COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2007-08 STAFF BUDGET BRIEFING
DEPARTMENT OF REVENUE

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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Department of Revenue

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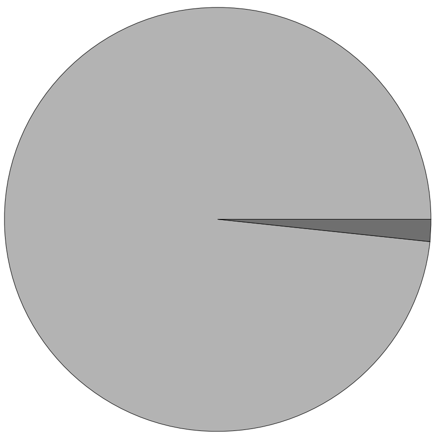

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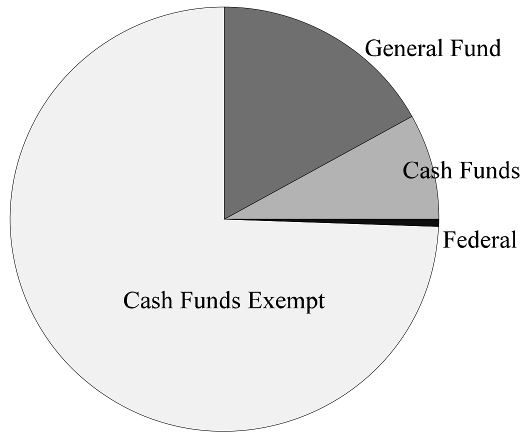

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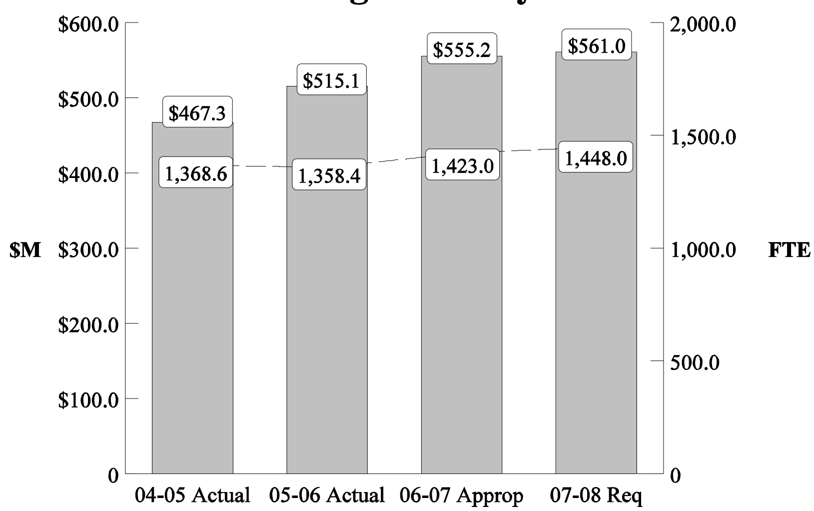


FY 2007-08 JBC Staff Budget Briefing
Department of Revenue
DEPARTMENT OVERVIEW

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)
  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 her department so that all employees of the department, insofar as possible, are interchangeable in work assignment.

