COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2008-09 STAFF BUDGET BRIEFING
DEPARTMENT OF REVENUE

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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FY 2008-09 JBC Staff Budget Briefing
Department of Revenue

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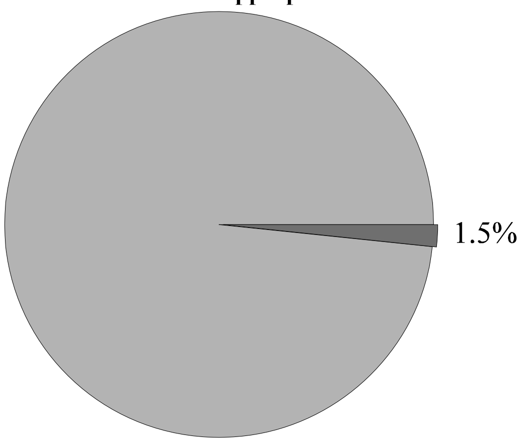
GRAPHIC OVERVIEW

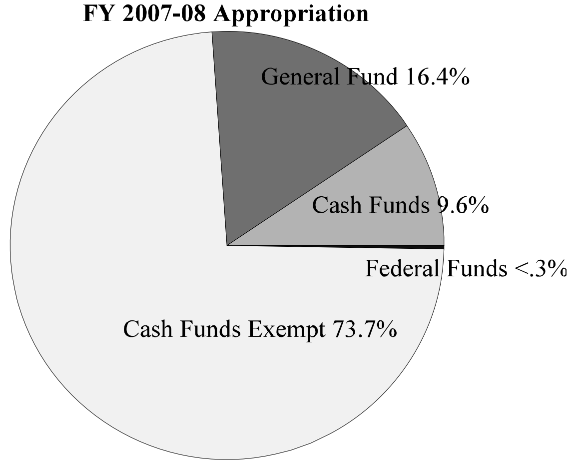
Department Share of State General Fund

FY 2007-08 Appropriation

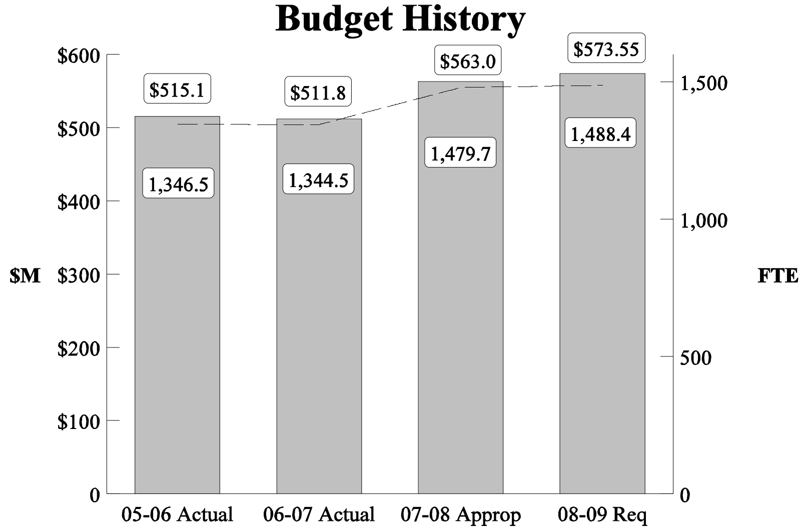


Department Funding Source Split

FY 2007-08 Appropriation



Budget History



DEPARTMENT OVERVIEW

Key Responsibilities

- Collect, administer, and enforce the following taxes and license fees:

  Income tax, including withholding
  Sales and use tax
  Gasoline and special fuel tax
  Tobacco tax and cigarette tax
  Severance tax
  Estate tax (does not apply when date of death was on or after January 1, 2005)
  Drivers licenses, ID cards, and vehicle titling fees
  Automobile dealers, commercial driving schools, vehicles and traffic
  Fermented malt beverages, alcoholic beverages.

- Enforce the statutes prohibiting the sale of cigarettes and tobacco products to minors.
- Conduct audits of oil, gas, and mineral rents and royalties, the mill levy revenue from oil and gas production, and severance taxes accruing from federal, state, and private lands.
- Oversee the motor carrier services division, the liquor enforcement division, the division of racing events, the division of gaming, and the state lottery division.

Section 24-35-113, C.R.S. requires the Executive Director to organize the department so that all employees of the department, insofar as possible, are interchangeable in work assignment.

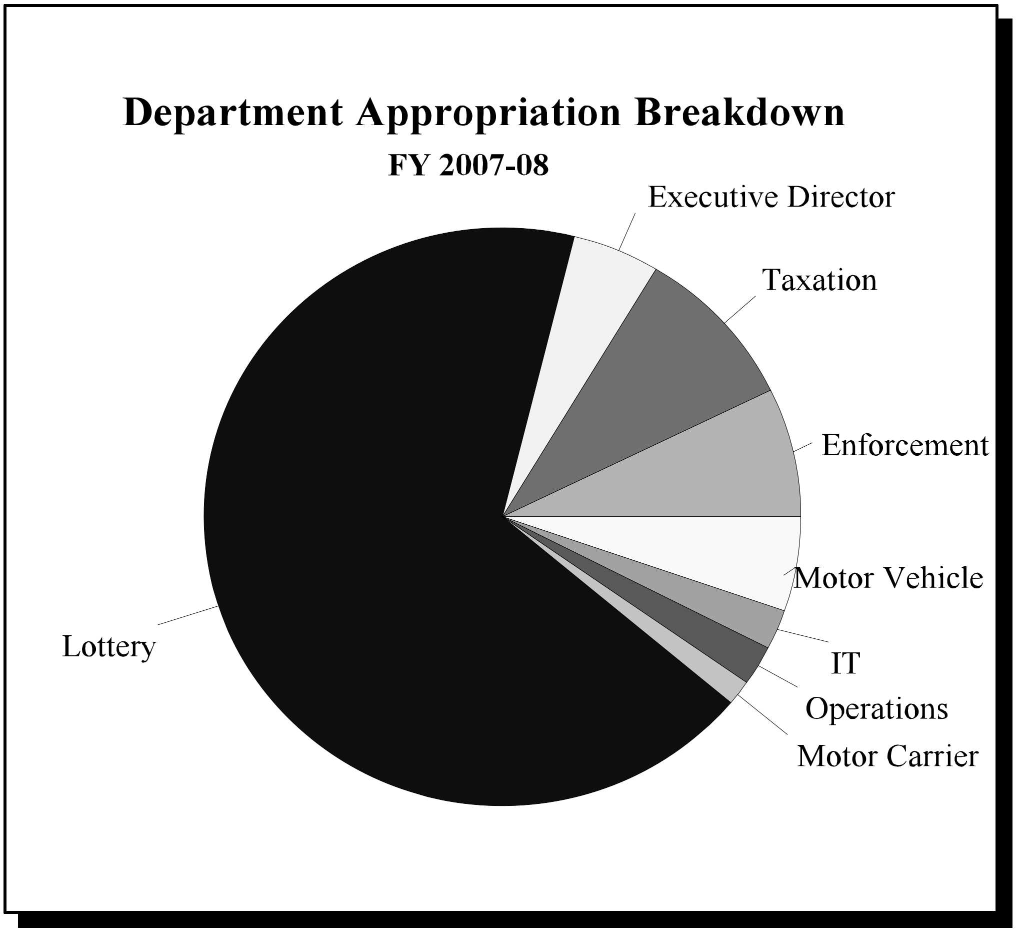
Factors Driving the Budget

The Department's primary budget drivers are the state tax structure, population levels, business activity in regulated industries, and technological capabilities. Increases in mineral severance activity and legislative changes regarding identification document security have increased demands on Department staff and systems.

The Department is organized into three functional groups: Taxation, Motor Vehicles, and Enforcement. These functional areas are supported by the Executive Director's Office, Central Department Operations, and Information Technology Divisions. The Department is also responsible for the Motor Carrier Services Division, which has the dual roles of tax collection and highway safety responsibilities.

The Department is responsible for collecting and distributing moneys for the Cigarette Tax Rebate; the Amendment 35 Distribution to Local Governments, the Old Age Heat and Fuel and Property Tax Assistance Grant, and the Alternative Fuels Rebate. Finally, the Department operates the State Lottery, which accounts for almost 70 percent of the Department's annual budget.

A chart of the Department's budget by function is shown below:



Last year, the Central Department Operations Division received and distributed more than $10 billion in taxes, fines, fees, and licensing payments for the state and local governments, and handled more processed more than 6.4 million pieces of mail.

The Department is authorized in statute to contract with any city or county for collecting any tax which it also collects for state government. (Section 24-35-110, C.R.S.) Central Operations receives and distributes sales and use taxes on behalf of more than 246 local governments and special districts.

<u>Taxation Business Group</u>
The Taxation group administers business taxes; income tax; severance tax; estate and transfer taxes; special taxes, including gasoline, special fuel, aviation fuel, cigarette, tobacco, and liquor excise taxes; public utility assessments; and food service licensing fees. This group also administers the Old Age Heat & Fuel and Property Tax Assistance Grants for approximately 36,000 applicants each year, the Cigarette Tax Rebate to local governments, the Amendment 35 Distribution to Local Governments of the proceeds from the Tobacco Tax Fund, and the Alternative Fuels Rebate.

Electronic tax filing, in which taxpayers enter their own data onto an online form, and other associated electronic transactions, reduce forms processing and data entry expense. The Department has promoted electronic filing through many communications channels, resulting in higher levels of electronic transactions. Electronic funds transfer payments now make up about 61 percent of total payments (although the number of paper checks continues to increase); electronically filed individual income tax returns are 55 percent of the total; and direct deposit of individual income tax refunds is about 52 percent of the total.

The Mineral Audit Program

This unit audits oil, gas, and mineral rents and royalties; the mill levy from oil and gas production; and severance taxes from federal, state, and private lands. It receives funding from the U.S. Department of Interior's Minerals Management Service under a cooperative agreement for delegated authority to audit federal minerals production in Colorado. Federal royalties are shared 50/50 with the state.

Motor Vehicles Business Group

New legislation on both the state and federal level is a significant budget driver for the Division. Recent federal and state laws that have affected the Division are discussed in the issues section of this document.

The Colorado State Titling and Registration System (CSTARS) was created in 1983 to automate the distribution of vehicle registration taxes among the state, the 64 counties, and the Highway Users Tax Fund. CSTARS enables Colorado's 64 county clerks offices to issue approximately 2.1 million vehicle titles and 4.3 million vehicle registrations every year. The CSTARS Rewrite Project, a new system initiated in FY 2002-03, was scheduled to be deployed in stages into all the county offices by the end of the FY 2006-07. However, "go live" requirements for deployment at the county level became problematic and this project was put on hold in the spring of 2007. Presently, no decisions have been made whether to continue forward with this project.

S.B. 07-241 authorized the opening of three new drivers license offices and the hiring of 53.0 FTE. The Department expects to open the offices in Jefferson County, Larimer County and northeast Denver during March 2008. It has to date, hired 47.0 of the 53.0 FTE that were authorized in the bill.

The Motor Carrier Services Division, administered through the Motor Vehicles Division, registers motor carriers, collects fuel taxes, collects registration fees from fuel distributors, petroleum storage companies, and interstate carriers, ensures compliance with vehicle safety regulations, operates the state's ports of entry, and enforces laws governing owners and operators of motor carriers.

Enforcement Business Group

The Enforcement Business Group regulates the liquor, tobacco, racing, gambling (except games of chance operated for charity, which are regulated by the Secretary of State) and automobile sales industries.

Limited Gaming Division

In 1991, the Colorado Constitution was amended to allow limited stakes gaming in three Colorado cities: Central City, Black Hawk, and Cripple Creek. Gaming taxes, fees, and other revenues are paid into the Limited Gaming Fund. The Limited Gaming Control Commission approves the Division's annual budget. The Commission also approves budget requests for gaming-related purposes for the Department of Public Safety, more than $2.5 million for FY 2006-07, and for the Department of Local Affairs. For FY 2005-06, gaming revenues were $108 million and Division, Commission, and related expenses were $8.7 million, for net proceeds of $99.3 million.

Liquor

The Liquor Enforcement Division collected $2,119,050 in FY 2005-06, including $1,051,016 by screening liquor renewal license applications for existing distraint warrants on taxes owed by licensees. The Division enforces the law prohibiting serving and selling to minors and underage consumption. This Division also includes the Tobacco Enforcement Program.

Racing

The first major function of the Division of Racing Events and the Colorado Racing Commission is to promote racing. The Division has overseen four greyhound racetracks and one horse racetrack. One of the greyhound tracks, the Cloverleaf Kennel Club in Loveland, is not open in 2007 for live racing, but offers simulcasts of other venues. The Department states this will not cause staffing or funding changes. In FY 2005-06, the Division collected approximately $3.4 million in pari-mutual taxes and $1.9 million in fees, while spending $2.5 million in cash funds. An additional $118,000 was paid to Colorado State University for racing-related equine research.

Motor Vehicle Dealer Licensing Board

Last year the Board issued and renewed a total of more than 19,000 licenses of dealers, wholesalers, and salespeople. The Motor Vehicle Dealer Board 2006 Sunset Review recommended the Board be continued for another five years, and also made the following recommendation:

> *Modify the composition of the Board by replacing one new motor vehicle dealer member and one used motor vehicle dealer member with a Colorado county clerk and an individual employed as an executive in the financial lending sector.*

Lottery

The State Lottery recorded sales of more than $468.8 million in FY 2005-06. Expenses, including prizes (which must total at least 50 percent of sales), were $346.7 million. Net proceeds were $122.1 million, and distributions from the Lottery Fund were $125.6 million.

