the following information:

- Original fund source (General Fund, ARPA, other), amount, and FTE;
- Original program time frame;
- Original authorization (budget decision, legislation, other);
- Requested ongoing fund source, amount, and FTE; and
- Requested time frame (one-time extension or ongoing).

Response: The Department does not have any budget requests that replace one-time funded programs with ongoing appropriations.

- 2 Please provide a description, calculation, and the assumptions for the fiscal impact of implementing compensation provisions of the Partnership Agreement, as well as a qualitative description of any changes to paid annual, medical, holiday or family leave as a result of the Agreement. Please describe any compensation and leave changes for employees exempt from the Agreement if applicable.

Response:

1. **Concerning Article 31.1:** The FY 2023-24 Statewide Across the Board (ATB) 5 percent increase resulted in an additional **\$5 million annually** to the base salaries of DOR's current workforce.
2. **Concerning Article 31.5 Adjustment to Pay Plan:** DOR did not have any employees compensated lower than their classifications' adjusted pay range minimum on July 1, 2023, after the initial 5 percent ATB was applied. No impact to DOR.
3. **Concerning Article 31.4 Minimum Wages:** DOR did not have any FTE that were paid lower than \$15.75 per hour. No impact to DOR.
4. **Concerning Article 32.2 Bi-lingual:** The current pay differential is being awarded to 33 FTE at DOR. Of those 33 FTE, 6 FTE are receiving the Tier II (\$100 per month) differential and the other 27 FTE are receiving the Tier I (\$50 per month) differential. The annual impact specifically for Article 32.2 is \$1,625 per month or **\$19,500 annually**.
 - a. The vast majority of bi-lingual designated employees in DOR are assigned to the Division of Motor Vehicles. A majority of this group are assigned to the Drivers License Offices (DLO). DOR is anticipating the number of FTE designated as bi-lingual should remain relatively constant.
5. **Concerning Article 5.2 Stewards (Time):** DOR currently has 13 COWIN Stewards. To date (July 2022 to October 2023) DOR has covered the cost and submitted reimbursement for **\$16,549.25** based on Steward Time.
 - a. Projecting the remainder of the fiscal year by using the data from the previous months' trends, DOR can expect to request reimbursement for **\$8,242.81** for the months of November 2023 to June 2024.
 - b. DOR is scheduled to begin Side Agreement negotiations on January 11, 2024, with 3 DOR Stewards participating for COWINS. The negotiation cadence is 3 days of Steward time per week (1 negotiation and 2 for research and caucus), for an average

negotiation duration of 3 months. The anticipated cost to DOR for Steward Time due to the scheduled Side Agreement is **\$751.00**.

- c. Methodology and Assumptions: This amount is based on the assumptions of the above information, the 3 Stewards current daily rate, and 11 working days in the 3-month average negotiation period.
 - d. Assumptions: Under Article 31.6 Step Placement in Pay Plan Based on Time in Job Series: Employees will receive their initial placement by March 31, 2024, and can submit additional information to their appointing authority. During the meeting to discuss the new information, employees have the opportunity under 31.6 to seek COWINS representation. It is assumed that substantial costs concerning Steward Time will be accrued during the month of April 2024.
6. **Concerning Article 29.1 Annual Leave:** DOR did not experience a significant increase in the average annual accrual leave balances between FY 2021-22 and FY 2022-23:
- a. FY 2021-22 Average Annual Leave Balance = 122 hours
 - i. The total cost for DOR for Annual Leave usage was \$239,738.
 - ii. There were a high number of employees that accrued a large amount of leave during COVID (leave roll over), and a significant amount of leave is being paid out upon termination or banked for later use by the employees.
 - b. FY 2022-23 Average Annual Leave Balance = 125 hours
 - i. The total cost for DOR for Annual Leave usage was \$317,676.
 - ii. There were a high number of employees that accrued a large amount of leave during the pandemic which was captured in the onset of FY 2022-23 (leave roll over), and a significant amount of leave being paid out upon termination or banked for later use by the employees.
7. **Concerning Article 29.3 Paid Family Medical Leave (PFML):** DOR has not seen a significant increase in the amount of PFML used by temporary employees.
- a. DOR has experienced an increase in PFML for permanent employees, from FY 2021-22 to FY 2022-23.
 - i. A total of 166 hours of PFML was recorded in FY 2021-22, resulting in a total cost of \$3,248 for permanent employees.
 - ii. A total of 2,634 hours of PFML was recorded in FY 2022-23, resulting in a total cost of \$22,575 for PFML used above the initial 80 hours.
 - iii. Assumptions: During FY 2021-22, there were other leave options available that DOR employees utilized for their particular situations, primarily PHEL and COVID Administrative Leave. The increase in PFML is presumed to account for PHEL and COVID Administrative Leave ending.
8. **Concerning Article 30.2 Holiday Pay:** DOR has a fairly stable workforce in regards to Essential-designated personnel. DOR did not experience higher costs above normal due to

Article 30.2. DOR does not anticipate a change in the classifications and positions designated as Essential that would impact Holiday Pay above normal operating expenses. DOR is scheduled to enter Side Agreement negotiations on January 11, 2024. Other statewide impacts of the partnership agreement will be provided by DPA and OSPB.

- 3 Provide a prioritized list of budget reductions the Department would propose if 10.0 percent General Fund appropriation reductions were required of every Department.

Response: DOR appreciates the question and the desire to partner with the Department on identifying reductions. On November 1st, the Governor submitted a balanced budget that provided decision items for increases and reductions that we spent over a half a year to identify and prioritize across the entire Executive Branch. The proposed budget is balanced, maintains a reserve of 15 percent, and does not require a 10 percent reduction in the General Fund to balance. If the economic conditions change, the Governor will take actions to propose reduced expenditures and submit a plan to address the shortfall to the General Assembly. If the Joint Budget Committee wants feedback on specific reduction proposals, we welcome the opportunity to work with JBC staff on estimating the impacts and tradeoffs of those proposals.