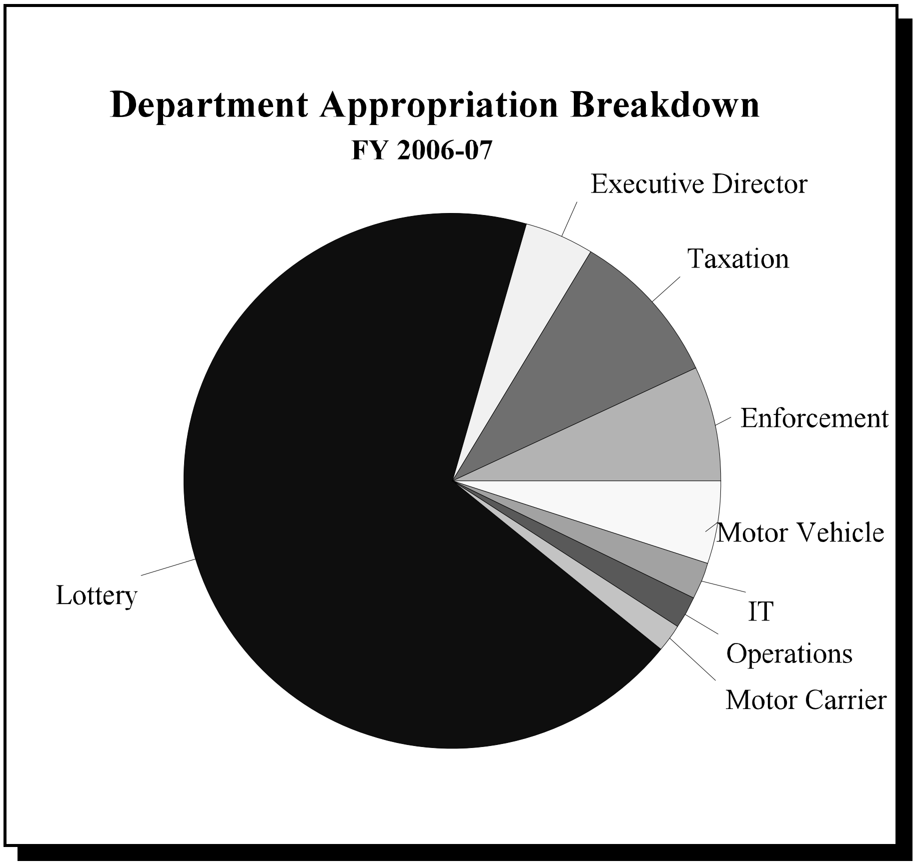
Factors Driving the Budget

The Department is organized into three functional groups: Taxation, Motor Vehicles, and Enforcement. The Taxation group collects revenue for the state and for local governments; the Division of Motor Vehicles, which also oversees Motor Carrier Services, regulates motor vehicle safety, issues personal identification documents, and regulates commercial vehicles; and the Enforcement group regulates alcohol, tobacco, and gambling.

The three functional areas are supported by the Executive Director's Office, Central Department Operations and Information Technology Divisions. The Department also operates the State Lottery, a TABOR enterprise supported by lottery ticket sales, which accounts for almost 70 percent of the Department's annual 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.

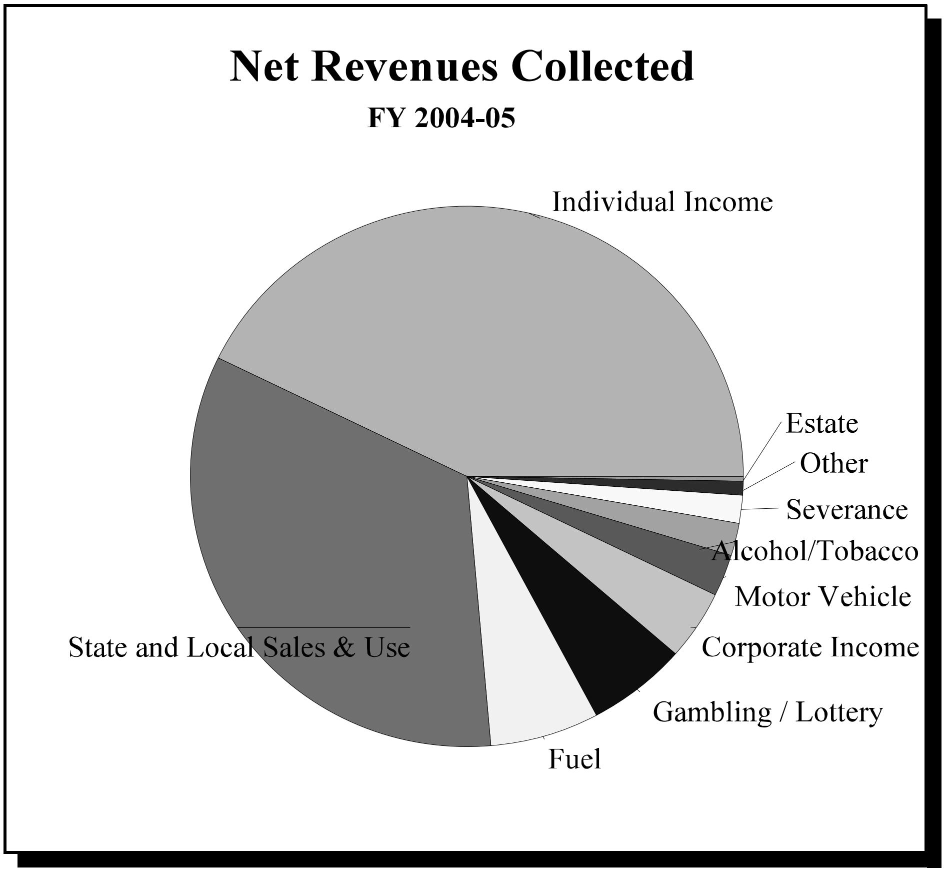
A chart of the Department's budget by function is shown below:



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 for local governments, and it handled more than 5 million pieces of incoming mail and walk-in payments and documents.

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.

The chart on the following page shows the total revenues collected last year, including the sales and use taxes collected on behalf of local governments:



Taxation

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 (PTC) Grants for approximately 36,000 applicants each year, as well as the Cigarette Tax Rebate to local governments, the Amendment 35 Distribution fo Local Governments of 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 60 percent of total payments; electronically filed individual income tax returns are almost half of the total; and direct deposit of individual income tax refunds is about 45 percent of the total. In addition, the Department expects that taxpayers will be able to pay taxes by credit card starting in late 2007.

In response to a January 2003 State Auditor's Report on the Department's Business Tax Audits, the Department agreed to incorporate automated methods in the process for identifying potential audit candidates, by October 2003. However, the Department now states that the tax audit selection method is qualitative. Following are the amounts net taxes assessed and the amount of net taxes collected by the field audit unit in recent years:

	FY 2003	FY 2004	FY 2005	FY 2006
Assessments	$54,581,698	60,278,059	115,694,875	95,918,098
Collections	$20,466,019	17,178,362	20,206,831	11,420,607

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

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, is scheduled to be deployed in stages into all the county offices by the end of the current fiscal year, June 30, 2007.

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, and enforces laws governing owners and operators of motor carriers.

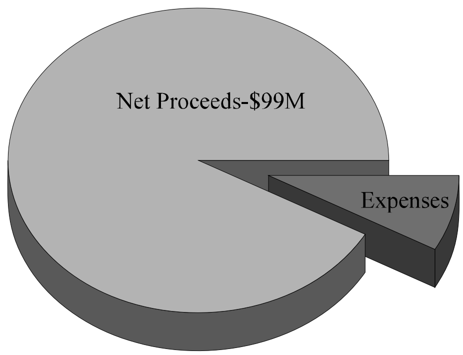
Enforcement

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.