The 2005 and 2006 Lottery Audit found that the new software contractor, Scientific Games, has not been able to produce certain required reports: those showing when retailers' funds should be paid the Lottery (staff have had to prepare the reports manually) and those identifying the remaining ticket inventory for expired games. The auditors recommended actions to address these problems and also recommended that the Lottery have an independent examination of its internal information system.

The goal of the State Lottery is to maximize revenue, and its FY 2006-07 appropriation included $8.9 million for marketing. Lottery revenues are paid into the Lottery Fund, and net proceeds from the preceding quarter are distributed according to Section 33-60-104 C.R.S.

Summary of Major Legislation Affecting the Department

- ✓ **S.B. 07-27 (Tupa//Witwer): Creation of a U.S. Coast Guard Special License Plate**

- ✓ **S.B. 07-67 (Brophy/Carroll T.): Creation of a Share the Road Special License Plate.**

- ✓ **S.B. 07-177 (Tapia/Buescher): Supplemental Appropriation.** Provides a supplemental appropriation to the Department to modify FY 2006-07 appropriations included in the FY 2006-07 Long Bill (B.B. 06-1385). Includes $372,533 General Fund to implement H.B. 06S-1023.

- ✓ **S.B. 07-239 (Tapia/Buescher): General Appropriations Act (Long Bill) for FY 2007-08.**

- ✓ **S.B. 07-241 (Johnson/Pommer): Concerning Drivers License Fees, a New Cash Fund, and New Drivers License Offices.** Increases fees on drivers licenses and special license plates, creates a new cash fund, and appropriates $5.8 million from the new cash fund for FY 2007-08 for existing and new drivers license offices and staff. Reduces General Fund appropriations in the FY 2007-8 Long Bill by $5.8 million.

- ✓ **S.B. 07-253 (Schwartz/Sonnenberg): Concerning Stabilization of Oil & Gas Production Revenues.** Directs the Legislative Council Staff, in consultation with the Office of State Planning and Budgeting, to prepare a quarterly forecast of severance revenues, including price and production volume. Severance revenues include state severance tax revenues and the state share of federal mineral leasing royalties.

- ✓ **H.B. 07-1020 (McFadyen/Hagedorn): Concerning Motor Vehicle Temporary Tag Fraud.** Increase penalties for failing to register a motor vehicle.

- ✓ **H.B. 07-1081 (Marostica/Tochtrop): Concerning Powersports Motor Vehicle Dealers.** Provides for the regulation of the powersports vehicle industry.

- ✓ **H.B. 07-1120 (Frangas/Tochtrop): Creation of a Italian-American Heritage Special License Plate.**

- ✓ **H.B. 07-1200 (Liston/Tochtrop): Creation of a Air Force Special License Plate.**

- ✓ **H.B. 07-1269 (McGihon, Shaffer): Smoke Free Casinos.** Repeals the exemption for casinos from the smoke free provisions of the Colorado Clean Indoor Air Act, effective January 1, 2008.

- ✓ **H.B. 07-1314 (Cerbo/Groff): Extend Rules for Receiving Public Benefits.** Requires the Executive Director to promulgate rules providing for additional forms of identification and a waiver process to individuals seeking public benefits.

✓ **H.B. 07-1349 (Kefalas/Ward): Concerning Child Support Obligations.** Requires the Department of Revenue to create and maintain a registry for the purpose of registering information concerning the gambling winning of parents with outstanding child support obligations.

✓ **H.B. 07-1352 (Rice/Ward): Concerning the Service Members Special License Plate.** Creates a U.S. Army Special Forces special license plate and expands the list of those who may be issued a Fallen Service Member special license plate.

✓ **H.B. 07-1361 (Madden/Isgar): Concerning Verification of Conservation Easement Tax Credits.** Imposes reporting requirements on organizations that accept conservation easement donations that are a basis for an income tax credit, imposes additional requirements on taxpayers that claim an income tax credit for a conservation easement donation, and authorizes the Department to require a second appraisal on such claims.

✓ **H.B. 06S-1015 (Kerr/Keller): Concerning Requirement that a person withhold Colorado Income Tax From a payment to a person other than employee**. Sets forth requirements for withholding taxes from persons other than employees who perform work in Colorado, and appropriates $93,750 to the Department for implementation.

✓ **H.B. 06S-1023 (Romanoff/Fitz-Gerald): Concerning Restrictions of Public Benefits for Person Eighteen Years of Age or Older.** Requires the Department to verify the status of persons seeking benefits from the state before issuing those benefits, with exceptions.

✓ **H.B. 06-1019 (Soper/Tochtrop): Addition of a Line to Colorado State Individual Income Tax Return Forms Whereby Individual Taxpayers May Make a Voluntary Contribution to the Colorado Easter Seals Fund.**

✓ **H.B. 06-1072 (Vigil/Tapia): Issuance of Special License Plates Honoring Service in the Armed Forces of the United States, and, in Connection Therewith, Authorizing Family Members of a Person Who Has Died Serving in the United States Armed Forces to be Issued a Fallen Service Member Special License Plate.**

✓ **H.B. 06-1178 (Butcher/Williams): Concerning the Motorist Insurance Identification Database Program Used to Identify Persons Who Own Motor Vehicles That Are Not Insured.** Restructures the Motorist Insurance Identification Database (MIIDB) by eliminating the program's previous enforcement functions. Permits the Department to contract with a vendor to perform the new functions of the MIIDB. Requires the Department to provide a report to the House Business Affairs and Labor Committee by January 1, 2008, regarding the program's effectiveness under the terms of the current legislation.

✓ **H.B. 06-1297 (Decker/Shaffer): Addition of a Line to Colorado State Individual Income Tax Return Forms Whereby Individual Taxpayers May Make a Voluntary Contribution to the Multiple Sclerosis Fund.**

✓ **H.B. 06-1312 (Vigil/Sandoval): Concerning Written Responses Issued by the Executive Director of the Department of Revenue upon the Request of Taxpayers.** Allows taxpayers to request a private letter ruling from the Executive Director of the Department of Revenue on the tax consequences of a proposed or completed transaction. Requires the Executive Director to establish rules pertaining to the private letter ruling process and under what circumstances such rulings are binding on the Department or may be revoked. Appropriates $72,000 cash funds and 1.0 FTE to the Department of Revenue in FY 2006-07 for the costs of implementing this legislation.

✓ **H.B. 06-1354 (Madden/Teck): Amount of the Fair Market Value of a Conservation Easement in Gross Donated to a Nonprofit Entity that May be Claimed as a Credit Against the State Income Tax.** Changes the credit to a one-tier structure, 50% of the value of the easement, and increases the maximum amount of the credit to $375,000.

✓ **H.B. 06-1388 (Buescher/Sandoval): Concerning the Ability of the Executive Director of the Department of Revenue to Address Alleged Violations Relating to Motor Vehicle Dealers.** Grants the Executive Director jurisdiction to resolve actions regarding violations of the motor vehicle dealer law and to promulgate rules to administer proceedings, and specifies that the Court of Appeals has initial jurisdiction to review the Executive Director's final actions.

✓ **S.B. 05-47 (R. May/Ragsdale): Drivers License Expiration Period.** Makes several statutory changes related to driver's licenses and identification cards, the most significant of which is reducing expiration periods from ten years to five years and reduces fees proportionately.

✓ **H.B. 05-1244 (Hoppe/Veiga): Administration of the Credit Against the State Income Tax for Donations of Perpetual Conservation Easements.** Gives the Executive Director of the Department of Revenue the authority to require additional information from the taxpayer or transferee regarding the appraisal value of the easement, the amount of the credit, and the validity of the credit, and the authority,

✓ **H.B. 04-1418 (Plant/Teck): Quarterly Payment of Heat Fuel Grants.** Requires payment of the grants on a quarterly basis, with the amount of each payment equal to the total amount of the grant divided by the number of quarters remaining in the calendar year in which the grant is awarded, with the calculation including the quarter in which the grant is awarded.

✓ **S.B. 03-272 (Teck/Witwer): License Plate Fees Cash Funding.** Creates the License Plate Cash Fund to support the costs of producing and distributing license plates. Sets statutory fees to cover production costs and allows for the reversion of unexpended moneys to the Highways Users Tax Fund (HUTF).

✔ **S.B. 95-47 (Powers/Foster): Additional Revenues for the Financing of Highways.** Permitted appropriations from the HUTF for the management and operation of Motor Carrier Services' ports of entry program.

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Department of Revenue

MAJOR FUNDING CHANGES
FY 2006-07 Appropriation to FY 2007-08 Appropriation

Division	**General Fund**	**Other Funds** *(Sources of funds)*	**Total Funds**	**Total FTE**
State Lottery Division	$ 0	(29,170,344) *(Cash funds exempt)*	$ (29,170,344)	0.0
Driver & Vehicle Services	$ (1,313,658)	5,301,886 *(Cash funds, Cash funds exempt)*	$ 3,988,228	53.0
Central POTS (Health, Life, Dental and other Benefits)	$ 1,650,624	1,280,314 *(Cash funds, cash funds exempt)*	$ 2,930,938	0.0
Limited Gaming Division	$ 0	1,636,493 *(Cash funds)*	$ 1,636,493	0.0
Motorist Insurance Identification Database Program	$ 0	(1,396,176) *(Cash funds exempt*	$ (1,396,176)	(7.0)
Cigarette Tax Rebate	$(1,100,000) *(General fund exempt)*	0	$ (1,100,000)	0.0
Old Age Heat & Fuel and Property Tax Grant	$1,100,000 *(General fund exempt)*	0	$ 1,100,000	0.0
Lease Purchase of 1881 Pierce Street *(Final COP payment made in FY 2006-07)*	$ 0	(899,852) *(Cash funds, cash funds exempt)*	$ (899,852)	0.0
Purchases of Services from Computer Center	$ 851,281	911 *(Cash funds exempt)*	$ 852,192	0.0
Leased Space	$ 66,559	244,691 *(Cash funds, cash funds exempt)*	$ 311,250	0.0
Multiuse Network Payments	$ 93,095	152,377 *(Cash funds, Cash funds exempt)*	$ 245,472	0.0
Taxpayer Services Division - Personal Services	$ 160,800	69,136 *(Cash funds)*	$ 229,936	1.0
Information Technology Division - Personal Services	$ 127,226	84,293 *(Cash funds, Cash funds exempt)*	$ 211,519	0.0

FY 2008-09 JBC Budget Briefing
Department of Revenue
DECISION ITEMS

Priority	Division: Description *[Statutory Authority]*	GF	HUTF	CF *(source of funds)*	CFE *(source of funds)*	FF	TOTAL	FTE
1	Out of State Audit Enhancement *(Section 24-35-108 C.R.S.)*	$180,234	0	0	0	0	$180,234	0.0
2	Lottery Distribution/Inventory Management System *(Sections 24-35-202, and 33-60-104, C.R.S.)*	0	0	0	4,000,000 *(State Lottery Fund)*	0	$4,000,000	0.0
3	Lottery Advertising Increase *(Sections 24-35-202, and 33-60-104, C.R.S.)*	0	0	0	3,028,290 *(State Lottery Fund)*	0	$3,028,290	0.0
4	Title Digital Imaging System *(Sections 24-30-1102 (4), 24-30-1104 (1)(j), 24-30-1107, 24-72-203 (1)(a), 38-29-140, 42-6-123, 42-6-124, 42-6-141, 42-6-147 (1), C.R.S.)*	0	0	0	27,870 *(Colorado State Titling and Registration Account)*	0	$27,870	0.0
5	State FTE in lieu of Temporary Employee for Taxpayer Services *(Section 24-35-108, C.R.S.)*	0	0	0	0	0	$0	2.0
6	Fixed and Mobile Ports Line Increase *(Sections 42-8-101, 42-8-103, C.R.S.)*	0	0	0	0	0	$0	0.0

Priority	Division: Description *[Statutory Authority]*	GF	HUTF	CF *(source of funds)*	CFE *(source of funds)*	FF	TOTAL	FTE
7	County Office Improvements *(Sections 42-1-210, 42-1-211, C.R.S.)*	0	0	0	103,578 *(Colorado State Titling and Registration Account)*	0	$103,578	0.0
	Department Decision Items Subtotal	**$180,234**	**$0**	**$0**	**$7,159,738**	**$0**	**$7,339,972**	**2.0**
Statewide Decision Items								
N/A	Adjustment to Multiuse Network Payments	67,766	5,377	7,686 *(Various)*	200,706 *(Various)*	0	$281,535	0.0
N/A	Statewide C-SEAP Program Staffing (Workers' Compensation)	4,868	650	1,059 *(Various)*	1,314 *(Various)*	0	$7,891	0.0
N/A	Statewide Vehicle Lease Payments	(4,586)	(7,352)	(3,443) *(Various)*	6,506 *(Various)*	0	($8,875)	0.0
	Statewide Decision Items Subtotal	**$68,048**	**($1,325)**	**$5,302**	**$208,526**	**$0**	**$280,551**	**0.0**
	TOTAL REQUESTS	**$248,282**	**($1,325)**	**$5,302**	**$7,368,264**	**$0**	**$7,620,523**	**2.0**

FY 2008-09 Joint Budget Committee Staff Budget Briefing
Department of Revenue
OVERVIEW OF FUNDING CHANGES