R1 GENTAX & DRIVES SUPPORT FUNDING

4. Rep. Bird: If the FTE are being added to address a backlog, are the FTE still needed after the backlog is addressed? The positions are requested as ongoing – but are they needed permanently?

Response: The backlog of system requests (SQRs) is fluid. As staff works to clear SQRs and reduce the backlog, users continue to submit SQRs to request system improvements or fixes that have been identified. So while additional FTE will help reduce the backlog more quickly and allow for the most critical SQRs to be prioritized and worked sooner, the backlog will never be completely eliminated or the system would remain static from that point forward and never be further improved.

Additionally, these FTE are not being added solely to address the existing backlog. While they initially will perform work in this area, the overall goal of adding these new FTE is to be adequately staffed to handle both current and future workload in a timely fashion. The existing level of resources supporting these two major systems is below the national *minimum*. The health of the applications are being sacrificed by not appropriately maintaining optimal functionality. The work these positions would perform includes supporting the major DRIVES system upgrade that is scheduled to begin in July 2024, which is needed in order to stay compliant with the minimum versioning requirements and to enhance the DMV's online customer experience with new features and functionality. The upgrade is estimated to take 18-24 months to complete with an estimated level of effort of 70,000 hours. These FTE will also assist with system revisions needed to implement future enhancements and fixes.

Another consideration is the investment of time and effort it takes for newly hired system support staff to become proficient supporting the GenTax and DRIVES systems. Colorado's statutory framework and tax policy is highly complex. This directly relates to the complexity of these systems and impacts the time it takes to onboard and train new employees. There is a significant efficiency to retaining these employees once they have been trained to avoid the loss of productivity that results during turnover or term-limiting certain positions and re-hiring at a later date.

R2 DEPARTMENT SPACE PLANNING

5. Rep. Bird: In regard to the decrease in cash funds in the out-year. Why the decrease in cash funds and an ongoing General Fund appropriation?

Response: The balance between General Fund and cash fund is due to the specific occupants of each location. DOR is 68 percent cash funded, so the sqft. assigned to cash funded divisions is funded from a cash source. General Funded divisions are funded from the General Fund. Additionally, not every division has an equal number of hybrid/remote or in-office employees. So the GF/CF split is based on the space plan utilizing the sqft. that would be available across these particular buildings, the assigned sqft. occupied by each specific division, and the specific situation for that division's workforce related to the need to be in-person or the ability to work remotely.

6. Rep. Taggart: Referring to hybrid/remote/in person work (referenced in briefing), why are costs going up when they actually have fewer people coming in person. Please have them give more context for the Department's space costs over a longer period (which include the Annex).

Response: DOR has reduced more sqft. and lease cost than just about any other State agency since moving to a remote-first and hybrid model in 2020. The current decision item is only one part in a long-term evolution of DOR's physical space.

Total Lease Appropriation

FY 2019-20: \$10.2 million

FY 2024-25 (if DI is approved): \$8.3 million - **19% reduction**

Total Space Reduction - Square Feet

FY 2019-20: 446,000

FY 2024-25 (if DI is approved): 266,000 - **41% Reduction**

DOR has approximately 1,700 employees.

- 75% hybrid (~1,300 employees) - mostly working remotely with periodic in-office/hoteling
- 25% in-person (~400 employees) - in DOR offices

DOR has operated under a remote-first model for nearly four years. At first, there was a level of uncertainty about how much office space DOR would need to maintain to support this new workforce structure. DOR has adjusted over the four-year period, and has continued to monitor utilization and specific divisional needs to support both its employees and its customers. DOR has

adjusted both the amount of the physical space and the type of space to be the most conducive. This has been an iterative process with several deliberate phases. This overall approach encourages flexibility, allows for collaborative space to build teams, enhances culture, and allows for in-person hoteling across the DOR workforce.

R3 DMV FRAUD INVESTIGATION RESOURCES

7. Sen. Zenzinger: Please have them discuss the connection to auto theft. How does auto theft relate to this particular request?

8. Rep. Taggart: Please provide detail on how this request interfaces with the Department of Public Safety. How are they addressing potential duplication and coordinating the use of resources to be efficient and effective?

Response: The DMV Motor Vehicle Investigation Unit (MVIU) is statutorily mandated to investigate and prevent fraud concerning the use of drivers license, ID cards, motor vehicle titles, registrations and other documents issued by the Division of Motor Vehicles, and to provide assistance to victims by use of those documents.

As it relates to the CDPS decision item, their request will support multi-jurisdictional task forces to combat auto theft. The MVIU are the State's experts in title/registration fraud and identity theft related to credentials and have specialized knowledge. The MVIU works hand-in-hand daily with a variety of law enforcement agencies and works with many of these task forces. There are instances where a law enforcement agency will investigate a vehicle theft, but they may need MVIU assistance to identify and rectify title fraud issues; or MVIU will be investigating a fraud case such as a possible VIN cloning and need to rely on Colorado State Patrol or other law enforcement to locate the vehicle for inspection. Law enforcement agencies will also refer these types of fraud to the DMV, or will need to work with MVIU to conduct their investigations.

A specific example of what an MVIU case would look like is related to vehicle theft by a forged or stolen title. A bad actor steals a vehicle and alters the VIN plate on the dashboard (the public VIN). The bad actor then uses a forged or “washed” title, or a duplicate title (one fraudulently applied) to sell the stolen vehicle to an unsuspecting victim. The buyer doesn’t know they bought a stolen vehicle until they go to the DMV to register/title the stolen vehicle. This may not be discovered until a clerk at the County Clerk’s office notices the fraudulent title and refers the case to the MVIU or it is discovered in other ways after the sale. This scenario or a version of this scenario is happening more and more with stolen identities.

The MVIU is seeing a large increase in fraud cases. From FY 2021-22 to FY 2022-23, the MVIU saw a 94 percent increase in title and registration fraud cases.