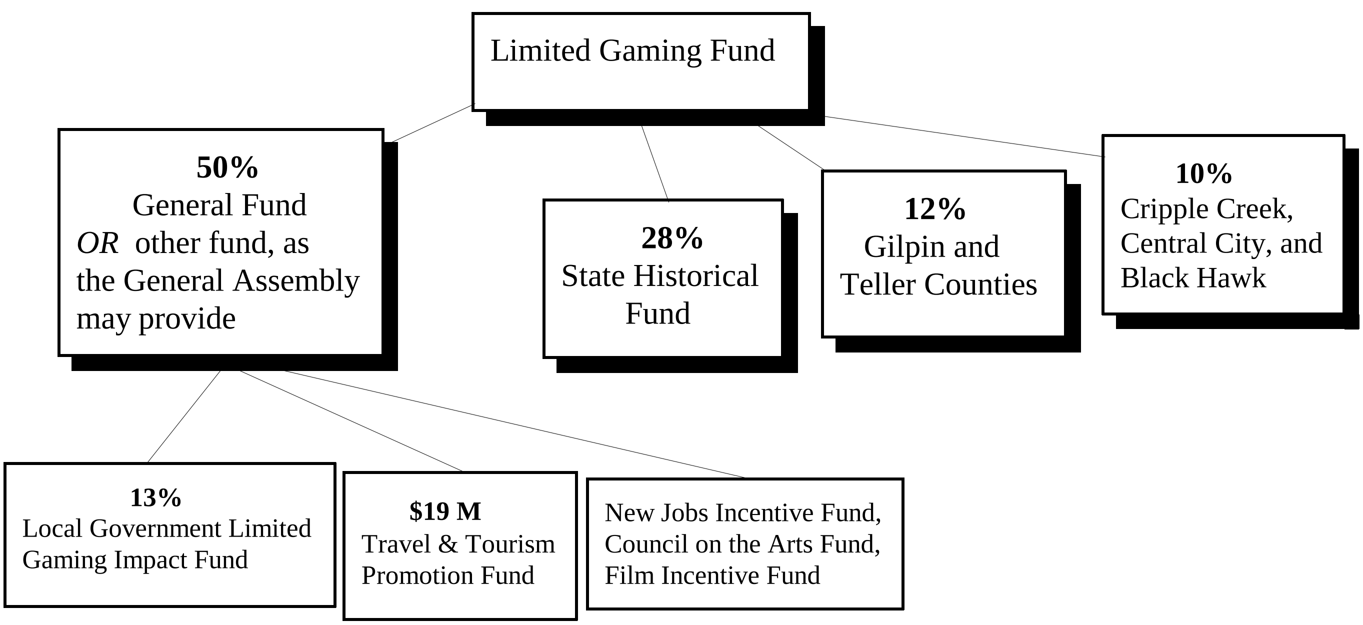
Limited Gaming Division

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.

FY 2005-06 Gaming Revenues



For FY 2005-06, the Gaming Fund distribution was $100.1 million, distributed as follows:



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, has announced its intention to close, but the Department states this will not cause staffing or funding changes. In FY 2005-06, the Division collected approximately $3.4 million in pari-mutuel 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.*

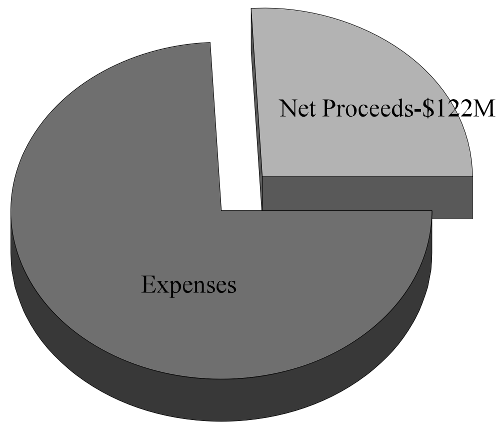
In FY 2004-05, the Board imposed fines of almost $3 million and obtained $3.3 million in restitution for consumers and dealers, according to the Department's 2005 annual report. (The Department elsewhere reported the amount of fines levied in FY 2004-05 as less than $0.5 million.) Following are the amounts of fines imposed and fines collected in FY 2003-05, as reported in the *Denver Post*, October 9, 2005:

	FY 2002-03	**FY 2003-04**	**FY 2004-05**	**FY 2005-06***
Fines levied	$2,310,000	3,450,000	2,980,000	1,070,159
Fines collected	$60,800	136,850	52,941	53,900