FY 2007-08 Appropriation to FY 2008-09 Request

Description	**FTE**	**General Fund**	**HUTF**	**Cash Funds**	**Cash Funds Exempt**	**Federal Funds**	**Total**
FY 2007-08 Appropriation	1,479.7	$94,300,024	$9,186,859	$53,752,413	$404,224,665	$1,546,214	$563,010,175
Executive Director' Office							
Personal Services and Employee Benefits	0.2	1,199,672	198,005	345,570	273,774	0	2,017,021
Purchases of Services from Computer Center	0.0	860,064	0	0	371	0	860,435
Multiuse Network Payments	0.0	(232,468)	5,368	608	508,027	0	281,535
Other Lines Items	0.0	(114,232)	13,673	284,211	(168,129)	0	15,523
Central Department Operations *(Primarily in Personal Services for salary annualization and common policy adjust*ments.)	0.0	133,178	10,976	54,459	11,988	0	210,601
Information Technology Division *(Primarily in Personal Services for salary annualization and common policy adjust*ments.)	(1.7)	(77,320)	39,017	235,811	87,017	(66,809)	217,716
Taxation Business Group *(Primarily in Personal Services of divisions for salary annualization and common policy adjustments.)*	0.0	626,534	0	5,834	11,855	(162)	644,061
Special Purpose *(Cigarette Tax Rebate, Amendment 35 Distribution to Local Governments, Old Age Heat & Fuel and Property Tax Assistance Grant, Alternative Fuels Rebate)*	0.0	(3,400,000) *(General Fund Exempt)*	0	0	(60,548)	0	(3,460,548)

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OVERVIEW OF FUNDING CHANGES

Description	FTE	General Fund	HUTF	Cash Funds	Cash Funds Exempt	Federal Funds	Total
Division of Motor Vehicles *(Primarily in the Driver and Vehicle Services Division where an increase in Personal Services is offset by a reduction in Operating Expenses)*	3.6	608,001	(25,298)	70,846	62,304	0	715,853
Motor Carrier Service Division *(Primarily in Personal Services for annualization of salary and common policy adjustments)*	0.0	29,099	254,659	(8,750)	9,174	22,770	306,952
Enforcement Business Group *(Primarily in Personal Services for annualization of salary and common policy adjustments)*	4.6	9,014	0	601,167	86,390	0	696,571
State Lottery Division *(Primarily for Personal Services for annualization of salary and common policy adjustments and for Indirect Cost Assessment)*	0.0	0	0	0	413,645	0	413,645
Departmental Decision Items	2.0	180,234	0	0	7,159,738	0	7,339,972
Statewide Decision Items	0.0	68,048	(1,325)	5,302	208,526	0	280,551
Total FY 2008-09 Budget Request	1,488.4	$94,189,848	$9,681,934	$55,347,471	$412,828,797	$1,502,013	$573,550,063

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items

DEPARTMENT OF REVENUE
Roxy Huber, Executive Director

(1) EXECUTIVE DIRECTOR'S OFFICE

The Executive Director's Office provides administrative, accounting, budgeting, auditing, planning, and research support for the Department, and is comprised of the following programs: Administration, Policy Analysis and Financial Services, Internal Auditor, Office of Human Resources and Office of Research and Analysis. Major cash funds sources include the State Lottery Fund, the Licensing Services Cash Fund, the Auto Dealers License Fund, and the Limited Gaming Fund. Major cash funds exempt sources include the Colorado State Titling and Registration Account, the Limited Gaming Fund, and the Drivers License Administrative Revocation Account. These are indirect cost recoveries to offset the General Fund.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services	3,231,389	3,237,684	3,391,306	3,529,609	
FTE	42.6	42.4	43.5	43.7	
General Fund	1,894,554	1,759,607	1,736,639	1,830,191	
HUTF	376,664	406,824	385,567	421,657	
Cash Funds	444,407	511,231	638,042	615,058	
Cash Funds Exempt	515,764	560,022	631,058	662,703	
Health, Life and Dental	3,652,832	4,741,231	5,888,824	6,717,472	
General Fund	2,220,555	2,941,697	3,477,305	3,990,643	
HUTF	386,538	496,613	569,055	624,102	
Cash Funds	386,776	487,905	862,973	1,028,514	
Cash Funds Exempt	658,963	815,016	979,491	1,074,213	
Short-term Disability	95,364	76,061	94,652	97,000	
General Fund	58,071	47,850	57,859	58,141	
HUTF	8,200	6,102	7,267	7,679	
Cash Funds	11,045	8,813	12,758	14,102	
Cash Funds Exempt	18,048	13,296	16,768	17,078	
S.B. 04-257 Amortization Equalization Disbursement	146,828	484,663	862,448	1,199,557	
General Fund	83,057	296,278	523,618	721,296	
HUTF	14,438	39,485	67,077	94,510	
Cash Funds	18,658	56,821	116,972	173,560	
Cash Funds Exempt	30,675	92,079	154,781	210,191	
S.B. 06-235 Supplemental Amortization Equalization	0	0	161,399	383,840	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
General Fund	0	0	93,843	230,667	
HUTF	0	0	13,974	30,498	
Cash Funds	0	0	21,336	55,428	
Cash Funds Exempt	0	0	32,246	67,247	
Salary Survey and Senior Executive Service	2,142,624	2,037,928	2,279,290	2,673,713	
General Fund	1,257,369	1,215,030	1,360,735	1,602,565	
HUTF	194,560	177,569	198,318	236,690	
Cash Funds	243,264	250,355	286,417	352,595	
Cash Funds Exempt	447,431	394,974	433,820	481,863	
Performance-based Pay Awards	0	0	1,074,177	1,147,156	
General Fund	0	0	668,192	688,355	
HUTF	0	0	83,000	89,588	
Cash Funds	0	0	128,639	166,982	
Cash Funds Exempt	0	0	194,346	202,231	
Shift Differential	164,470	209,777	166,518	187,288	
General Fund	48,108	59,068	52,100	48,105	
HUTF	92,006	127,483	96,277	113,816	
Cash Funds	10,608	8,115	5,408	11,876	
Cash Funds Exempt	13,748	15,111	12,733	13,491	
Workers' Compensation	811,890	636,413	765,406	753,457	**Statewide DI**
General Fund	520,058	408,845	491,713	464,810	
HUTF	71,963	54,538	65,592	62,079	
Cash Funds	77,427	63,213	76,025	101,090	
Cash Funds Exempt	142,442	109,817	132,076	125,478	
Operating Expenses	912,803	917,761	954,541	959,152	
General Fund	452,759	446,919	485,359	488,213	
HUTF	92,509	102,442	81,629	100,689	
Cash Funds	130,658	137,887	151,731	152,968	
Cash Funds Exempt	236,877	230,513	235,822	217,282	

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	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Legal Services for 11,165 hours	602,909	756,653	804,215	804,215	
General Fund	264,340	436,254	436,480	432,922	
HUTF	4,898	2,007	10,608	11,248	
Cash Funds	283,800	261,098	296,765	310,678	
Cash Funds Exempt	49,871	57,294	60,362	49,367	
Administrative Law Judge Services	903	824	0	7,709	
Cash Funds	0	0	0	7,709	
Cash Funds Exempt	903	824	0	0	
Purchase of Services from Computer Center	3,424,834	1,845,865	2,698,057	3,558,492	
General Fund	3,419,412	1,844,078	2,695,359	3,555,423	
Cash Funds Exempt	5,422	1,787	2,698	3,069	
Multiuse Network Payments	1,727,513	1,921,365	2,166,837	2,448,372	**Statewide DI**
General Fund	444,087	728,696	821,791	589,323	
HUTF	60,193	36,706	41,396	46,764	
Cash Funds	90,934	58,730	66,233	66,841	
Cash Funds Exempt	1,132,299	1,097,233	1,237,417	1,745,444	
Payment to Risk Management and Property Funds	86,794	289,287	254,330	280,532	
General Fund	45,010	163,277	145,535	151,785	
HUTF	11,125	34,454	29,089	33,423	
Cash Funds	8,442	29,523	25,785	39,897	
Cash Funds Exempt	22,217	62,033	53,921	55,427	
Vehicle Lease Payments	356,910	350,686	437,192	428,317	**Statewide DI**
General Fund	82,611	103,286	109,813	105,227	
HUTF	36,089	40,175	50,581	43,229	
Cash Funds	88,952	82,498	112,920	109,477	
Cash Funds Exempt	149,258	124,727	163,878	170,384	
Leased Space	2,068,510	2,025,368	2,577,696	2,641,446	
General Fund	1,201,009	1,271,962	1,410,710	1,408,853	
Cash Funds	79,756	79,742	396,455	497,359	
Cash Funds Exempt	787,745	673,664	770,531	735,234	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Capitol Complex Leased Space	1,520,816	1,794,521	1,694,271	1,666,173	
General Fund	1,144,483	1,296,891	1,315,937	1,294,422	
HUTF	25,579	34,775	26,918	25,615	
Cash Funds	175,814	227,210	166,408	169,688	
Cash Funds Exempt	174,940	235,645	185,008	176,448	
Lease Purchase of 1881 Pierce Street	803,242	805,214	0	0	
HUTF	68,373	74,871	0	0	
Cash Funds	375,959	337,324	0	0	
Cash Funds Exempt	358,910	393,019	0	0	
Communications Services Payments	71,677	72,354	71,790	74,949	
General Fund	18,906	21,045	19,654	22,784	
HUTF	4,906	5,209	4,914	5,396	
Cash Funds	44,968	42,834	45,039	44,371	
Cash Funds Exempt	2,897	3,266	2,183	2,398	
Utilities	194,516	198,161	244,895	247,119	
General Fund	85,723	82,619	104,440	104,440	
HUTF	89,255	97,577	103,416	103,416	
Cash Funds	19,538	17,965	37,039	39,263	
					Request v. Approp.
SUBTOTAL - (1) EXECUTIVE DIRECTOR'S OFFICE	**22,016,823**	**22,401,817**	**26,587,844**	**29,805,568**	**12.10%**
FTE	**42.6**	**42.4**	**43.5**	**43.7**	**0.46%**
General Fund	13,240,111	13,123,403	16,007,082	17,788,165	11.13%
HUTF	1,537,296	1,736,830	1,834,678	2,050,399	11.76%
Cash Funds	2,491,006	2,661,264	3,446,945	3,957,456	14.81%
Cash Funds Exempt	4,748,410	4,880,320	5,299,139	6,009,548	13.41%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(2) CENTRAL DEPARTMENT OPERATIONS DIVISION					
Central Department Operation provides centralized departmental support for mail processing, forms development, transaction processing, and record management. Major cash fund sources include the State Lottery Fund and the Driver Services Fund Major cash funds exempt sources include the Identification Security Fund, the Colorado State Titling and Registration Account, and the Outstanding Judgments and Warrants Fund.					
Personal Services	5,175,389	5,117,670	5,242,487	5,431,735	
FTE	105.0	105.1	109.9	109.9	
General Fund	4,666,254	4,743,799	4,904,946	5,016,771	
HUTF	0	0	91,984	102,960	
Cash Funds	196,213	65,984	95,726	150,185	
Cash Funds Exempt	312,922	307,887	149,831	161,819	
Seasonal Tax Processing - GF	367,988	376,681	375,086	384,849	
Operating Expenses	3,486,759	3,316,772	1,131,078	1,132,101	
General Fund	3,217,900	3,316,772	994,191	995,214	
Cash Funds	91,140	0	0	0	
Cash Funds Exempt	177,719	0	136,887	136,887	
Postage	0	0	2,391,618	2,398,337	
General Fund	0	0	2,125,192	2,131,911	
HUTF	0	0	8,371	8,371	
Cash Funds	0	0	31,569	31,569	
Cash Funds Exempt	0	0	226,486	226,486	
Pueblo Data Entry Center Payments	1,639,620	1,695,135	1,755,282	1,758,843	
General Fund	1,639,233	1,694,049	1,751,273	1,754,834	
Cash Funds	0	0	571	571	
Cash Funds Exempt	387	1,086	3,438	3,438	
Microfilm Services - General Fund	343,987	343,264	344,039	344,326	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
					Request v. Approp.
SUBTOTAL - (2) CENTRAL DEPARTMENT OPERATIONS	**11,013,743**	**10,849,521**	**11,239,590**	**11,450,191**	**1.87%**
FTE	**105.0**	**105.1**	**109.9**	**109.9**	**0.00%**
General Fund	10,235,362	10,474,564	10,494,727	10,627,905	1.27%
HUTF	0	0	100,355	111,331	n/a
Cash Funds	287,353	65,984	127,866	182,325	42.59%
Cash Funds Exempt	491,028	308,973	516,642	528,630	2.32%

(3) INFORMATION TECHNOLOGY DIVISION

(A) Systems Support

Systems Support is responsible for the maintenance of Department systems for three business groups and the Executive Director's Office. Major cash funds sources include the State Lottery Fund, the Driver Services Fund, the Auto Dealers License Fund, the Liquor Enforcement Division & State Licensing Cash Fund, and the Racing Fund. Major cash funds exempt sources include the Colorado State Titling and Registration Account, the Limited Gaming Fund, and the Drivers License Administration Revocation Account.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services	5,548,661	5,878,682	6,164,232	6,404,788	
FTE	75.4	77.2	84.4	84.4	
General Fund	4,448,576	4,220,729	4,421,986	4,344,666	
HUTF	0	0	427,990	467,007	
Cash Funds	345,693	257,376	445,397	681,208	
Cash Funds Exempt	754,392	1,400,577	868,859	911,907	
Operating Expenses- General Fund	703,512	709,333	724,313	724,313	
Programming Costs for Session Legislation	120,674	139,182	293,597	226,788	
FTE	1.4	0.8	3.9	2.2	
General Fund	43,415	8,346	66,846	66,846	
Cash Funds Exempt	77,259	130,836	159,942	159,942	
Federal Funds	0	0	66,809	0	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
					Request v. Approp.
(A) SUBTOTAL - SYSTEMS SUPPORT	6,372,847	6,727,197	7,182,142	7,355,889	2.42%
FTE	76.8	77.9	88.3	86.6	-1.93%
General Fund	5,195,503	4,938,408	5,213,145	5,135,825	-1.48%
HUTF	0	0	427,990	467,007	n/a
Cash Funds	345,693	257,376	445,397	681,208	52.94%
Cash Funds Exempt	831,651	1,531,413	1,028,801	1,071,849	4.18%
Federal Funds	0	0	66,809	0	-100.00%