R5 MED SUPPORT FUNDING

9. Rep. Bird: This is a use that is appropriate for the Marijuana Tax Cash Fund in a way that she thinks voters would understand. She sees this as a reasonable use of the MTCF – but they need to make sure that the funds are available.

Response: DOR agrees with Representative Bird’s comment that regulation of the marijuana industry is an appropriate and statutorily allowable use of MTCF. Without a fair and consistent regulated market, sales (and therefore tax collections on those sales) could decline or become erratic. The regulatory efforts by MED to ensure compliance and consumer safety make the revenue in MTCF possible and available to fund a variety of programs across the state. DOR believes that regulation should be considered a leading priority for MTCF resources so that funds are available to support the education efforts that are also paid for from MTCF funds.

10. Sen. Zenzinger: They had a lot of discussion about the tax rates changing and whether that would impact the market revenues. What is the current status of the marijuana market in Colorado and how is the downward price pressure on recreational marijuana impacting retailers?

DOR’s Marijuana Enforcement Division (MED) does not project future marijuana sales or tax collections. Teams of economists with OSPB and LCS provide that outlook. However, DOR can share some data points that may illustrate the current condition of the industry.

Marijuana Total Sales	Marijuana Prices	Contributing Factors
<p>2023: Down 13% year-to-date through September</p> <p>2022: Down 21% compared to 2021</p>	<p>Down 30% from October 2020 to September 2023</p> <p>Down 46% from September 2016 to September 2023</p> <p>Source: Colorado MED Dashboard</p>	<ol style="list-style-type: none"> 1. Oversupply from COVID-era levels; 2. Recent legalization in surrounding states, especially Oklahoma, New Mexico, and Arizona; 3. Hemp-derived intoxicating products.

Business Renewal Applications	Occupational (Employee) Licenses	Impacts
<p>Renewal applications Down 11% for the year-to-date in 2023 as compared to 2022</p>	<p>Employee Licenses are down 13% year-over-year</p> <p>August 2022: 41,320 August 2023: 36,054</p>	<p>Business renewals and employee license applications are the main revenue drivers for MCF, the reduction in applications is resulting in lower revenue.</p>

As a result of all of these industry factors, the Marijuana Cash Fund (MCF) is directly and negatively impacted through issuing fewer occupational (employee) licenses. This is one of the main revenue sources for the MCF along with business license renewals which have also declined. These are two examples of factors contributing to the low revenue levels in the MCF.

11. Sen. Kirkmeyer: Please provide a status update on the fee increases to maintain the solvency of the MCF. Where are the fee increases? Why were they not increased sufficiently to achieve solvency?

Response: The new fee schedule took effect in July 2023 via emergency rulemaking. Historically, the MED's cash fund had a significant fund balance (due to the level of revenue and slower ramp-up of expenditures). This balance was intentionally drawn down over the years, then between 2018-2019, the Division initiated an analysis of workload and fees with a plan to align the two in 2020-2021 to ensure sustainable funding.

The Division announced its plans for a comprehensive fee setting in 2020 (with new fees to take effect in 2021). However, facing the height of the pandemic, the Division paused this effort and shifted its focus to a series of emergency rulemakings in response to the industry's "essential" status that allowed for operations throughout the pandemic (emergency rules focused on supporting social distancing and related health and safety measures for businesses, their employees, and customers).

After the initial pause of fee initiatives, the Division revisited its fee setting work in 2021, with an incremental approach in mind due to the uncertainties of the pandemic and potential market impacts. This began with restoring fees that were previously reduced in 2016, coupled with an analysis of Division operations to evaluate core needs driven by statutory obligations and to identify cost-containment and efficiency strategies (e.g. intentional vacancies, reduced space, etc.).

Then in June 2023, the Division re-engaged stakeholders to inform them of a need for fee setting (as fees had remained unchanged from pre-2016 amounts), expressing its objective to take an incremental approach. This followed with the adoption of emergency fee rules effective in July 2023, where the majority of fees were increased by 8 percent, the inflation rate for 2022. This was done in consideration of industry conditions outlined in the prior response above. Beyond the 8 percent increase, business ownership fees were adjusted to better match those fees with workload based on the levels of complexity in licensee business structures (for example, considering business structures with multiple owners and holding companies that drive increased workload). Finally, the Division identified workload increases associated with testing compliance cases, informing a new fee that will take effect in 2024 for any licensees wanting to maintain reduced testing allowances (this allows eligible licensees to save costs on required testing while also ensuring the Division is appropriately resourced to support compliance and deploy resources related to testing cases that can introduce consumer safety risks).

R7 ALIGNMENT OF EXISTING APPROPRIATIONS

12. Rep. Taggart: Please clarify why OIT is no longer willing to support the GenTax system server hosting. Why is OIT making this change? For example, does OIT have concerns about the GenTax server system? Or is another factor at play?

Response: The DI is requesting to shift \$1.2 million of existing appropriation that has a \$0 impact to the budget from Payments to OIT to DOR/Taxation so that DOR can pay the vendor for hosting services. The servers that were being used for hosting reached end-of-life. The decision was made to shift hosting services to the vendor instead of having OIT replace the servers to continue this function. The GenTax system is not antiquated or obsolete, but the hosting servers and hardware were, so this plan was developed by OIT and DOR based on efficiency and cost effectiveness. The request will align the funding to the proper place so the Department can now pay the vendor instead of OIT for the hosting services.



Department of Revenue

FY 2024-25

Joint Budget Committee Hearing

December 13, 2023



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Mission - To become a Trusted Partner to every Coloradan to help them navigate the complexities of government so they can thrive.

Vision - Empowering, Enhancing, and Enriching life in Colorado.