*as reported by the Department of Revenue in December 2006

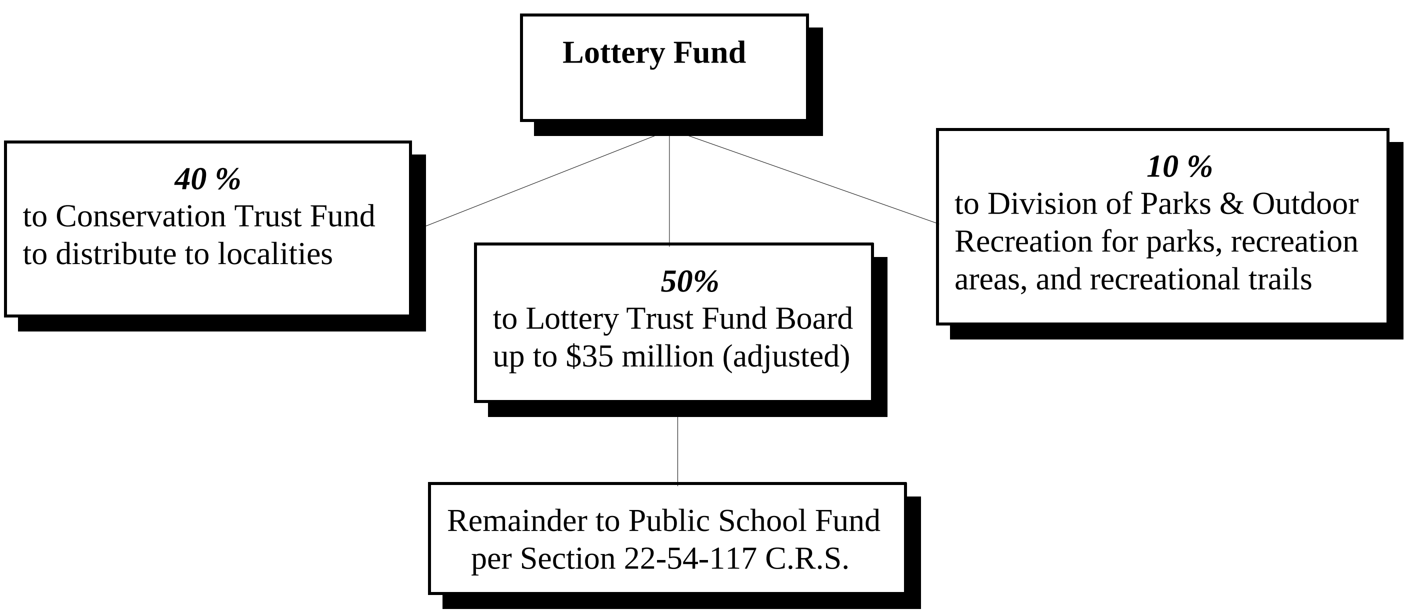
Lottery
The State Lottery recorded sales of more than $468.8 million in FY 2005-06. Expenses, including prizes (which must total at least 50 percent of sales), were $346.7 million. Net proceeds were $122.1 million, and distributions from the Lottery Fund were $125.6 million.

FY 2005-06 Lottery Revenues



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 as follows, per Section 33-60-104 C.R.S.:



Summary of Major Legislation Affecting the Department

✓ **S.B. 06-28 (Lamborn/Frangas): Creation of a Bronze Star Special License Plate.**

✓ **S.B. 06-80 (Tochtrop/Soper): Creation of the Support the Troops Special License Plate.**

✓ **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. Reduces the Department of Revenue's appropriation for the MIIDB by $1,023,445 and 7.0 FTE.

✓ **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. 06-1339 (Garcia/Spence): Creation of a Denver Broncos Special License Plate.**

✓ **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.

- ✓ **H.B. 06-1404 (Todd/Bacon): Creation of a Support Education Special License Plate.**

- ✓ **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. Reduces fees that would have increased to $30 for ten-year licenses beginning on July 1, 2006, back to $15 for five-year licenses.

- ✓ **S.B. 05-153 (Teck/Judd): Motor Vehicle License Plates Requirement.** Repeals the statutory requirement to replace all motor vehicle license plates by July 1, 2007, as originally mandated by H.B. 98-1075 and later modified by H.B. 02-1066.

- ✓ **H.B. 05-1056 (Hefley/Sandoval): Income tax checkoff for Alzheimer's Association Fund.**

- ✓ **H.B. 05-1196 (Hall.Tapia): Extend HUTF Refinance of Motor Vehicle Division.** Extends S.B. 03-267, which refinanced the Division from the Highway Users Tax Fund (HUTF), through the end of FY 2005-06.

- ✓ **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, for good cause to accept or reject in whole or in part the appraisal value of the easement, the amount of the credit, and the validity of the credit based on the Internal Revenue Code and federal regulations in effect at the time of the donation.

- ✓ **H.B. 05-1262 (Boyd/Hagedorn): Tobacco Tax Implementation.** Appropriates $1,522,800 cash funds exempt to the Department of Revenue for apportionment to municipal and county governments pursuant to Section 39-22-623, C.R.S.

- ✓ **S.B. 04-178 (Lamborn/Mitchell): Promotion of Anatomical Donations.** Adds an income tax checkoff for the Organ and Tissue Donation Awareness Fund.

- ✓ **S.B. 04-230 (Cairns/Tochtrop): Creation of a Vietnam Veteran Special License Plate**

- ✓ **H.B. 04-1358 (Spradley/Kester): Income Tax Checkoff for the Colorado State Fair.**

✓ **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.