Colorado State Titling & Registration System

The Colorado State Titling and Registration System is the state's centralized database for the distribution of registration taxes between the state, all its counties, and the Highway Users Tax Fund (HUTF). Source of cash funds exempt is the Colorado State Titling and Registration Account.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services - Cash Funds Exempt	2,236,676	2,011,912	2,286,363	2,349,368	
FTE	28.1	28.0	31.5	31.5	
Operating Expenses - Cash Funds Exempt	3,221,879	2,531,381	2,615,145	2,596,109	
County Office Asset Maintenance - Cash Funds Exempt	0	555,541	568,230	568,230	
County Office Improvements - Cash Funds Exempt	0	0	0	103,578	**DI # 7**
					Request v. Approp.
(B) SUBTOTAL - COLORADO STATE TITLING ANI REGISTRATION SYSTEM - Cash funds exempt	5,458,555	5,098,835	5,469,738	5,617,285	2.70%
FTE	28.1	28.0	31.5	31.5	0.00%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
					Request v. Approp.
SUBTOTAL - (3) INFORMATION TECHNOLOGY DIVISION	**11,831,402**	**11,826,032**	**12,651,880**	**12,973,174**	**2.54%**
FTE	**104.9**	**105.9**	**119.8**	**118.1**	**-1.42%**
General Fund	5,195,503	4,938,408	5,213,145	5,135,825	-1.48%
HUTF	0	0	427,990	467,007	n/a
Cash Funds	345,693	257,376	445,397	681,208	52.94%
Cash Funds Exempt	6,290,206	6,630,248	6,498,539	6,689,134	2.93%
Federal Funds	0	0	66,809	0	

(4) TAXATION BUSINESS GROUP

The Taxation Business Group is charged with the collection, administration, auditing and enforcement responsibilities for all taxes, fees, bonds and licenses covered under Colorado tax laws. This group includes an administrative section, the Taxation and Compliance Division, Taxpayer Service Division, the Tax Conferee, and a Special Purpose section. All divisions but Special Purpose carry out programmatic functions.

(A) Administration

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services	479,147	551,573	575,820	593,853	
FTE	5.9	6.8	7.0	7.0	
General Fund	479,147	551,573	572,266	587,943	
Cash Funds	0	0	714	3,001	
Cash Funds Exempt	0	0	2,840	2,909	
Operating Expenses - General Fund	11,232	13,199	15,000	15,000	
					Request v. Approp.
(A) SUBTOTAL - ADMINISTRATION	490,379	564,771	590,820	608,853	3.05%
FTE	5.9	6.8	7.0	7.0	0.00%
General Fund	490,379	564,771	587,266	602,943	
Cash Funds	0	0	714	3,001	
Cash Funds Exempt	0	0	2,840	2,909	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(B) Taxation and Compliance Division					
Provides auditing services and enforces compliance with Colorado tax laws. The Division maintains five sections and six district offices throughout Colorado and conducts audits of individual and corporate tax returns. The Mineral Audit Program audits royalties associated with oil, gas, and mineral mining activity of federal, state, and private land. Cash funds exempt sources are the State Land Board Administration Fund and indirect cost recoveries transferred from the Department of Natural Resources.					
Personal Services	12,556,777	13,346,449	13,372,091	13,835,310	
FTE	206.5	207.0	215.4	215.4	
General Fund	12,407,090	13,213,086	13,244,291	13,698,213	
Cash Funds	15,577	1,269	1,269	1,269	
Cash Funds Exempt	134,110	132,094	126,531	135,828	
Operating Expenses - General Fund	626,736	616,470	656,927	821,028	**DI # 1**
Joint Audit Program - General Fund	131,244	131,244	131,244	131,244	
Joint Federal/State Motor Fuel Tax - Federal Funds	0	0	30,415	30,415	
Mineral Audit Program	728,536	743,514	791,990	791,828	
FTE	7.7	7.7	11.0	11.0	
Cash Funds Exempt	41,814	65,916	66,000	66,000	
Federal Funds	686,722	677,599	725,990	725,828	
					Request v. Approp.
(B) SUBTOTAL - TAXATION AND COMPLIANCE DIVISION	14,043,293	14,837,677	14,982,667	15,609,825	4.19%
FTE	214.2	214.7	226.4	226.4	0.00%
General Fund	13,165,070	13,960,800	14,032,462	14,650,485	4.40%
Cash Funds	15,577	1,269	1,269	1,269	0.00%
Cash Funds Exempt	175,924	198,009	192,531	201,828	4.83%
Federal Funds	686,722	677,599	756,405	756,243	-0.02%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(C) Taxpayer Service Division					
Assists individual and business taxpayers through regional service centers and a call center; issues tax licenses and permits to businesses; collects local sales taxes for many cities, counties and special districts; issues individual and business tax refunds. The fuel tracking system tracks the movement of gasoline and special fuel with the goal of expediting the collection of excise taxes. The primary source of cash funds are the Aviation Fund and Private Letter Rulings. Cash funds exempt source is the HUTF (exempt from 6% limit).					
Personal Services	4,199,991	4,142,625	4,380,927	4,527,135	
FTE	73.5	72.7	77.1	79.1	**DI # 5**
General Fund	4,045,439	4,122,043	4,291,209	4,433,870	
Cash Funds	154,552	20,582	89,718	93,265	
Operating Expenses	436,434	398,173	402,035	401,085	
General Fund	399,599	398,173	401,535	400,585	
Cash Funds	36,835	0	500	500	
Fuel Tracking System	476,159	476,949	480,788	483,277	
FTE	1.5	1.5	1.5	1.5	
HUTF	476,159	476,949	0	0	
Cash Funds Exempt	0	0	480,788	483,277	
					Request v. Approp.
(C) SUBTOTAL - TAXPAYER SERVICES DIVISION	5,112,584	5,017,747	5,263,750	5,411,497	2.81%
FTE	75.0	74.2	78.6	80.6	2.54%
General Fund	4,445,038	4,520,216	4,692,744	4,834,455	3.02%
HUTF	476,159	476,949	0	0	N/A
Cash Funds	191,387	20,582	90,218	93,765	3.93%
Cash Funds Exempt	0	0	480,788	483,277	n/a
(D) Tax Conferee					
Resolve protest to tax adjustments, reviews issues related 'home rule' city sales taxes and city and county use taxes.					
Personal Services - General Fund	818,179	755,215	850,853	882,210	
FTE	8.9	8.2	9.0	9.0	
Operating Expenses - General Fund	14,952	14,958	21,754	21,754	

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					Request v. Approp.
(D) SUBTOTAL - TAX CONFEREE - General Fund	833,130	770,173	872,607	903,964	3.59%
FTE	8.9	8.2	9.0	9.0	0.00%
(E) Special Purpose					
Distributes applicable percentage of gross cigarette taxes to counties, cities, and towns; distributes grants to low-income disabled and elderly citizens; provides rebate moneys to entities with alternative fuels programs. All funds are continuously appropriated.					
Cigarette Tax Rebate - General Fund Exempt	15,320,042	13,213,188	12,500,000	11,400,000	
Amendment 35 Distribution to Local Governments - Cash Funds Exempt	0	1,548,108	1,439,168	1,378,620	
Old Age Heat & Fuel and Property Tax Assistance Grant - General Fund Exempt	11,676,772	8,378,083	15,000,000	12,700,000	
Alternative Fuels Rebate - Cash Funds Exempt	59,830	382,813	310,601	310,601	
					Request v. Approp.
(E) SUBTOTAL - SPECIAL PURPOSE	27,056,644	23,522,192	29,249,769	25,789,221	-11.83%
General Fund Exempt	26,996,814	21,591,271	27,500,000	24,100,000	-12.36%
Cash Funds Exempt	59,830	1,930,921	1,749,769	1,689,221	-3.46%
					Request v. Approp.
SUBTOTAL - (4) TAXATION BUSINESS GROUP	**47,536,030**	**44,712,560**	**50,959,613**	**48,323,360**	**-5.17%**
FTE	**304.0**	**303.9**	**321.0**	**323.0**	**0.62%**
General Fund	45,930,431	41,407,232	47,685,079	45,091,847	-5.44%
HUTF	476,159	476,949	0	0	N/A
Cash Funds	206,964	21,851	92,201	98,035	6.33%
Cash Funds Exempt	235,754	2,128,930	2,425,928	2,377,235	-2.01%
Federal Funds	686,722	677,599	756,405	756,243	-0.02%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items