Values - Service, Teamwork, Accountability, Integrity, Respect

WIGS



**Increase
Self Service
Options**



**Increase Tools
for Underserved
Coloradans**



**Enhance the
Customer
Experience**



**Increase
Employee
Engagement**



2



ORGANIZATIONAL STRUCTURE AND OVERVIEW

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3

DOR Organization



Total DOR - FY 2023-24

FTE = 1,701.7

CF: 68% - \$336 million

GF: 30% - \$149 million

Total Funds: \$494 million

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4



DOR Year in Review

- Taxation - 2.7 million expedited TABOR refund checks totaling \$2.7 billion for Colorado Cashback
- DMV - 11.5 million credentials for Colorado drivers and vehicles
- Legislation
 - Taxation - 27 bills with 37 new tax credits - ~41,000 hours of programming
 - DMV - 17 bills - 2,084 hours of programming
- Cash fund challenges - Marijuana CF dropped into a deficit and needed a loan from the Insolvency CF
- Liquor Advisory Group - modernize the antiquated liquor code
- Lottery - record-setting year \$195 million to Colorado outdoor recreation and schools

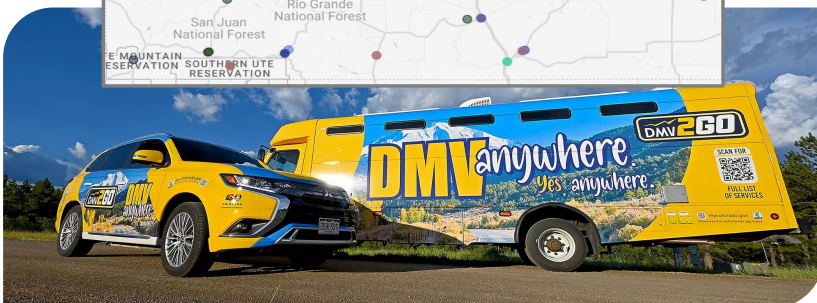
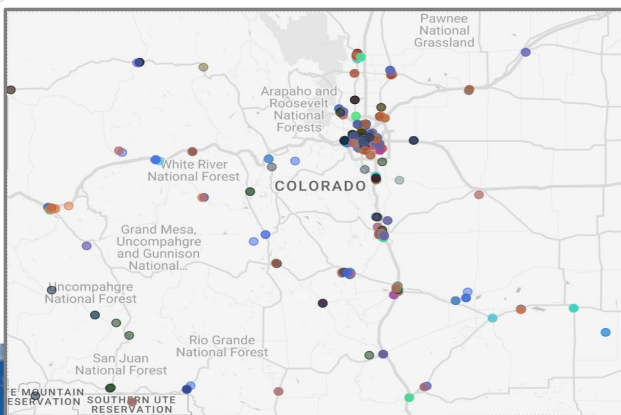
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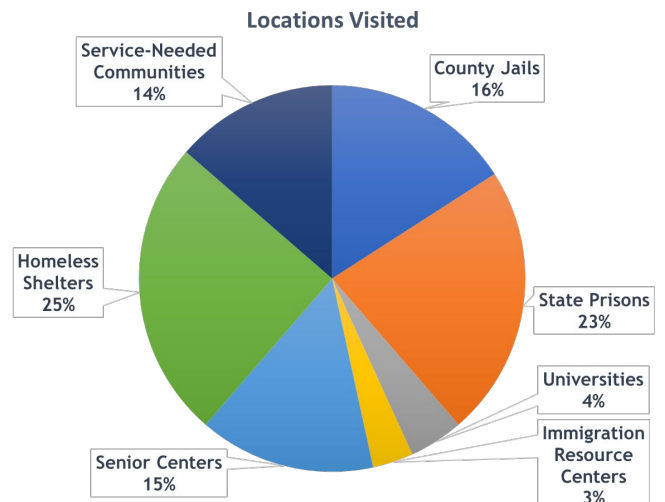


DMV2GO



FY 2022-23

- Traveled 70,387 miles
- Attended 579 events
- Received 118 requests for assistance
- Issued 9500 credentials



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6



DOR Looks Ahead

- Two major system upgrades spanning two fiscal years estimated 105,000 hours of effort
- Two pending IT Capital requests for entire system replacements
 - SBG/Alternative Substances licensing system
 - Marijuana seed to sale inventory tracking system
- Establish a new Natural Medicine Division for psilocybin (mushrooms)
- Manage evolving tax landscape with increasing complexity and additional tax credits
- Fraud prevention and consumer protection



COMMON QUESTIONS DISCUSSION



Status of Stimulus Funds

Item	Description	Total Funding	Total Expenditure	Total Projected Expenditure	Remaining Available	Expiration Date
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9



DOR's Fiscal Impact of Partnership Agreement

- July 1, 2023 ATB increase - \$5 million to base salaries much of which is being paid from DOR cash funds
- Bi-lingual pay - \$19,500
- 13 COWIN Stewards
- Leave increases are minimal at this time

DOR is scheduled to begin side agreement negotiations in January 2024

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10



FY 2024-25 DECISION ITEMS

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Decision Items

R-01	GenTax/DRIVES Support	\$547K GF/\$318K CF with 9.0 FTE
R-02	DOR Space Planning	\$365K GF and shift of FY26 appropriations
R-03	DMV Fraud Investigations	\$343K CF with 4.0 FTE
R-04	Auto Industry Division Criminal Investigator Resources	\$200K CF
R-05	Marijuana Enforcement Division Support Funding	\$3M Spending Authority from MTCF
R-06	Lottery Modernization	\$5 million one time in FY25 & FY26
R-07	Alignment of Existing Appropriations GenTax	\$0 - shift from OIT to DOR for hosting