MAJOR FUNDING CHANGES

FY 2005-06 Actual to FY 2006-07 Appropriation

Action	General Fund	Other Funds *(Sources of funds)*	Total Funds	Total FTE
State Lottery	$ 0	31,399,984 *(Lottery Fund)*	$ 31,399,984	5.8
Health, Life and Dental	$ 2,942,035	1,801,346 *(various)*	$ 4,743,381	0.0
Leased Space and Capitol Complex Leased Space	$ 2,641,042	1,419,925 *(various)*	$ 4,060,967	0.0
Old Age Heat & Fuel and Property Tax Assistance Grants	$ 2,223,228	0	$ 2,223,228	0.0
Salary Survey and Performance Based Pay	$ 1,215,030	822,898	$ 2,037,928	0.0
Amendment 35 Distribution to Local Governments	$ 0	1,548,108 *(Tobacco Tax Fund)*	$ 1,548,108	0.0
Amortization Equalization Disbursement	$ 311,065	$195,744	$ 506,809	0.0
Motor Vehicle Dealer Licensing Board	$ 0	249,379 *(Auto Dealers License Fund)*	$ 249,379	5.4
Gaming Distributions	$ 0	$238,390 *(Limited Gaming Fund)*	$ 238,390	0.0
Mineral Audit Division	$ 0	190,278 *(Federal Funds)*	$ 190,278	3.3
License Plate Ordering	$ 0	$(136,334) *(License Plate Fund)*	$ (136,334)	0.0
CSTARS	$ 0	(485,941) *(CSTARS Account)*	$ (485,941)	3.3
Motorist Insurance Identification Database Program	$ 0	(982,352) *(Motorist Insurance Identification Account)*	$ (982,352)	(5.8)
Cigarette Tax Rebate	$ 0	$(1,720,042)	$ (1,720,042)	0.0

The **Old Age Heat & Fuel Assistance Grants, and Old Age Property Tax Assistance Grants** increase was based on Legislative Council's revenue forecast. The actual disbursements for these programs may vary because any qualified applicants must receive the grants. This appropriation is exempt from the six percent limit on General Fund appropriations.

The **Amendment 35 Distribution** was adjusted to reflect actual proceeds. Amendment 35, passed in November 2004, provides that 3 percent of the total revenue and interest earned on tobacco tax proceeds deposited into the Tobacco Tax Fund are distributed to local governments to "compensate proportionately for tax revenue reductions attributable to lower cigarette and tobacco sales resulting from implementation of the tax." Section 39-22-623, C.R.S.

The **Motor Vehicle Dealer Licensing Board** received an increase of 5.4 FTE to reduce the backlog of complaints.

Distribution to Gaming Cities and Counties: Under Section 12-47.1-701 (1) (c), C.R.S., this amount reflects adjustments to the FY 2005-06 estimate of distributions to the State Historical Fund; to Gilpin and Teller counties; to the cities of Black Hawk, Central, and Cripple Creek; and to the General Fund or other funds as determined by the General Assembly.

The **Mineral Audit Program** budget was adjusted to reflect an expected increase in federal funding.

CSTARS received one-time funding to establish an additional branch office in Arapahoe County and to purchase new workstations for Mesa and Weld Counties.

Other increases include centrally appropriated line items: short-term disability, workers' compensation, purchase of services from the computer center, payments to risk management and property funds, and vehicle lease payments. Other increases to FTE include increases from a base, actual FTE, that was lower than the appropriated FTE.

Also please note that the Division of Motor Vehicles saw a decrease of $8.7 million HUTF and a corresponding increase in General Fund, primarily due to the sunset of H.B. 05-1196, which had refinanced part of Driver and Vehicle Services personal services with HUTF "Off-the-Top" moneys.