(5) DIVISION OF MOTOR VEHICLES
(A) Administration

The Division is responsible for licensing drivers and issuing identification documents, administering driver records and administrative sanctions, titling and registering motor vehicles traveling of Colorado roadways, enforcing the state's emissions program, and administering the Motorist Insurance Identification Database. Major cash funds and cash funds exempt sources are the Licensing Services Cash Fund, the Colorado State Titling and Registration Account, and the Automobile Inspection and Readjustment (AIR) Account.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services	637,604	693,451	866,405	888,379	
FTE	6.4	8.2	11.0	11.0	
General Fund	448,146	330,964	525,236	513,639	
HUTF	189,458	362,487	207,469	184,004	
Cash Funds	0	0	158	82,297	
Cash Funds Exempt	0	0	133,542	108,439	
Operating Expenses	47,938	50,014	54,250	54,250	
General Fund	47,938	47,679	32,951	31,366	
HUTF	0	2,335	13,069	11,236	
Cash Funds	0	0	10	5,026	
Cash Funds Exempt	0	0	8,220	6,622	
					Request v. Approp.
(A) SUBTOTAL - ADMINISTRATION	685,542	743,465	920,655	942,629	2.39%
FTE	6.4	8.2	11.0	11.0	0.00%
General Fund	496,084	378,643	558,187	545,005	-2.36%
HUTF	189,458	364,822	220,538	195,240	-11.47%
Cash Funds	0	0	168	87,323	51877.98%
Cash Funds Exempt	0	0	141,762	115,061	-18.84%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(B) Driver and Vehicle Services					
The Division administers driver's licensing and records management, vehicle registration, and regulation of commercial driving schools. The primary cash fund sources are the Licensing Services Cash Fund and the License Plate Cash Fund. Cash funds exempt sources are the Colorado State Titling and Registration Account, the Drivers License Administration Revocation Account, Outstanding Judgment and Warrants Account, the Penalty Assessment Fee, the Identification Security Fund, and the Automobile Inspection and Readjustment (AIR) Account.					
Personal Services	13,158,663	13,495,599	15,062,362	16,039,603	
FTE	309.8	313.6	374.2	377.8	
General Fund	3,022,977	12,454,269	10,444,792	11,053,189	
HUTF	8,948,375	0	0	0	
Cash Funds	2,798	3,842	3,678,735	4,047,579	
Cash Funds Exempt	1,184,513	1,037,488	938,835	938,835	
Operating Expenses	1,212,556	1,201,503	2,470,544	2,116,379	
General Fund	1,207,407	1,196,379	1,213,137	1,214,937	
Cash Funds	2,000	2,000	1,254,168	898,203	
Cash Funds Exempt	3,149	3,124	3,239	3,239	
Drivers License Documents	2,754,669	2,369,475	2,426,334	2,437,320	
General Fund	2,223,222	1,891,789	1,902,742	1,913,728	
Cash Funds Exempt	531,447	477,686	523,592	523,592	
License Plate Ordering - Cash Funds	4,904,740	5,041,069	5,449,178	5,419,990	
					Request v. Approp.
(B) SUBTOTAL - DRIVER AND VEHICLE SERVICES	22,030,628	22,107,646	25,408,418	26,013,292	2.38%
FTE	309.8	313.6	374.2	377.8	0.96%
General Fund	6,453,606	15,542,437	13,560,671	14,181,854	4.58%
HUTF	8,948,375	0	0	0	n/a
Cash Funds	4,909,538	5,046,911	10,382,081	10,365,772	-0.16%
Cash Funds Exempt	1,719,109	1,518,298	1,465,666	1,465,666	0.00%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(C) Vehicle Emissions					
The Emission Sections conducts audits of inspection and readjustment stations and facilities to ensure compliance with vehicle emission testing standards under the Automobile Inspection and Readjustment Program. Cash funds exempt source is the Automobile Inspection and Readjustment Account.					
Personal Services - Cash Funds Exempt	870,498	728,876	983,226	1,016,699	
FTE	13.4	11.6	15.5	15.5	
Operating Expenses - Cash Funds Exempt	67,655	68,379	80,215	80,215	
					Request v. Approp.
(C) SUBTOTAL - VEHICLE EMISSIONS - Cash Funds Exempt	938,153	797,255	1,063,441	1,096,914	3.15%
FTE	13.4	11.6	15.5	15.5	0.00%
(D) Titles					
Provides administrative and accounting support for issuing motor vehicle titles. Certifies vehicle ownership for tax assessment and other purposes. Ensures uniformity among the State's county clerks. Cash funds exempt source is the Colorado State Titling and Registration Account.					
Personal Services - Cash Funds Exempt	1,487,971	1,480,387	1,562,432	1,616,416	
FTE	33.4	32.6	34.5	34.5	
Operating Expenses - Cash Funds Exempt	134,047	125,005	146,841	174,711	**DI # 4**
					Request v. Approp.
(D) SUBTOTAL - TITLES - Cash Funds Exempt	1,622,017	1,605,392	1,709,273	1,791,127	4.79%
FTE	33.4	32.6	34.5	34.5	0.00%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(E) Motorist Insurance Identification Database Program					
Maintains database to compare motor vehicle registration records against insured motorist records to authorize the accurate license suspension of uninsured drivers. The cash funds exempt source is the Motorist Insurance Identification Database Account (MIIDB).					
Personal Services - Cash Funds Exempt	1,590,950	669,938	326,584	328,132	
FTE	6.8	1.0	1.0	1.0	
Operating Expenses - Cash Funds Exempt	16,404	69,514	500	500	
					Request v. Approp.
(E) SUBTOTAL - MOTORIST INSURANCE IDENTIFICATION DATABASE PROGRAM - Cash funds exempt	1,607,354	739,452	327,084	328,632	0.47%
FTE	6.8	1.0	1.0	1.0	0.00%
					Request v. Approp.
SUBTOTAL - (5) DIVISION OF MOTOR VEHICLES	**26,883,694**	**25,993,210**	**29,428,871**	**30,172,594**	**2.53%**
FTE	**369.8**	**367.0**	**436.2**	**439.8**	**0.83%**
General Fund	6,949,690	15,921,080	14,118,858	14,726,859	4.31%
HUTF	9,137,833	364,822	220,538	195,240	-11.47%
Cash Funds	4,909,538	5,046,911	10,382,249	10,453,095	0.68%
Cash Funds Exempt	5,886,633	4,660,397	4,707,226	4,797,400	1.92%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(6) MOTOR CARRIER SERVICES DIVISION					
Monitors compliance with statutory weight and size restrictions for commercial vehicles, monitors safety compliance through driver and vehicle inspections at fixed and mobile port stations, inspects transporters of hazardous materials, collects fuel taxes. The cash funds sources are the Nuclear Materials Transportation Fund and the Hazardous Materials Permitting Fund. Cash funds exempt sources are the Motor Carrier Safety Assistance Program and the Highway Users Tax Fund.					
Personal Services	6,429,792	6,313,011	6,835,666	6,973,819	
FTE	127.9	125.1	131.2	131.2	
General Fund	159,219	467,528	599,488	623,686	
HUTF	6,217,202	5,807,154	6,118,846	6,240,646	**DI # 6**
Cash Funds	53,371	38,329	52,260	35,241	
Cash Funds Exempt	0	0	65,072	74,246	
Operating Expenses	429,460	419,133	433,811	433,811	
General Fund	9,030	29,480	33,143	38,045	
HUTF	420,033	389,653	400,668	395,766	
Cash Funds	397	0	0	0	
Fixed and Mobile Port Maintenance - HUTF	83,778	83,784	83,784	221,545	**DI # 6**
Motor Carrier Safety Assistance Program - Federal Funds	678,266	652,512	723,000	745,770	
FTE	8.6	8.3	9.0	9.0	
Hazardous Materials Permitting Program - Cash Funds	149,491	170,674	194,094	202,363	
FTE	3.3	3.7	4.0	4.0	
					Request v. Approp.
SUBTOTAL (6) - MOTOR CARRIER SERVICES DIVI	**7,770,787**	**7,639,114**	**8,270,355**	**8,577,307**	**3.71%**
FTE	**139.8**	**137.0**	**144.2**	**144.2**	**0.00%**
General Fund	168,249	497,008	632,631	661,730	4.60%
HUTF	6,721,013	6,280,591	6,603,298	6,857,957	3.86%
Cash Funds	203,259	209,003	246,354	237,604	-3.55%
Cash Funds Exempt	0	0	65,072	74,246	14.10%
Federal Funds	678,266	652,512	723,000	745,770	3.15%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(7) ENFORCEMENT BUSINESS GROUP					
(A) Administration					
The cash fund sources are the Auto Dealers License Fund, the Liquor Enforcement Division & State Licensing Cash Fund, and the Racing Cash Fund. Cash funds exempt sources are the Limited Gaming Fund and the Drivers License Administration Revocation Account.					
Personal Services	432,174	477,423	497,726	512,166	
FTE	5.7	5.9	6.0	6.0	
General Fund	1,312	31,203	27,723	20,176	
Cash Funds	245,560	256,695	252,098	189,361	
Cash Funds Exempt	185,302	189,525	217,905	302,629	
Operating Expenses	10,654	9,848	10,880	10,881	
General Fund	471	(335)	606	429	
Cash Funds	5,885	5,885	5,511	4,023	
Cash Funds Exempt	4,298	4,298	4,763	6,429	
					Request v. Approp.
(A) SUBTOTAL - ADMINISTRATION	442,828	487,271	508,606	523,046	2.84%
FTE	5.7	5.9	6.0	6.0	0.00%
General Fund	1,783	30,868	28,329	20,604	-27.27%
Cash Funds	251,445	262,580	257,609	193,384	-24.93%
Cash Funds Exempt	189,600	193,823	222,668	309,058	38.80%
(B) Limited Gaming Division					
Licenses limited gaming establishments. Conducts background investigations on all gaming employees and monitors compliance with State gaming laws. Conducts audits to ensure that tax remittances from gaming facilities are correct. The cash funds source is the Limited Gaming Fund. Line item allocation are determined by the Limited Gaming Control Commission and are not subject to appropriation by the General Assembly.					
Personal Services - Cash Funds	4,314,564	4,376,087	4,984,046	5,451,966	
FTE	65.2	64.1	72.0	76.0	
Operating Expenses - Cash Funds	462,399	388,297	573,734	575,734	
Licensure Activities - Cash Funds	90,765	108,296	181,497	181,497	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Investigations - Cash Funds	44,034	69,233	263,964	263,964	
Payments to Other State Agencies - Cash Funds	2,513,541	2,499,548	2,429,848	2,429,848	
Distribution to Gaming Cities and Counties - Cash Funds	22,032,442	23,398,477	23,788,902	23,788,902	
Indirect Cost Assessment - Cash Funds	525,307	640,919	536,728	673,848	
					Request v. Approp.
(B) SUBTOTAL - LIMITED GAMING DIVISION -					
Cash Funds	29,983,052	31,480,857	32,758,719	33,365,759	1.85%
FTE	65.2	64.1	72.0	76.0	5.56%

(C) Liquor Enforcement Division
Enforces alcohol laws; issues licenses and permits to manufacturers, importers, distributors, and sellers of alcoholic beverages. Cash funds are from the Liquor Enforcement Division & State Licensing Authority Fund.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services - Cash Funds	1,368,906	1,388,684	1,476,224	1,534,576	
FTE	19.0	17.9	19.0	19.0	
Operating Expenses - Cash Funds	51,267	49,450	51,323	51,323	
					Request v. Approp.
(C) SUBTOTAL - LIQUOR ENFORCEMENT DIVISION -					
Cash Funds	1,420,173	1,438,134	1,527,547	1,585,899	3.82%
FTE	19.0	17.9	19.0	19.0	0.00%

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
(D) Tobacco Enforcement Program					
Enforces laws prohibiting the sale of tobacco to minors. The source of cash funds exempt is the Tobacco Education Programs Fund.					
Personal Services	375,731	365,446	442,230	458,969	
FTE	6.2	5.9	7.0	7.0	
General Fund	112,073	124,293	112,972	129,711	
Cash Funds Exempt	263,658	241,153	329,258	329,258	
Operating Expenses	27,723	26,322	27,943	27,943	
General Fund	5,343	5,240	7,201	7,201	
Cash Funds Exempt	22,380	21,082	20,742	20,742	
					Request v. Approp.
(D) SUBTOTAL - TOBACCO ENFORCEMENT	403,454	391,768	470,173	486,912	3.56%
FTE	6.2	5.9	7.0	7.0	0.00%
General Fund	117,416	129,533	120,173	136,912	13.93%
Cash Funds Exempt	286,038	262,235	350,000	350,000	0.00%
(E) Division of Racing Events					
Licenses racetracks and individuals in dog and horse racing, allocates race days among racetracks, test animals for drugs and oversees wagering. The cash funds source is the Racing Cash Fund.					
Personal Services - Cash Funds	1,199,633	1,250,316	1,353,620	1,410,197	
FTE	17.1	15.9	18.5	18.5	
Operating Expenses - Cash Funds	89,995	91,214	97,845	97,845	
Laboratory Services - Cash Funds	104,293	100,574	104,992	104,992	
Commission Meeting Costs - Cash Funds	450	450	1,200	1,200	
Racetrack Applications - Cash Funds	0	3,822	25,000	25,000	
Purses and Breeders Awards - Cash Funds	1,087,008	998,558	1,106,142	1,106,142	

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
					Request v. Approp.
(E) SUBTOTAL - DIVISION OF RACING EVENTS -					
Cash Funds	2,481,379	2,444,934	2,688,799	2,745,376	2.10%
FTE	17.1	15.9	18.5	18.5	0.00%

(F) Hearings Division

Conducts hearings on drivers license suspensions and revocations, probationary licenses, habitual traffic offenders, misuse of temporary registration permits, and horse and dog racing licenses. Provides computer support and data analysis for traffic safety programs. Cash funds exempt source is the Drivers License Administration Revocation Account.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services - Cash Funds Exempt	1,793,092	1,802,578	1,900,506	2,012,366	
FTE	26.2	26.8	28.4	29.0	
Operating Expenses - Cash Funds Exempt	72,186	69,587	73,450	73,750	
					Request v. Approp.
(F) SUBTOTAL - HEARINGS DIVISION -					
Cash Funds Exempt	1,865,278	1,872,165	1,973,956	2,086,116	5.68%
FTE	26.2	26.8	28.4	29.0	2.11%

(G) Motor Vehicle Dealer Licensing Board

Licenses automobile dealers, wholesalers, and salespeople, regulates the distribution and sale of motor vehicles, investigates and resolves complaints against Board licensees and legal violations. The source of cash funds is the Auto Dealers License Fund.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services	1,210,368	1,556,334	1,706,724	1,775,327	
FTE	20.8	24.3	28.2	28.2	
Cash Funds	1,210,368	1,249,159	1,706,724	1,775,327	
Cash Funds Exempt	0	307,175	0	0	
Operating Expenses	55,316	68,946	72,003	72,003	
Cash Funds	55,316	55,174	72,003	72,003	
Cash Funds Exempt	0	13,772	0		

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
					Request v. Approp.
(G) SUBTOTAL - MOTOR VEHICLE DEALER BOARD	1,265,684	1,625,280	1,778,727	1,847,330	3.86%
FTE	20.8	24.3	28.2	28.2	0.00%
Cash Funds	1,265,684	1,304,333	1,778,727	1,847,330	
Cash Funds Exempt	0	320,947	0	0	
					Request v. Approp.
SUBTOTAL (7) - ENFORCEMENT BUSINESS GROUP	**37,861,848**	**39,740,409**	**41,706,527**	**42,640,438**	**2.24%**
FTE	**160.2**	**160.8**	**179.1**	**183.7**	**2.57%**
General Fund	119,199	160,401	148,502	157,516	6.07%
Cash Funds	35,401,733	36,930,838	39,011,401	39,737,748	1.86%
Cash Funds Exempt	2,340,916	2,649,170	2,546,624	2,745,174	7.80%

(8) STATE LOTTERY DIVISION

Operates the State's lottery through the sale of scratch tickets and online tickets, including tickets for the multi-state lottery (Powerball). The source of cash funds exempt is the State Lottery Fund.

	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Personal Services - CFE	7,877,154	8,105,683	8,476,115	8,789,430	
FTE	120.2	122.3	126.0	126.0	
Operating Expenses - CFE	1,182,083	1,222,218	1,203,156	1,203,156	
Payments to Other State Agencies - CFE	154,453	119,290	239,410	239,410	
Travel - CFE	68,749	76,442	113,498	113,498	
Marketing and Communications - CFE	8,643,150	8,636,184	8,643,420	11,671,710	**DI # 3**
Multi-State Lottery Fees - CFE	141,990	172,275	177,433	177,433	
Vendor Fees - CFE	6,819,113	6,656,479	9,811,513	9,811,513	
Prizes - CFE	279,953,707	280,000,739	306,413,810	306,413,810	
Powerball Prize Variance - CFE	7,160,019	7,264,940	4,220,000	4,220,000	

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	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Appropriation	FY 2008-09 Request	Decision Items
Retailer Compensation - CFE	34,670,916	33,668,382	38,609,220	38,609,220	
Ticket Costs - CFE	2,907,934	2,142,602	3,549,040	7,549,040	**DI # 2**
Research - CFE	250,000	249,852	250,000	250,000	
Indirect Cost Assessment - CFE	312,057	358,373	458,880	559,210	
					Request v. Approp.
SUBTOTAL - (8) STATE LOTTERY DIVISION - Cash Funds Exempt	**350,141,325**	**348,673,459**	**382,165,495**	**389,607,430**	1.95%
FTE	**120.2**	**122.3**	**126.0**	**126.0**	0.00%
					Request v. Approp.
TOTAL - DEPARTMENT OF REVENUE	**515,055,653**	**511,836,122**	**563,010,175**	**573,550,063**	**1.87%**
FTE	**1,346.5**	**1,344.5**	**1,479.7**	**1,488.4**	**0.59%**
General Fund	81,838,545	86,522,095	94,300,024	94,189,848	-0.12%
HUTF	17,872,301	8,859,192	9,186,859	9,681,934	5.39%
Cash Funds	43,845,546	45,193,227	53,752,413	55,347,471	2.97%
Cash Funds Exempt	370,134,272	369,931,497	404,224,665	412,828,797	2.13%
Federal Funds	1,364,988	1,330,111	1,546,214	1,502,013	-2.86%

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FY 2007-08 LONG BILL FOOTNOTE UPDATE

4 **All Departments, Totals** -- The General Assembly requests that copies of all reports requested in other footnotes contained in this act be delivered to the Joint Budget Committee and the majority and minority leadership in each house of the General Assembly.

