

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Andrea Uhl, JBC Staff (303-866-4956)
DATE May 15, 2020
SUBJECT Department of Revenue – Revised Balancing Recommendations

→ PARTIALLY EXECUTE R9 SHIFT SPENDING TO CASH FUNDS - DMV

During the initial budget balancing presentation for the Department of Revenue, staff recommended, and the Committee approved, refinancing \$750,000 of General Fund within the (4) Division of Motor Vehicles, (B) Driver Services, (1) Driver Services – Personal Services line item with \$750,000 from the Licensing Services Cash Fund (LSCF).

Staff would like to specify that the intent is for this refinancing to remain in the base appropriation for out-years.

In an OSPB comeback, the Department proposed a refinancing of \$2,000,000 General Fund to cash fund spending authority *if* the DMV's two major funds, the Colorado DRIVES vehicle services account and Licensing Services Cash Fund, are combined. While the LSCF is on a path to insolvency, the DRIVES fund has a higher than necessary fund balance due to underspending since the system's implementation and the balance from the retired system's cash fund (the Colorado State Titling and Registration Account) being transferred over.

OSPB's proposal "combines two cash funds to maximize the use of existing cash reserves". Staff has reservations about combining two cash funds that are funded by different revenue streams. Colorado DRIVES is a subaccount of the Highway Users Tax Fund and collects revenue from vehicle title application fees and specific ownership taxes. It is staff's understanding that the HUTF retains a portion of the revenue. Additionally, the counties make payments into DRIVES for each title they issue. The LSCF collects fees from driver's license documents. Implementing this proposal would require substantial statutory changes that were not addressed in the comeback document. Staff feels there is insufficient time and information to undertake this proposal at this time.

The crux of OSPB's proposal is that the LSCF is insolvent, but DRIVES has balance to spend. Staff is therefore recommending the Committee **sponsor legislation for a one-time transfer of \$2.0 million from the DRIVES vehicle services account to the LSCF**. This provides relief to the LSCF in the short-term without making major structural changes to the DMV's cash funds. **If this recommendation is approved, staff recommends the General Fund appropriation to (4) Division of Motor Vehicles, (B) Driver Services, (1) Driver Services – Personal Services line item be reduced by an additional \$1,250,000 and replaced with LSCF**. These actions, combined with the previously approved recommendation, would result in a total of \$2.0 million General Fund savings within the DMV.

PROPOSED CHANGES AFFECTING LSCF		
	FY 2020-21	FY 2021-22
Ongoing General Fund reduction	(\$750,000)	(\$750,000)
Transfer in from DRIVES	2,000,000	-
One-time General Fund reduction	(1,250,000)	-
Net burden on LSCF	-	(750,000)

OSPB’s comeback failed to mention that legislation would be required to combine the two cash funds. Legislation would also be needed to transfer funds from DRIVES to the LSCF on a one-time basis. **Staff requests permission to work with Legislative Legal Services on draft legislation for this transfer.**

→ TRANSFER PORTION OF MARIJUANA CASH FUND BALANCE TO GENERAL FUND

During the initial budget balancing presentation for the Department of Revenue, staff recommended, and the Committee approved, transferring \$3.0 million from the Marijuana Cash Fund (MCF) to the General Fund.

Through the OSPB comeback process, the Department offered a counterproposal to use \$1.4 million of MCF to pay for the Marijuana Laboratory Testing Reference Library within the Colorado Department of Public Health and Environment (CDPHE), therefore freeing up \$1.4 million from the Marijuana Tax Cash Fund (MTCF) and leaving those funds unappropriated.

Staff recommends that the Marijuana Laboratory Testing Reference Library within CDPHE be funded by **\$1.4 million reappropriated funds from the MCF within the Department of Revenue beginning in FY 2020-21 and ongoing. Additionally, staff recommends revising the approved \$3.0 million cash fund transfer from MCF down to \$1.6 million.** This would result in the same burden on the MCF in FY 2020-21 while providing \$1.4 million in savings in the MTCF on an ongoing basis. The absorption of the CDPHE lab by the MCF can then be accounted for by the rate study that is currently underway to assess necessary fee increases in the near future.

Based on the cash fund detail provided in comebacks, absorbing the \$1.4 million cost of the lab and a \$1.6 million transfer to the General Fund would result in a FY 2020-21 ending balancing of \$3,004,32 (shown in the second table), which is approximately \$300,000 the 16.5 percent target.

MCF CASH FLOW WITHOUT TRANSFER			
	FY 2019-20	FY 2020-21	FY 2021-22
Beginning balance	\$17,897,400	\$12,434,570	\$4,604,321
Revenue	12,412,965	12,250,018	12,409,505
Expenses	17,875,795	18,680,267	18,236,044
CDPHE Lab		1,400,000	1,400,000
Ending Fund Balance	12,434,570	4,604,321	(2,622,218)

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Expenses	17,875,795	18,680,267	18,236,044
CDPHE Lab		1,400,000	1,400,000
Cash fund transfer out	-	1,600,000	-
Ending Fund Balance	12,434,570	3,004,321	(4,222,218)

The CDPHE lab generates a small amount of fee revenue (approximately \$30,000 annually) that is deposited into the MTCF. The Department believes legislation will be needed to redirect these fees to the MCF. **If this recommendation is approved, staff requests permission to work with Legislative Legal Services on identifying the need for a statutory change and drafting the legislation.**