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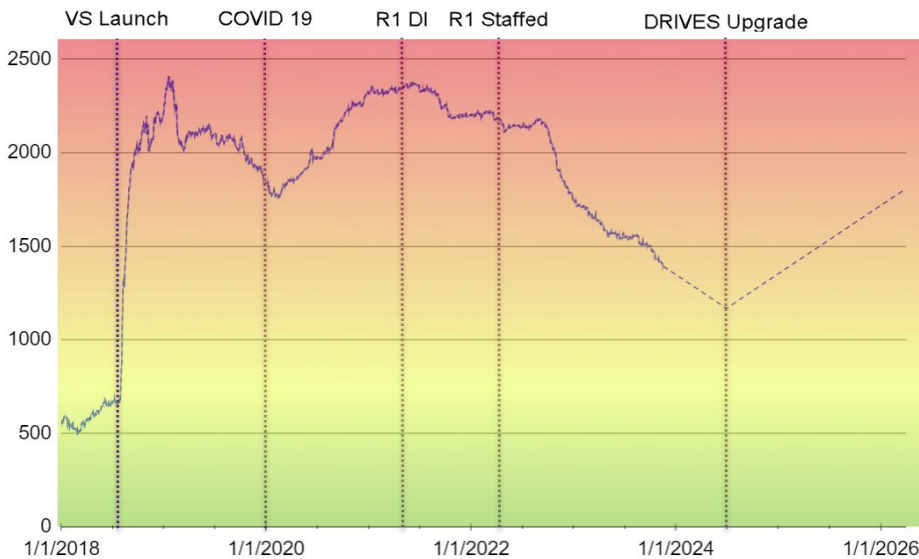


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Systems Upgrade & Support

DRIVES SQR (Request) Volume



- Two major systems that require intentional on-going investment
- Programming and maintenance exceed capacity when looking forward

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13



R-02 DOR Space Planning

R-02 DOR Space Planning

\$365K GF

Goal: To further reduce underutilized office space resulting from the hybrid workforce while providing better accommodations for DOR employees and customers.

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DOR Workforce

- **1,700 employees**
 - **75% hybrid (~1,300 employees)** - mostly working remotely with periodic in-office/hoteling
 - **25% in-person (~400 employees)** - in DOR offices
- **Intentional Hybrid Culture**
 - Flexibility to accommodate collaborative space to build teams, enhance culture and allow for in-person training



Reason for Request

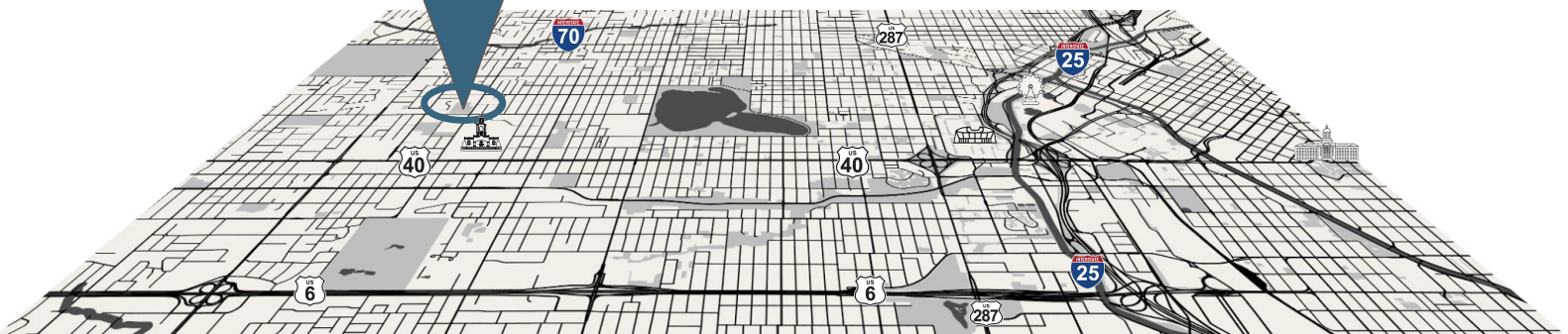
- ① Underutilized office space at Pierce
- ② Need for more collaborative space
- ③ \$3.5M - parking lot replacement
- ④ 1881 Pierce Street Market Assessment
- ⑤ Central Denver Service Center
- ⑥ Partnerships with CDOT and AHEC





Current Space Utilization

Location: 1881 Pierce St. Lakewood
Sections: DMV, TAX, LOT, Cashiers
Total Square Footage: 89,000
Lease cost: \$880,000 annual (Capitol Complex)



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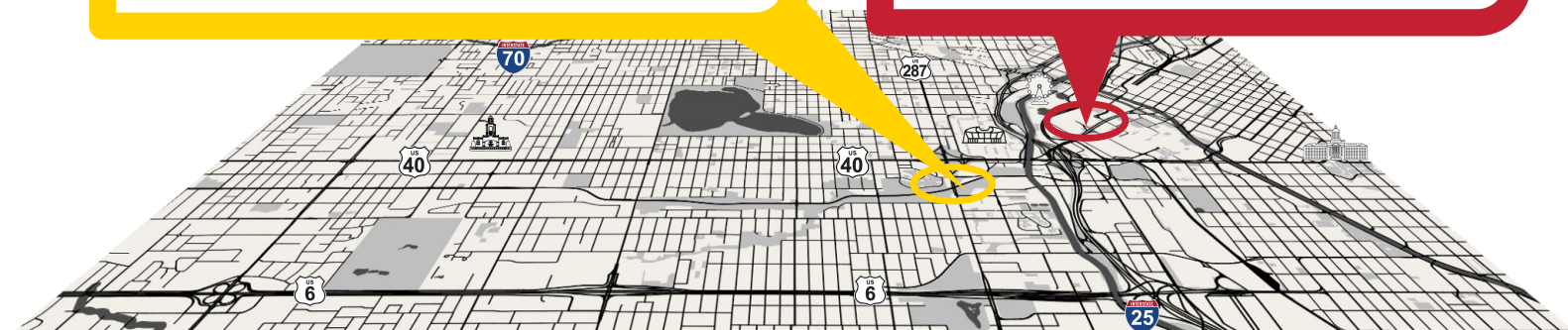
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Proposed Space Utilization

Location: CDOT 2829 W. Howard Pl, Denver
Sections: DMV, TAX, EDO Back Office
Total Square Footage: 35,000
Lease cost: \$875,000 annual (estimate)
Back office work

Location: AHEC 650 Walnut St, Denver
Sections: DMV, TAX, Cashier
Total Square Footage: 11,800
Lease cost: \$330,000 annual (estimate)
Customer facing services



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18



19



Funding Reduction & Request

Total Lease Appropriation

FY 2019-20 - \$10.2 million

FY 2024-25 (if DI is approved) - \$8.3 million - **19% reduction**

Total Space Reduction - Square Feet

FY 2019-20 - 446,000

FY 2024-25 (if DI is approved) - 266,000 - **41% Reduction**

1. Capital Construction Request - \$3.5 million to buildout (AHEC)
2. Budget Request - \$365,000 FY 2024-25 (ongoing)
 - a. Pierce St. Capitol Complex is ~\$9/sqft.
 - b. AHEC and CDOT are estimated to range from \$25-\$30/sqft.