Comment: No reports were requested of the Department in the FY 2007-08 Long Bill.

5 **All Departments, Totals** -- Every Department is requested to submit to the Joint Budget Committee information on the number of additional federal and cash funds exempt FTE associated with any federal grants or private donations that are applied for or received during FY 2007-08. The information should include the number of FTE, the associated costs (such as workers' compensation, health and life benefits, need for additional space, etc.) that are related to the additional FTE, the direct and indirect matching requirements associated with the federal grant or donated funds, the duration of the grant, and a brief description of the program and its goals and objectives.

Comment: The Governor vetoed this footnote on the grounds that the footnote violates the separation of powers in Article III of the Colorado Constitution by attempting to administer the appropriation and by attaching requirements to federal funds and private donations which are not subject to legislative appropriation and on the grounds that placing information requirements on such funds constitutes substantive legislation that cannot be included in the general appropriation bill, and on the grounds that this footnote requires a substantial dedication of resources and constitutes an unfunded mandate.

The General Assembly overrode the Governor's veto of this footnote.

The Department did not formally submit the requested information; however, the federally-funded programs are reflected in its FY 2007-08 Long Bill appropriation and its budget request for FY 2008-09. Program receiving federal funds are the Mineral Audit Program, the Motor Carrier Safety Assistance Program, and the Joint Federal/State Motor Fuel Tax Program.

121 **Department of Revenue, State Lottery Division**-- Under Section 24-35-202, C.R.S., the state lottery division shall be headquarted in the city of Pueblo. It is the intent of the General Assembly that at least one of the incumbents of the 3.0 FTE management positions of the state lottery division shall be located in the city of Pueblo.

Comment: The Governor vetoed this footnote on the grounds that first, the footnote violates the separation of powers in Article III of the Colorado Constitution by attempting to administer the appropriation and secondly the footnote violates article V, section 32 of the Colorado Constitution because it constitutes substantive legislation that cannot be included in the general appropriations bill.

The General Assembly overrode the Governor's veto of this footnote.

The Department's response is as follows: The State Lottery Division currently has four positions classified as management, including one vacant position. Of the filled positions, two are based out of the Denver Lottery office (Director and Deputy Director), and one is based out of the Pueblo office (Director of Project Management Office & Claims). The vacant position (Chief Operating Officer) will be based out of the Pueblo office and is expected to be filled in the first part of 2008.

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ISSUE:

Status of the Colorado State Titling and Registration System (CSTARS) Rewrite Project.

SUMMARY:

- ❑ Started in the fall of 2002, the CSTARS Rewrite Project was expected to result in (1) decreased training time, (2) improved transaction processing and accuracy through streamlined processes, consistency of screen design and data validation, (3) improved ability to implement legislative mandates and requested functional enhancements, and (4) improved system maintainability through the use of innovative system design and flexible database architecture.
- ❑ The system was deployed to the state offices in the fall of 2006.
- ❑ When deployed to the counties, problems developed and the "go live" has been postponed indefinitely.

RECOMMENDATIONS:

Staff recommends that the Committee should ask the Department the questions listed at the end of the issue.

DISCUSSION:

In the fall of 2002, the Department moved forward with the Colorado State Titling and Registration System Rewrite Project. The justification for the project was:

- ✓ The "Green Screen" presentation for users and inconsistent flow of data entry screens made it difficult and time consuming to train new users.
- ✓ The complexity of the program code, flat-file database structure and distributed processing presented difficulty in delivering modifications on a timely basis.
- ✓ Distributed processing presented difficult challenges in maintaining databases for 64 counties and in information sharing.
- ✓ Audits had identified a number of areas where system controls could be improved, including (1) ensuring that collection and distributions are made in accordance with statute, (2) improving oversight of revenue collection and distribution, and (3) improving cash controls.

The expectations for the project were:

- ✓ Decreased training time
- ✓ Improved transaction processing/accuracy through streamlined processes, consistency of screen design, and data validation.
- ✓ Improved ability to implement legislative mandates and requested functional enhancements.
- ✓ Improved system maintainability through the use of innovative system design and a flexible

database.

The system was deployed in the Department of Revenue in the fall of 2006, however, problems when the system was deployed to the counties resulted in the Department making the decision, in the spring of 2007, to postpone indefinitely the "go-live" implementation of the project. The Department hired a consultant to provide an assessment of the project, what went wrong, and what the options are for proceeding forward.

According to the consultant, the project did not deliver the fundamental functionality or business requirements. Rated on a score of one to ten, with ten being high, the system measured at best a six in some measurements of the expected outcomes, with a low of three in one area. The table below shows how the consultant rated the various components of the project.

Expected Outcome	Score 10-high 1-low	Explanation
Decreased training time for end users	6	• GUI is more intuitive to today's workforce than the "green screen" presentation • Business knowledge is necessary since it is not completely integrated into system design
Improved transaction processing/ accuracy	6	• Consistent processes across all 64 counties once system is fully deployed • Built-in data validation • Business process redesign initiative could have reaped further enhancements.
Improved ability to implement legislative mandates and requested functional enhancements	3	• Burdensome to implement system updates • Business rule administration requires support from IT
Improved system maintainability	5	• System is built on a maintainable platform • DOR does not have the number of resources or the technical expertise to maintain the CSTARS application
System traceability and audit capabilities	5	• Although these deficiencies were identified in the State Auditor's report, these requirements were not incorporated into RFP • Required functionality was a change request, Development is nearly complete

While the system was deployed to the State, there were some improvements noted, such that the system was easier to use and there were better audit controls. However, since the system was not deployed to the counties, those benefits did not translate to an improvement over the previous system. There are numerous functional issues that remain to be resolved.

The consultants identified five options for moving forward, each with advantages and disadvantages. These options are:

1. The first option is to deploy the existing system to the counties. This option would entail rolling out the current CSTARS rewrite with completed change requests. The advantage of this plan is that the system is already available for state users. The disadvantages are that the counties will object, and there are fundamental gaps in functionality, there is no expertise available to manage the project and co-existence is still a problem. This option is unlikely to be successful. The issues that caused the project to be put on hold are still present with this option.

2. The second option is to rewrite the CSTARS program utilizing the current programming, but correcting the deficiencies that exist in the programming. The benefits of this option are that the state functions could be implemented on a time line and hardware purchased for the project could likely be used. Disadvantages are that the Department does not have the expertise to re-write the application, so a new vendor would have to be hired to finish the system, and re-writing would take longer than to start over. In addition, the counties will still resist the roll-out, and co-existence will still be a problem. **This is one of the options that the consultant considers to be feasible**.

3. The third option is to create a new application. This has a much greater chance of meeting the user requirements, provides an opportunity to redesign the titling and registration processes, allows the Department to select a vendor with expertise who can leverage other states' best practices, has a higher chance of county approval and the hardware already purchased could likely be reused. Concerns with this option are that if the project is not properly managed, it could repeat the problems experienced with the first re-write, there would be additional costs and the existing re-write investment would have to be written off. **This is the second feasible option for the project.**

4. The fourth option is to create a new CSTARS application utilizing a commercial, off-the-shelf (COTS) solution. The consultant does not feel that there is a viable COTS solution in the marketplace.

5. The fifth option is to continue to maintain and use the existing CSTARS system (called DDP). The benefits are that it utilizes the existing system, which has in-house expertise, and state and county users are trained on the system and using it today. The disadvantages are some of the same ones that caused the Department to order the original project re-write. The system does not have sufficient auditing and logging capabilities, the operating environment is an older one that is no longer supported, the system is complicated and is not documented, single points of failure exist for the support of the application based on the knowledge of technical resources, the architecture and data issues are still significant and the state would have to write off the existing investment in the CSTARS project. Finally, the State would, in any event, have to develop a new application within five or fewer years. The consultant does not believe this is a viable option given the continuing risk associated with maintaining or extending this system.

The consultant recommended a five step process for the Department to use in deciding the best course to take going forward. The steps are described below:

- **Align the Organization**
  This involves assessing the organization to determine the best model to manage and support the project; reset the project objectives and mission and begin to align stakeholders on the benefits and value; make internal management and staffing changes as necessary; determine the best governance model for the project; identify a project sponsor who is accountable for the project; staff and build the necessary components for the project team; and identify external resources for key project components.

- **Optimize the County Governance Model**
  The county governance model needs to focus on locking in county involvement and commitment; a county governance board should have logical representation and this representation should be approved by all counties; counties need to commit to approving the business process and improving the registration and titling process; counties need to commit resources to the project, especially personnel; acceptance criteria should be clearly defined by the county governance board for quality assurance and production releases; and counties should agree and approve the production release schedule.

- **Understand the Business Process**
  The business processes should be developed with a dedicated team of expert business personnel, with a focus on improvements.

- **Determine the Best Technological Solution to Meet the Business Process Needs**
  The stakeholders need to select from among the two viable options. If there are major changes in the business processes, then the existing vendor's solution is unlikely to work. If there are not major changes, it is possible that the existing vendor's (Avanade) solution may work.

- **Rebuild the System using the chosen option**.

QUESTIONS FOR THE DEPARTMENT:

1. The first step identified by the consultant for progressing on the project is to begin the process of "aligning" the Department. Has the Department begun this process and what changes has the Department made in response to this process?

2. How is the Department going to achieve buy in from the counties for any future CSTARS solution?

3. What is the Department's time frame for deciding on a course of action?

ISSUE:

Programming Costs for Session Legislation Line in The Department of Revenue.

SUMMARY:

Current JBC policy for the Department of Revenue is that the Department will submit with its annual budget a request for the estimated costs incurred for the programming costs for session legislation. The Department would then submit a supplemental bill for the difference between the estimated costs and the actual costs. This policy has been in effect for seven years. A concern has recently been raised to staff about the equity of this policy as it is only the Department of Revenue that has such a line. The basis for the policy is that there are so many bills affecting the Department. The JBC considered these arguments in 2001 and decided on the current policy.

RECOMMENDATION:

Because of the number of bills affecting the Department of Revenue, staff recommends that the policy, which has been in effect for seven years now, be continued. If the policy is continued, staff also recommends that the following footnote be added:

> Department of Revenue, Information Technology Division, Programming Costs for 2008 Session Legislation - - The Department of Revenue is requested to submit a report to the Joint Budget Committee by June 30, 2008, summarizing the estimated computer programming costs to implement legislation enacted during the 2008 session. These cost estimates should include any economies of scale that may exist because multiple bills passed which affect similar systems. The Department is requested to submit a report to the Joint Budget Committee by December 31, 2008, summarizing the actual programming costs of bills to implement legislation enacted during the 2008 legislative session.

Such a footnote had been included in each Long Bill from 2001 to 2006, but was omitted from the 2007 Long Bill. The reports will enable the Committee to determine the costs for computer programming to implement the session legislation.

DISCUSSION:

A number of special bills that apply to the Department of Revenue involve programming costs to implement. For example, if the bill alters the tax system, changes or adds a special license plate, the bill will have programming costs.

Prior to about 1998, the Department had a long-standing policy of absorbing up to 900 hours of programming costs for special legislation. At that time, a new Director was appointed and began indicating that the Department would no longer absorb the programming costs. Bills with the smallest programming costs would require fiscal notes for the costs of programming. This resulted in the need for an appropriation. Each bill had to considered on its own merits and cost, even though there might be economies of scale from similar bills. For example, if there are two license plate bills, the programming costs might only by one and one-half time the expense, rather than two times for each bill individually.

Since most of the bills at that time were funded from the General Fund, this meant that bills would now have to compete for the small amount of set-asides that were left after the budget was submitted. Bills were now dying because there was no money available to fund the programming costs. General Assembly Members complained to the Joint Budget Committee Members at the time about the bills dying for a relatively small amount of money and programming hours. Around 2000, the JBC asked staff to come up with a solution that would eliminate the need for fiscal notes on special legislation affecting the Department.

At about the same time, a targeted base review at the Department revealed that they had three programmers on staff who were assigned to implement new legislation. Together the three programmers cost about $250,000.

Two solutions were presented to the JBC. The first, and the one ultimately adopted, was to add a line item to the Department's Information Technology Division to the 2001 Long Bill called Programming Costs for 2001 Session Legislation and to eliminate the funding for the three programmers. If the costs differed from the estimate that was put in the bill, the Department was expected to present a supplemental bill for the difference. The major problem identified with this approach was that bills were not required to undergo fiscal scrutiny to determine if the merits of a bill outweigh the estimated costs. The JBC considered the arguments for and against and approved the recommendation for implementation in the 2001 Long Bill.