FY 2007-08 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	Postage *[Section 24-35-105, C.R.S.]*	($79,354)	12,676	31,569 *(various)*	222,181 *(various)*	0	$187,072	0.0
2	Data Entry *[Section 24-35-105, C.R.S.]*	$112,040	0	0	0	0	$112,040	0.0
3	CSTARS County Branch Office Expansion *[Section 42-1-211, C.R.S.]*	$0	0		21,317 *(CSTARS Fund)*	0	$21,317	0.0
4	License Plate Funding *[Section 42-3-301 , C.R.S.]*	$0	0	367,940 *(License Plate F.)*	0	0	$367,940	0.0
5	Drivers License Staff Increase *[Section 42-1-219, C.R.S.]*	$1,008,299	0	0	0	0	$1,008,299	25.0
6	Tax Audit Software *[Section 24-35-105, C.R.S.]*	$20,166	0	0	0	0	$20,166	0.0
7	Tax Conferee Legal Research *[Section 24-35-105, C.R.S.]*	$6,652	0	0	0	0	$6,652	0.0
8	Utilities *[Section 24-35-105, C.R.S.]*	$18,717	0	0	0	0	$18,717	0.0
NP	Multiuse Network Payments *[statewide]*	$224,343	11,301	18,081 *(various)*	228,111 *(various)*	0	$481,836	0.0
NP	Vehicle Replacements *[statewide]*	$6,131	0	2,420 *(various)*	6,025 *(various)*	0	$14,576	0.0
BR	Document Line Base Reduction *[Section 42-1-219, C.R.S.]*	($642,837)	0	0	(76,408) *(I.D.Security F.)*	0	($719,245)	0.0
	TOTAL REQUEST	**$674,157**	**$23,977**	**$420,010**	**$401,226**	**$0**	**$1,519,370**	**25.0**

FY 2007-08 JBC Staff Budget Briefing
Department of Revenue

OVERVIEW OF NUMBERS PAGES

Requested Changes: FY 2006-07 Appropriation to FY 2007-08 Request

Description	GF	CF	CFE	FF	Total	FTE
Salary Survey and Performance Based Pay	$ 697,687	164,440	371,781	0	**$ 1,233,908**	**0.0**
Health, Life and Dental	$ 747,846	94,527	212,471	0	**$ 1,054,844**	**0.0**
Amortization Equalization Disbursement	$ 251,230	50,338	96,161	0	**$ 397,729**	**0.0**
Purchase of Services from Computer Center	$ (306,094)	0	(2,335)	0	**$ (308,429)**	**0.0**
Mineral Audit Program	$ 0	0	24,186	(151,010)	**$ (126,824)**	**0.0**
Distribution to Gaming Cities and Counties	$0	1,518,070	0	0	**$ 1,518,070**	**0.0**
Motorist Insurance Identification Database	$ 0	0	(327,146)	0	**$ (327,146)**	**0.0**
Lease-Purchase 1881 Pierce	$ 0	(337,324)	(467,890)	0	**$ (805,214)**	**0.0**
Drivers License Documents	$ (642,837)	0	(76,408)	0	**$ (719,245)**	**0.0**
Decision Items:						
Drivers License Staff Increase	$ 1,008,299	0	0	0	**$ 1,008,299**	**25.0**
License Plate Ordering	$ 0	367,940	0	0	**$ 367,940**	**0.0**
Central Department Operations - Postage	$ (79,354)	31,569	234,857	0	**$ 187,072**	**0.0**
Pueblo Data Entry Center	$ 112,040	0	0	0	**$ 112,040**	**0.0**
Statewide Decision Items:						
Multiuse Network Payments	$ 224,343	18,081	239,412	0	**$ 481,836**	**0.0**
Other (primarily Personal Services)	$1,319,460	613,916	(332,074)	68,661	**$ 1,669,963**	**0.0**
Total Change	**$ 3,332,620**	**$ 2,521,557**	**$ (26,985)**	**$ (82,349)**	**$ 5,744,843**	**25.0**

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
DEPARTMENT OF REVENUE					
M. Michael Cooke, Executive Director					