Benefits of the Request

- Enhanced access for DOR customers
- Economic development opportunities to contribute to AHEC vision
 - Estimated 1,900 customers per week
- Opportunity to re-purpose or develop the land at 1881 Pierce St. along with the adjacent state-owned land
 - Avoidance of \$3.5 million parking lot
- Reduction of physical footprint
 - Decrease in 42,000 sq. ft. for a total reduction of approximately 179,000 sq. ft.
- Improved conditions for employees and customers



Important Notes

All three parts of this funding plan (Capital Construction and DI for FY 25 and FY 26) have to be known before any steps can be taken because:

- 12 months advance notice to vacate a Capitol Complex building is required by the lease agreement with DPA
- A notice to vacate cannot be provided unless construction and lease funding for both alternate locations is confirmed
- Construction has a long lead time and will take most of the fiscal year to bid, contract, and complete

This is a coordinated 3-part plan that all needs to be decided in order to be successfully executed.



Timeline

Spring 2024 - Decisions on funding requests

If all 3 components are approved:

- July 1, 2024 - notice of intent to vacate the Capital Complex Pierce St. building effective June 30, 2025
- During FY 2024-25:
 - AHEC Construction
 - Planning for and moving into the two co-location buildings late in the fiscal year



R-03 and R-04 Auto Theft and Consumer Fraud Protection

R-03	DMV Fraud Investigations	\$343K CF with 4.0 FTE
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Goal: To address the rising demand for investigation into motor vehicle fraud and theft, which have risen by 88 percent since 2017. Colorado has the highest auto theft per capita in the nation.

R-04	Auto Industry Division Criminal Investigator Resources	\$200K CF
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Goal: To enhance AID's ability to staff at adequate levels to address a 42 percent increase in consumer complaints and subsequent investigations.



R-05 Marijuana Enforcement Division Support Funding

R-05 MED Support Funding

\$3M Spending Authority from MTCF

Goal: To partially restore the previously eliminated support from the Marijuana Tax Cash Fund (MTCF) which will lessen the exclusive burden on the Marijuana Cash Fund (MCF). The MCF fell to a negative cash position last fiscal year and required a loan from the Insolvency Cash Fund.

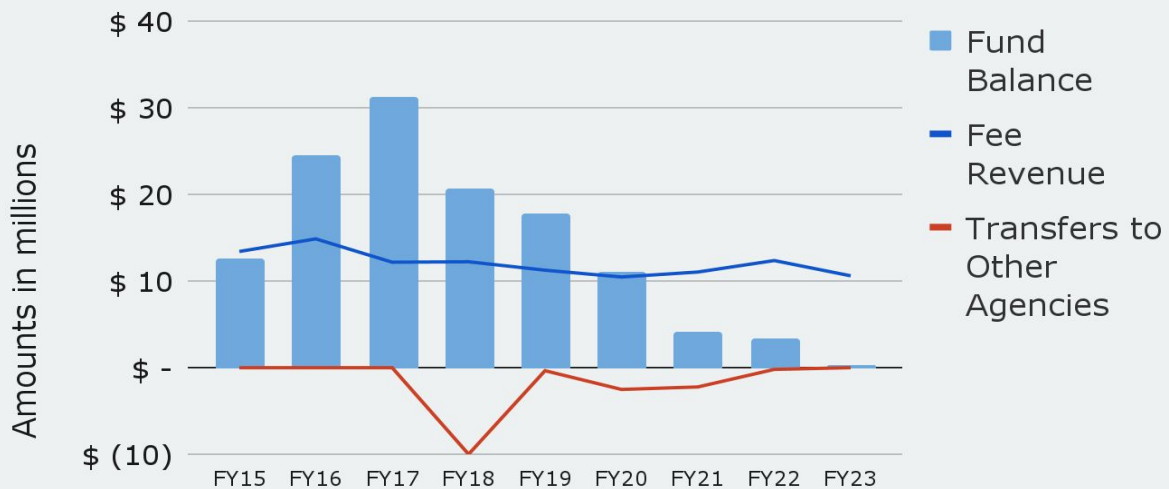
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Marijuana Cash Fund Insolvency



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History of Marijuana Tax Cash Fund for MED