The second option presented would have had the Department submit a supplemental request for any costs it could not absorb. The Committee would then have the option to approve or deny the request exercising its discretion whether or not the costs are reasonable. The Department's problem with this approach was that there may not have been any funds left over to fund the Supplemental.

In each year since the adoption of this line item, in addition to the appropriation line in the Long Bill, there has been a supplemental submitted to reflect the true costs of implementing legislation from the session. These supplementals have either increased or decreased the annual appropriation. The history of this appropriation line and supplementals is shown in the table below:

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Long Bill							
General Fund	$172,283	$100,662	$16,936	$16,744	$16,744	$16,744	$66,846
Cash Funds Exempt	77,717	78,463	78,951	78,951	78,951	78,951	159,942
Total	250,000	179,125	95,887	95,695	95,695	95,695	226,788
Supplemental Bill							
General Fund	(123,303)	(84,366)	25,304	4,816	63,052	50,102	N/A*
Cash Funds Exempt	0	129,770	186,841	7,922	28,619	80,991	N/A*
Total	(123,303)	45,404	212,145	12,738	91,671	131,093	N/A*
Long + Supplemental Bills							
General Fund	48,980	16,296	42,240	21,560	79,796	66,846	66,846
Cash Funds Exempt	77,717	208,233	265,792	86,873	107,570	159,942	159,942
Total FY Appropriation	$126,697	$224,529	$308,032	$108,433	$187,366	$226,788	$226,788
* Note: Department has not yet submitted a supplemental for FY 2007-08							

The issue was recently raised to staff about the equity of this policy. Bills requiring programming costs that affect other departments must have appropriations clauses. Some of those bills died because of the lack of available funds for programming costs. In 2001, the JBC's rationale for the "special" treatment of bills with programming costs was that so many of the bills that impact the Department have programming costs.

The Department of Revenue is neutral with regard to this line item. If it is eliminated then the Joint Budget Committee must communicate this to Legislative Council Staff so funding can be properly included in fiscal notes and subsequent appropriations clauses. Legislators are used to seeing the fiscal note reflect that programming costs are included in the Long Bill. The Department's main concern is that it receive the funding to implement the change in its information technology systems.

ISSUE:

A June 2006 audit of the Department of Revenue and the Department of Natural Resources revealed flaws in the state's procedures for monitoring and collecting the correct amount of severance taxes.

SUMMARY:

In June 2006, the State Auditor issued a report that indicated that there were several flaws in the State's processes for collecting severance taxes. These findings regarding the Department were:

❑ Neither the Department of Revenue nor the Colorado Oil and Gas Conservation Commission have adopted adequate controls to ensure the accuracy of oil and gas production data.

❑ The Department of Revenue lacks a process for systematically ensuring all individuals and entities required to file severance tax returns are doing so.

❑ The Department of Revenue's severance tax audit selection process does not provide adequate audit coverage.

❑ The Department of Revenue's audit work plans lack all of the necessary components for verifying that taxpayers have paid the proper tax and are in compliance with state law.

❑ The Department of Revenue has not effectively managed its resources to provide reasonable assurance that the State is receiving the severance taxes it is due.

RECOMMENDATION:

Staff recommends that the Committee ask the Department to respond to the questions at the end of the issue.

DISCUSSION:

The Department of Revenue is responsible for collecting severance taxes and auditing taxpayers who have severance tax liabilities. In June 2006, the State Auditor made five specific recommendations to the Department of Revenue to address shortcomings in the Department's collections and audits of severance taxes. The Department agreed with the Auditor's recommendations and specified its responses with implementation dates. The five recommendations are for the Department to:

1. **Adopt audit procedures to ensure self-reported oil and gas production data are supported by independent calibration reports. This should include working with**

the Colorado Oil and Gas Conservation Commission (OGCC) to ensure calibration report data are available and accessible.

The audit found that Colorado had no requirements in place to ensure the accuracy of the reporting on the quantities of oil, gas, coal or other natural resources. This is especially true for oil and gas production, which represent 88 percent of severance taxes collected between Fiscal Years 2000 and 2005. According to the Council of Petroleum Accountants, production measurement equipment must be maintained and periodically calibrated to ensure accuracy. Colorado does not directly or indirectly inspect or verify the accuracy of the metering instruments used by oil and gas producers, nor does the State require oil and gas producers to provide verification of periodic meter calibration.

Colorado does require the inspection of the equipment used to weigh extracted coal, molybdenum ore, and metallic minerals. These minerals together generated only about 12 percent of total severance tax revenues. Other states and the federal government have their own inspectors to check calibration of meters, contract that requirement out or require oil and gas producers to provide documentation of meter calibration.

Department's Response: The Department stated that it would, in conjunction with the Oil and Gas Conservation Commission, obtain independent calibration reports to assist its auditors in confirming the accuracy of taxpayer-reported oil and gas production data. The Department stated that its target date for implementation was September 2006.

2. Ensure that all taxpayers subject to severance taxation have filed a return by: (a) accessing and using Department of Natural Resources production and permit data, (b) conducting data matches, (c) verifying royalty owners have filed a return, and (d) enforcing compliance with filing requirements.

The audit identified eight of twenty-seven oil and gas producers, eleven of twenty-six royalty interest owners, and four coal companies that had not filed severance tax returns. These companies must file severance tax returns even if they do not owe severance taxes. In addition, out of more than 90 companies holding active metallic minerals and molybdenum ore mining permits during the period covered by the audit, only four had filed severance tax returns.

The Department of Revenue was unaware of the taxpayers that were identified. The audit found that the Department did not have a process for systematically and thoroughly ensuring all of the individuals and entities required to file severance tax returns are doing so.

Department's Response: The Department stated it would start to:

a. obtain and use information available from the Department of Natural Resources to assist in identifying non-filers, and will follow-up with taxpayers who do not file required returns.

b. perform data matches to identify non-filers using information made available by the Department of Natural Resources as well as data from the Department's own databases and other sources, and will include data such as permits and production data, registered names of oil and gas operators and mine operators, and previous tax return data.

c. verify on a sample basis that royalty owners listed on oil and gas operators' withholding statements have filed a return, and will follow up with taxpayers who appear to be non-filers.

The Department's Fair Share Section had already implemented a pilot program to identify non-filers of oil and gas severance tax.

3. Improve audit selection methodology for severance tax audits by exposing all taxpayers to potential audit and using risk of noncompliance.

The Audit reviewed the Department's plan for selecting severance taxpayers for audit and found "that it neither exposes all taxpayers to potential audit nor is sufficiently risk-based." Beginning in FY 2005-06. The Department had a three-year plan to audit the 28 oil and gas companies that paid about 90 percent of the severance taxes to the state. The Department had no plans to audit companies or individuals required to pay severance taxes on coal, metallic minerals or molybdenum ore production.

The auditors felt that the Department should have incorporated an element of randomness in the process so that all severance taxpayers would have been subject to audit, regardless of the potential tax liability. Risk factors, other than potential tax liability, such as change in the structure or ownership of the company, should be included in the factors for selecting severance tax payers for audit.

Department's Response: The Department stated that it would, by October 2006, expand its consideration of risk to ensure that all taxpayers are subject to audit selection. In addition to actual size of a company, other factors to be considered were fluctuations in severance taxes paid, significant changes in operations (growth or new Colorado operations, changes in ownership or mergers/acquisitions), prior audit findings, ad valorem tax credits claimed on returns, and companies that appear to be under reporting or not filing returns.

4. Improve the quality of severance tax audit work plans by including all necessary steps to test production and transportation, processing, and manufacturing cost deductions; and developing standardized audit work plans for metallic minerals and molybdenum ore.

The audit found that the Department's severance tax audit work plan did not contain all the necessary components for verifying that taxpayers have paid the proper tax, specifically:

- For natural gas severance tax audits, the audit program did not require: auditors to collect heating value reading for a sample of wells or to verify that the conversion of gas from volume to heating value was correctly calculated by the taxpayer; the auditor to verify that all oil and gas production reported to the OGCC has been included on the return; and confirm that all wells operated by the taxpayer are included in the return.

- The work plans did not require verification of transportation, processing and manufacturing deductions. Colorado's severance tax rate is based on the producer's gross income, net of these deductions. Incorrectly applied transportation, processing or manufacturing cost will affect the amount of severance taxes owed to the state.

- The Department did not have a standardized work plan for conducting audits of metallic minerals and molybdenum ore. The Department had not been conducting audits of companies involved in these industries, since the amount of revenue to be collected was relatively insignificant (see #3 above).

Department's Response: The Department stated that it had recently completed efforts to strengthen its oil and gas audit program, including implementing the suggestions of the auditors. The Department also stated that it would develop standard audit programs for other types of minerals subject to taxation, including solid minerals, oil shale, and molybdenum.

5. Better manage resources to increase the number of severance tax audits completed by: (a) providing additional funding for severance tax audits, (b) developing a formal severance tax audit training program, and (c) obtaining instruction of the effective use of all necessary databases.

The Department states that, based on assessments per staff hour expended, severance tax audits result in larger assessments for unpaid business taxes than all other categories of tax audits it conducts with the exception of out-of-state corporate income tax audits. The rate of noncompliance appears to be high. Of the 21 severance tax audits completed by the Department since FY 2000-01, more than half resulted in assessments for unpaid severance taxes.

During fiscal years 2004, 2005 and 2006, the Department targeted an audit rate of about eleven completed audits per year, but was only able to complete slightly more than four per year (a completion rate of about 36%). The Mineral Audits Unit returned $23 for every dollar spent in conducting the audits. In comparison, the Field Audits Section assessed less than $15 for each dollar spent auditing all other taxes.

The Department's ability to complete severance tax audits is affected by the budget, staffing and training. The Department budgets about $150,000 and 1.2 FTE annually. The following table shows Expenditures and Severance tax revenues for Fiscal Years 2002 through 2005.

As the table below shows, severance tax payments have increased by 184 percent between 2002 and 2005, while the audit expenditures have remained flat. Severance tax revenues are an indicator of mining and drilling activity. In 2005 there were 30,000 active wells and more than 5,200 new applications for drilling permits, which is a 58 percent increase from the previous year.

Colorado Department of Revenue Mineral Audits Revenues and Expenditures Fiscal Years 2002 through 2005					
	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Percent Change 2002 – 2005
Total Expenditures	$155,000	$155,500	$184,000	$153,000	-1.0%
Severance Tax Revenues	$50,550,000	$26,230,000	$119,130,000	$143,390,000	184.0%
Source: Colorado Financial Reporting System and Department of Revenue internal reports. Note: Expenditures includes expenses for personal services, health, life dental and short-term disability insurance.					

Also affecting audits is a lack of travel money. The headquarters and accounting offices of more than 60 percent of the severance taxpayers scheduled for audit in Fiscal Years 2006 – 2008 are not located in Colorado. The lack of travel funds forces auditors to request tax returns and supporting documents electronically or by mail. Auditors report that the inability to conduct on-site document reviews significantly increases the time required to complete audits and increases the chances that incomplete documentation will be provided.

In addition, the report identified a lack of training for auditors. Typically, the auditors' formal training consists of training provided by the United States Department of the Interior, which focuses on federal issues and does not address Colorado's laws regarding severance taxes.

Department's Response: The Department stated that in September 2005, it reallocated one other person to the Mineral Audit Section to conduct audits of severance tax returns. In addition, it would conduct an analysis to determine if a greater portion of audit resources, including travel resources should be assigned to severance tax audits. The Department agreed that it would develop a formal training program for all new hires. The Department also stated that it would work with (and had already started to do so) OGCC to identify methods to improve auditors use of the Commission's available databases. It also stated it would work with the Department of Natural Resources (DNR) to improve proficiency in accessing and using any DNR information that would add value to severance tax audits.

The Department either had already implemented the suggestions of the audit report or agreed to implement them in an expeditious manner. The latest commitment of any of the Department's actions was October 2006, pending OGCC rule adoption.

QUESTIONS FOR THE DEPARTMENT:

1. The Department stated that it intended to implement all of the recommendations outlined in the audit. Staff recommends the Committee ask the Department to discuss its progress in response to the issues and recommendations raised in the Auditor's Report of June 2006. The Department's response should specifically address the commitments that the Department made in its response to the State Auditors Report and it should address the effectiveness of the measures taken.

2. The Department stated in its response to the audit report that it would reallocate an additional person to the Mineral Audit Section to conduct audits of severance tax returns. Has this reallocation of resources resulted in additional audits being completed?

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INFORMATIONAL ISSUE:

The State Working Group for the Interim Committee on Severance Tax and Federal Mineral Lease Revenue met this summer and issued a report with a number of findings related to the Department of Revenue regarding collection of Severance Taxes. While this issue is related to the previous issue, the focus of this issue is to inform the Committee on the other issues relating to severance taxes, such as the tax rates, deductions and credits and the complexity of Colorado's severance tax.

SUMMARY:

The Working Group made the following findings regarding Severance Tax Issues:

- ✓ The current Department of Revenue system for the collection of severance taxes does not adequately ensure that tax revenue due to the state from mineral industry operations is being collected.
- ✓ Simplification of the severance tax would be beneficial to all parties paying and collecting the tax.
- ✓ Any producer, working interest owner, royalty interest owner or any other interest owner must file a Severance Tax Return, resulting in a large number of returns with minimal revenue due and in many cases refunds.
- ✓ Any changes in the severance tax should not result in a decrease in total taxes collected.
- ✓ Variation in mill levies, the lag in assessed value and in production prices, and the aggregation of multiple well heads in varying counties add up to a complicated tax credit that is not uniform, difficult to track, and inconsistent throughout the state.
- ✓ The severance tax rate in Colorado is substantially lower than in neighboring states.
- ✓ Other states' severance tax collections enable them to invest in their state beyond simply mitigating impacts.
- ✓ Mill levies assessed by counties and other districts do not address the magnified impacts that come with the scale and speed of development currently being generated by mineral development and often do not address the demands placed on local services and infrastructure for specific projects.
- ✓ Colorado Statutes provides a mechanism for industry and local governments to partner in the use of advance impact assistance credits, which has not been used for several years due to procedural and policy challenges.
- ✓ The advance impact assistance credit statute provides for an effective interest rate of nine percent, well above current market rates.
- ✓ Formation of a Public Improvement District as a potential tool to address local impacts.

DISCUSSION:

The Working Group's findings and recommendations that impact the Department of Revenue are summarized below.

Finding 1: "The current Department of Revenue system for the collection of Severance Taxes does not adequately ensure that tax revenue due to the state from mineral industry operations is being collected." This was addressed in the previous Issue regarding Severance Tax collections, however, the Working Group recommends "legislative action to streamline the administration of the Severance Tax, and to strengthen the ability of the Department of Revenue to regulate returns."

This issue was discussed in the previous issue of the State Auditor's report on the Department of Revenue's collection procedures for severance taxes.

Finding 2: "Simplification of the Severance Tax would be beneficial to all parties paying and collecting the tax." The Working group discussed a number of options, including:

- Replacement of the current variable tax rate with a flat tax rate. Currently, the tax rate is based upon the taxpayer's gross income from mineral extraction.
- Elimination of the ad valorem (property tax) credit against severance tax payments.
- Adjustment of the "net back" deductions allowed in calculating taxable revenue. Currently, there are deductions from gross income for the processing and manufacturing costs incurred in producing minerals.
- Elimination of the small well (stripper well) production exemption.
- A change of the point of reporting from the royalty owner to operator or first purchaser.

The Working Group recommended further investigation and modeling of the flat tax option.

Finding 3: "Currently any producer, working interest owner, royalty interest owner, or any other interest owner in oil and gas properties must file a Severance Tax return." The Working Group recommended further investigation into a change in the point of reporting to the producer, operator or first purchaser. This would change the Severance Tax assessment to the point of first sale, which would result in reducing the number of Severance Tax returns filed with the State, simplifying the administration of the tax by the Department of Revenue.

There is one consequence of this that was identified, that being that producers that operate in several counties could aggregate the sum of the taxes and use them to mitigate the impact of the ad-valorem in counties with higher tax rates against counties with lower tax rates, thus reducing the total of severance taxes paid. The Working Group's recommendation is to either change the rule to preclude the use of credits generated in one county to offset those due in another county, or to eliminate the ad valorem tax credit.

Finding 4: Any changes made to the Severance Tax should not result in a decrease in total taxes collected. If changes to the structure result in a net decrease, the tax rate should be recalibrated to account for the lost revenue.

Finding 5: "Variations in mill levies, the lag in assessed value and in production prices, and the aggregation of multiple well heads in varying counties add up to a complicated tax credit that is not uniform, difficult to track and inconsistent throughout the state.

Finding 6: The Working Group obtained information that shows that the severance tax rate in Colorado is lower than in neighboring states, as shown in the table below.

State and Local Tax Burden on Oil and Natural Gas Producers (All figures in millions of Dollars)							
	Gross Oil and Gas Production Value	Severance Taxes	Property Taxes	Income Taxes	Sales Taxes	Total State & Local Taxes	Total Taxes as % of Production Value
Colorado	$6,899	$132	$228	$20	$13	$392	5.7%
Wyoming	10,377	567	540	N/A	58	1,165	11.2%
Utah	2,145	54	31	5	8	97	4.5%
New Mexico	11,867	815	128	75	94	1,112	9.4%
Oklahoma	11,695	779	N/A	31	8	817	7.0%
Source: Colorado Legislative Council staff November 15, 2006							

Only Utah, with a much lower level of Oil and Natural Gas Production, has a lower effective tax rate on the value of the natural resources extracted from its lands. Severance and other taxes in the other three neighboring states from two to three times greater than those collected in Colorado while their production is about 50 to 75 percent higher.

Finding 7: Severance tax collections in other states were "enabling those states to invest in their state beyond merely mitigating impacts." New Mexico and Wyoming have each established trust funds for their severance tax collections which are used to fund education, research facilities, economic development, and capital and infrastructure.

Finding 8: While mill levies assessed by counties and other districts provide resources and services to local residents at a base level, they often do not address the magnified impacts that come with the scale and speed of development currently being generated by mineral development. The Working Group's recommendation was to allow local communities authority to implement impact fees. Since local agencies and counties may not have the ability to develop and uphold impact fee regulations, or the capacity to implement, monitor, and enforce them, state financial, legal and administrative support will be necessary to ensure successful impact fee structures.

Finding 9: Section 39-29–107.5, C.R.S., provides a mechanism for industry and local governments to partner in the use of advance impact assistance credits. These have not been used for many years because of some procedural and policy challenges (Not identified in the report). The Working Group felt that the advance impact assistance credit program has "merit and potential, and should be modernized to allow local governments the ability to partner with industry and use these credits to address impacts in their local communities."

Finding 10: The advance impact assistance credit statute, cited above, provides for an effective interest rates of nine percent on the taxpayers credit balance, which is well above any current interest rate. The Working Group recommended that the statutory reference to an interest rate by eliminated and a link established to a generally agreed upon current market interest rate.

Finding 11: The Working Group urged the formation of a Public Improvement District as a potential to tool to address local impacts.

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ISSUE:

Department Decision Item – Priority # 2

The Department is requesting to increase the Tickets Costs line item in the State Lottery Division by $4 million, cash funds exempt (State Lottery Fund) to implement a distribution/inventory management system for the State Lottery Division.

RECOMMENDATION:

Staff recommends that the Committee ask the Department to respond to the questions at the end of the issue.

SUMMARY:

The Department believes that by improving its distribution/inventory management system for its Scratch tickets, it can increase sales by approximately $54.3 million and proceeds by approximately $9 million.

DISCUSSION:

Currently, the State Lottery Division distributes its scratch tickets utilizing Lottery sales representatives. Sales representatives visit each of their accounts every two weeks, delivering tickets and at the same time performing essential sales functions critical to sales growth, such as in-store merchandising, retailer training, creating and implementing in-store promotions, analyzing retailer inventory needs and recruiting new businesses. On average, a sales representative must visit approximately 107 retailers every two weeks to deliver tickers and provide service throughout their sales territories. The Department believes that a more customized approach to service and inventory management is now required to optimize Scratch sales and achieve the desired growth of this product.

In addition to their role of delivering tickets, the sales representatives support the jackpot games, which are sold via on-line terminals. The Lottery has three jackpot games, with plans to introduce a fourth game. It is an essential duty of sales representatives to train and educate retailers on terminal operations, jackpot game features, and enhancements. Since there is a very high rate of turnover especially among convenience store employees, this task is very important. Convenience stores represent approximately half of the lottery outlets.

The current method of delivery is causing problems with inventory management. Retailers may be out of stock, and must wait for the representative to visit them for deliveries. While the retailer can contact the Lottery to receive a special order, many of them do not take the time to do so. High volume retailers may require weekly or even twice-weekly deliveries. Under the current distribution system, retailers and sales representative report that as much as ten percent of the lottery scratch game bins are empty at a time. This results in estimated lost sales to the lottery sales of from $28.2 million to $135.7 million. The best estimate is that retailers being out of stock costs the Division approximately $54 million in sales per year.

Another advantage of the new delivery system is that sales representatives could spend more time recruiting new retailers for the Lottery. The Lottery estimates it increases annual sales by $155,000 with the addition of a new retailer and the Division's goal is to increase its retailer network from 2,900 to 3,100 over the next several years. Adding 200 retailers to the network is estimated to increase sales by approximately $31 million.

According to the Department, Colorado Scratch Ticket sales have increased by 20 percent over the last seven years. However, this growth has lagged behind the industry, which has grown by 84 percent over the same time frame. Arizona recently implemented a distribution system similar to what the Lottery is proposing and immediately realized double-digit increases in sales. The table below compares Arizona's Scratch Ticket sales with Colorado's.

	Arizona Scratch Sales		Colorado Scratch Sales	
Year	Sales	% Increase	Sales	% Increase
FY 2000-01	136,900,000	5.7%	249,200,000	6.5%
FY 2001-02	143,400,000	4.7%	257,200,000	3.2%
FY 2002-03	159,200,000	11.0%	254,300,000	-1.1%
	(Full courier delivery system implemented)			
FY 2003-04	183,300,000	15.1%	260,900,000	2.6%
FY 2004-05	219,700,000	19.9%	282,700,000	8.4%
			(Limited Courier delivery system implemented)	
FY 2005-06	249,800,000	13.7%	293,800,000	3.9%
FY 2006-07			297,100,000	1.2%
FY 2003 to 2006		**56.9%**		**15.5%**

According to the Lottery, the State ranks 25th (out of 41 states with lotteries) in per capita sales of scratch tickets. Per capita sales of scratch tickets in Colorado currently is about $61. Without systematic change in the Lottery, sales growth will continue to experience a rate of growth in the two to four percent per year range.

Just by addressing the out of stock conditions at retailers, Scratch sales would be increased by about $54 million, of which about $9 million would be net proceeds, which is distributed according to statute (40% to Conservation Trust Fund, 10% to State Parks, with the remainder, 50% going to the School Fund Spillover).

The Department states that if the request is not funded, Scratch sales will continue to increase at modest rates per year, or sales may level off or decline. These lost sales opportunities will result in less money to fund the statutory recipients of the proceeds of the Lottery. In addition, the Lottery will likely need to request additional sales FTE and vehicles in order to properly service the retail network as new games are introduced and new retailers are added.

QUESTIONS FOR THE DEPARTMENT:

1. A large part of the sales representative's time is spent delivering tickets. With the new distribution/inventory management system in place, will the Department need as many sales representatives to adequately cover the retail sales network?

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ISSUE:

<u>Department Decision Item – Priority # 3</u>
The State Lottery Division is requesting to increase its advertising budget authority by $3,028,580 in each of the next two fiscal years. Funds will come from cash funds exempt (State Lottery Fund).

SUMMARY:

The Lottery requests an increase in its advertising budget to effectively advertise Lottery products to increase sales and funding to statutorily defined proceeds recipients. The request is phased in over a two year period to ensure that the new marketing strategy is implemented in an efficient and effective manner. If granted, the full increase will bring the Lottery's marketing budget back to where it was in FY 1988-89, when accounting for inflation.

RECOMMENDATION:

Staff recommends that the Committee ask the Department to respond to the questions at the end of the issue.

DISCUSSION:

The Lottery has two primary types of games that it sells – Scratch tickets and jackpot games (Lotto, Powerball and Cash 5). There are 35 to 40 different Scratch game versions in production each year. Currently, the Lottery is unable to promote every game due to budget constraints. The three jackpot games also require advertising, since "jackpot fatigue" is an issue all lotteries deal with today.

The Lottery currently advertises Powerball using billboard, newspapers, in-store signage and radio. Six Scratch campaigns are advertised each year using television, radio, print and billboards. Due to budget constraints, the Lottery has limited advertising for the Lotto and Cash 5 jackpot games. An increasing amount of the Lottery's advertising budget has gone to Scratch tickets because they have continued to increase while jackpot games have decreased. However, jackpot games are more profitable. Though jackpot games represented 37% of sales volume in FY 2005-06, the represented more than 50% of the proceeds from Lottery sales.

The last significant increase in the Lottery marketing budget was in 1989, when Lotto was added, and the budget was not increased when Powerball was added in 2001. The marketing budget has increased by six percent since 1989, while the price of an advertising rating point on Colorado television has increased 82%. To keep pace with inflation since 1989, the marketing budget would need to be at least $14.7 million.

The Lottery also faces competition from Limited Stakes Gaming and internet gaming. There is a chance that Wyoming will introduce a lottery in the next few years, which will reduce cross-border purchases of lottery products. In addition, there has been explosive growth in other entertainment options for consumers that has an impact on Lottery sales.

The increase in marketing will allow the Lottery to:

- Increase Scratch advertising to 1,200 or more points per campaign
- Allow for advertising of Lotto and Cash 5
- Enable for implementation of an annual Powerball campaign

The Lottery estimates that the increased advertising will result in an additional $24 million in annual sales, and proceeds will increase by $4.3 million. Lottery proceeds are distributed according to statutory formula, with 40% going to the Conservation Trust Fund, 10% to State Parks, and the remaining 50% to the School Fund Spillover.

As an example of what advertising can accomplish, the Lottery points to the $35 Million Cash Spectacular Scratch game, launched in May 2006. After a strong launch, sales were declining by 2.4% per week. The Lottery spent $500,000 in December to start a second advertising push in television and radio for the game. In the first five weeks after the advertising started, sales were $1.9 million above the trended sales projections, and after ten weeks, the amount was $3.33 million above the trended sales projections. This translates to about $6.66 of increased sales for each marketing dollar spent.

In 2003, the Wisconsin Lottery compiled a definitive national analysis of marketing spending vs. sales. The data was provided by many state lotteries. The results showed that each dollar of advertising increased sales by from 3 to 14 dollars. In addition, two states reduced their advertising, which resulted in a decline of $9 and $25 for each dollar reduction in advertising.

QUESTIONS FOR THE DEPARTMENT:

1. How will the Lottery differentiate between the effects of increased sales as a result of the improved Distribution/Inventory Management system and the increase in sales as a result of increased advertising?