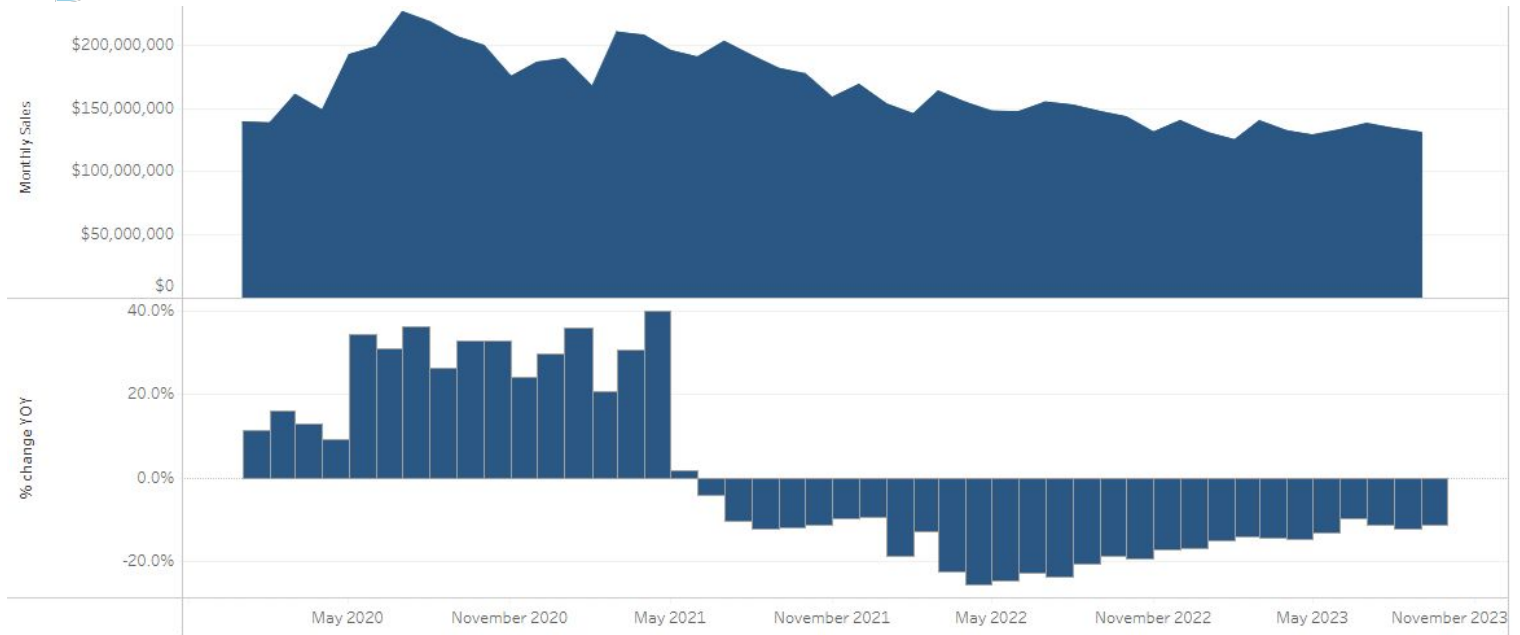
Colorado Marijuana Industry Challenges

Marijuana Total Sales	Marijuana Prices	Contributing Factors
<p>2023: Down 13% year-to-date through September</p> <p>2022: Down 21% compared to 2021</p>	<p>Down 30% from October 2020 to September 2023</p> <p>Down 46% from September 2016 to September 2023</p> <p>Source: Colorado MED Dashboard</p>	<ol style="list-style-type: none">1. Oversupply from COVID-era levels;2. Recent legalization in surrounding states, especially Oklahoma, New Mexico, and Arizona;3. Hemp-derived intoxicating products.





Marijuana Industry Sales Trends

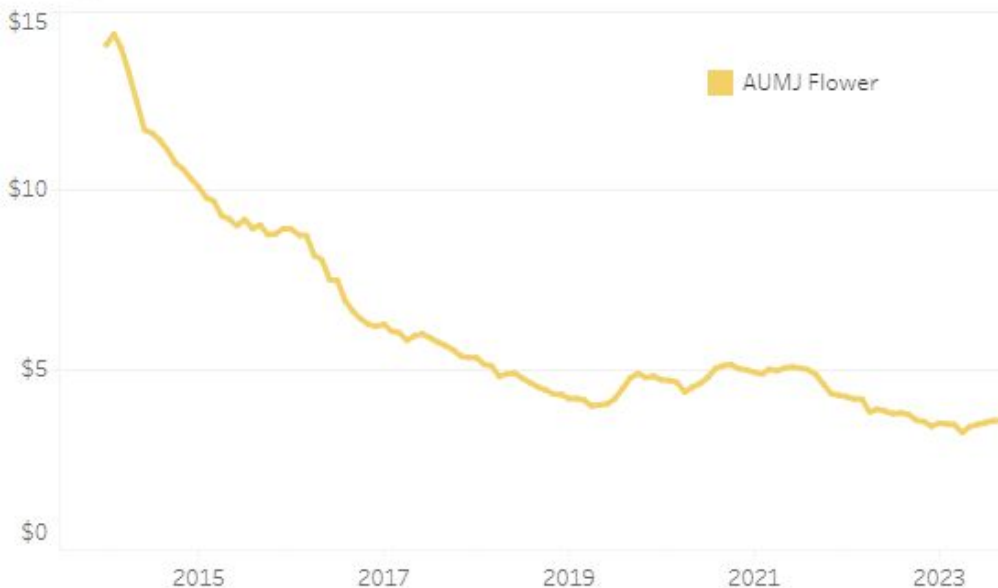


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Colorado Marijuana Pricing Trends

Average Price Per Gram of Flower and Shake/Trim



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Industry Challenges = Fewer Applications = Lower Revenue

Business Renewal Applications	Occupational (Employee) Licenses	Impacts
Renewal applications Down 10.7% for the year-to-date in 2023 as compared to 2022	Employee Licenses are down 13% year-over-year August 2022: 41,320 August 2023: 36,054	Business renewals and employee license applications are the main revenue drivers for MCF; the reduction in applications is resulting in lower revenue.

Source: MED licensing software database and [Colorado MED Dashboard](#)

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Marijuana Cash Fund Status and Actions

- Operating in a deficit due to declining revenue despite cost cutting efforts
- Cash fund was negative in FY 2022-23 requiring a \$1.5 million loan from the Insolvency Cash Fund
- The majority of fees were increased by 8%, the inflation rate for 2022
 - This was done in consideration of industry conditions.
- Working with OSPB to explore all options to restore MCF to a stable financial position including this request to partially restore MTCF spending authority.

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Cost Saving Steps Initiated by MED

- Intentional vacancies resulting in ~\$3.7 million of cost savings annually
- Closures and efficiencies:
 - Lakewood (downsized 2020); CO Springs (downsized June 2022); Longmont (closure underway); Grand Junction (downsizing underway)
- Efficiency measures and stakeholdering underway:
 - Current efforts focused on streamlining processes, forms, and cost-cutting measures
- Identification of other funding sources
 - Request for MTCF (not approved in 2023)
 - Insolvency Fund (loan)
 - Reversion (approved 2023)

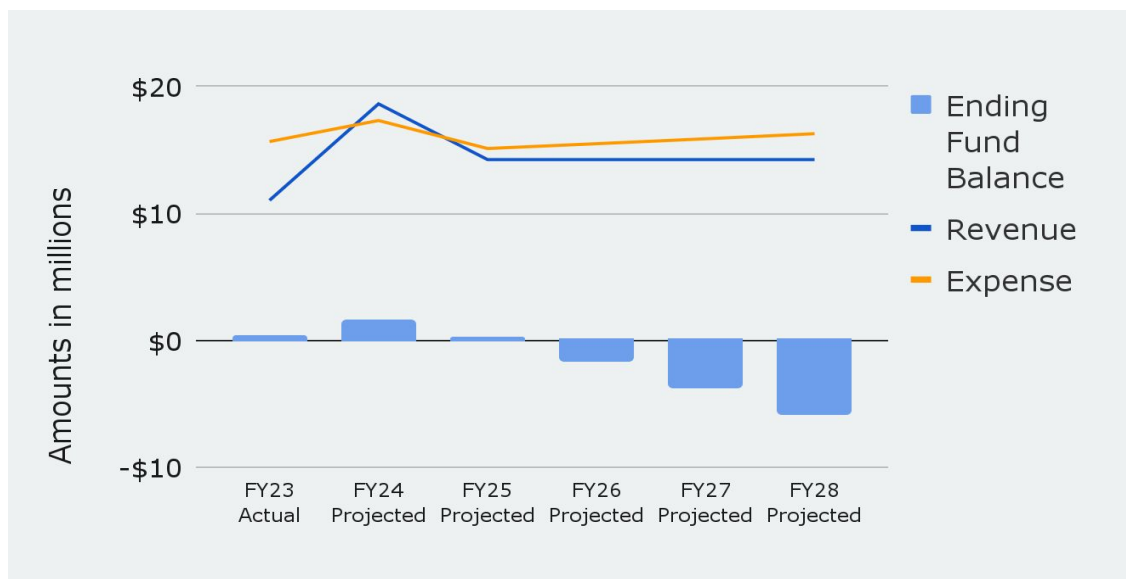
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Marijuana Cash Fund Forecast with the Requested MTCF



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Wrap up

- MED Mission is about protecting public health and safety via effective regulation of the Colorado commercial marijuana industry
- Market dynamics with state & national Impacts
- Even with cost cutting measures, current fee revenue is insufficient alone to cover the MED's regulatory obligations as directed by the General Assembly
- MTCF partial restoration of prior appropriations



R-06 Lottery Modernization

R-06	Lottery Modernization	\$5 million one time in FY25 & FY26
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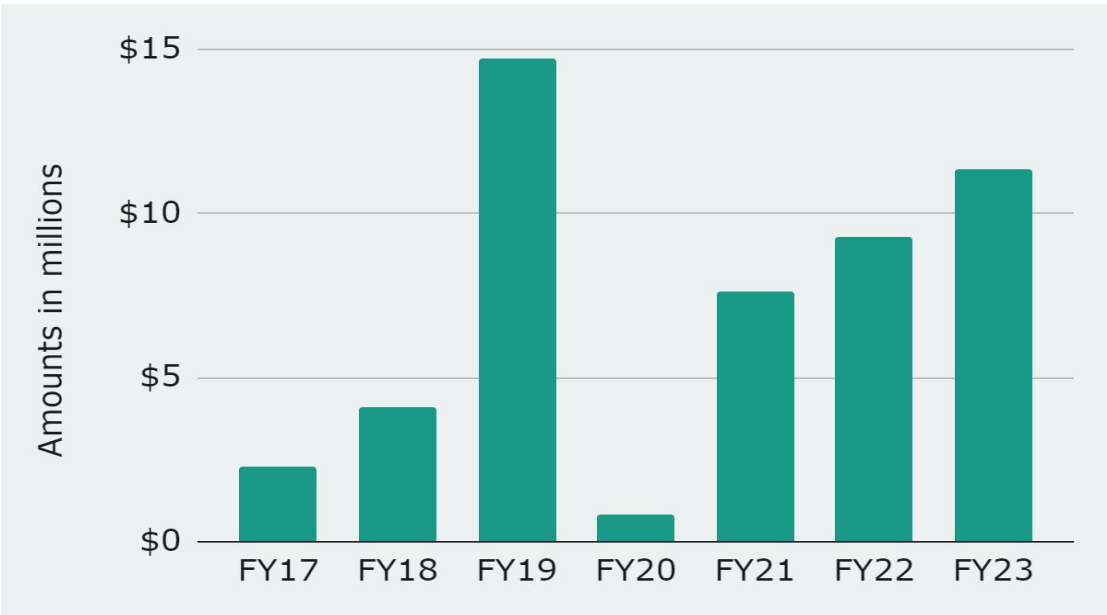
Goal: To purchase modern merchandising equipment for retailers as a continuation of the first year of funding that was approved by JBC for FY 2023-24.



Proceeds to Colorado Outdoors and Schools



Proceeds to the BEST Program





Lottery Performance Audit

The audit was completed and presented to the Legislative Audit Committee on Monday, December 11, 2023

There were no findings related to Lottery's business model including sales, the use of self-service machines, location/placement, or security concerns.



R-07 Alignment of Existing Appropriation

R-07	Alignment of Existing Appropriations - GenTax	\$0 impact
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Goal: To shift existing Payments to OIT appropriation to DOR for GenTax hosting that has been transitioned from OIT to the vendor



THANK YOU QUESTIONS?

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