(1) EXECUTIVE DIRECTOR'S OFFICE

Manages the Department. Cash sources include the Limited Gaming Fund, Liquor Enforcment Cash Fund, Auto Dealer's License Fund. Cash exempt sources include the State Lottery Fund, Colorado State Titling and Registration Account, Highway Users Tax Fund, Auto Inspection and Readjustment Account. These are indirect cost recoveries used to offset General Fund.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services	3,149,432	3,405,446	3,282,561	3,401,531	
FTE	39.6	43.5	43.5	43.5	
General Fund	1,721,615	2,068,611	1,800,212	1,983,671	
HUTF	380,274	376,664	411,746	385,567	
Cash Funds	496,663	444,407	512,192	401,235	
Cash Funds Exempt	550,880	515,764	558,411	631,058	
Health, Life and Dental	0	0	4,743,381	5,798,225	
General Fund	0	0	2,942,035	3,689,881	
HUTF	0	0	494,284	549,227	
Cash Funds	0	0	487,906	582,433	
Cash Funds Exempt	0	0	819,156	976,684	
Short-term Disability	0	0	104,137	97,346	
General Fund	0	0	64,280	60,270	
HUTF	0	0	8,570	7,617	
Cash Funds	0	0	12,025	11,765	
Cash Funds Exempt	0	0	19,262	17,694	
Amortization Equalization Disbursement	0	0	506,809	904,538	
General Fund	0	0	311,065	562,295	
HUTF	0	0	42,050	70,312	
Cash Funds	0	0	58,260	108,598	
Cash Funds Exempt	0	0	95,434	163,333	
Salary Survey and Senior Executive Service	0	0	2,037,928	2,598,831	
General Fund	0	0	1,215,030	1,498,732	
HUTF	0	0	179,453	246,110	
Cash Funds	0	0	250,355	332,340	
Cash Funds Exempt	0	0	393,090	521,649	
Performance-based Pay Awards	0	0	0	673,005	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
General Fund	0	0	0	413,985	
HUTF	0	0	0	52,608	
Cash Funds	0	0	0	82,455	
Cash Funds Exempt	0	0	0	123,957	
Shift Differential	0	0	169,277	166,518	
General Fund	0	0	50,618	52,100	
HUTF	0	0	96,423	96,277	
Cash Funds	0	0	9,087	5,408	
Cash Funds Exempt	0	0	13,149	12,733	
Workers' Compensation	1,036,760	811,890	878,495	923,699	
General Fund	695,331	520,058	565,541	593,404	
HUTF	102,544	71,963	78,257	79,157	
Cash Funds	48,193	77,427	84,199	91,748	
Cash Funds Exempt	190,692	142,442	150,498	159,390	
Operating Expenses	643,048	912,803	946,531	946,531	
General Fund	430,302	452,759	449,309	485,359	
HUTF	86,142	92,509	102,958	81,629	
Cash Funds	58,142	130,658	139,385	143,721	
Cash Funds Exempt	68,462	236,877	254,879	235,822	
Legal Services for 11,165 hours	455,104	602,909	756,653	756,653	
General Fund	323,983	264,340	436,254	410,666	
HUTF	685	4,898	2,007	9,981	
Cash Funds	125,741	283,800	261,098	279,214	
Cash Funds Exempt	4,695	49,871	57,294	56,792	
Administrative Law Judge Services - CFE	0	903	824	0	
Purchase of Services from Computer Center	3,330,686	3,424,834	3,475,351	3,166,922	
General Fund	3,330,686	3,419,412	3,469,849	3,163,755	
Cash Funds Exempt	0	5,422	5,502	3,167	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Multiuse Network Payments	1,633,190	1,727,513	1,712,420	2,194,256	DI
General Fund	454,433	444,087	440,213	832,182	
HUTF	61,595	60,193	59,667	41,920	
Cash Funds	63,331	90,934	90,141	67,070	
Cash Funds Exempt	1,053,831	1,132,299	1,122,399	1,253,084	
Payment to Risk Management and Property Funds	166,854	86,794	183,302	245,061	
General Fund	102,748	45,010	104,929	141,174	
HUTF	21,572	11,125	20,903	27,337	
Cash Funds	8,463	8,442	17,891	24,714	
Cash Funds Exempt	34,071	22,217	39,579	51,836	
Vehicle Lease Payments	220,428	356,910	438,935	453,511	DI
General Fund	104,540	82,611	109,769	130,826	
HUTF	30,481	36,089	42,331	47,510	
Cash Funds	50,180	88,952	101,303	120,414	
Cash Funds Exempt	35,227	149,258	185,532	154,761	
Leased Space	1,269,868	2,068,510	2,266,446	2,266,446	
General Fund	1,202,760	1,201,009	1,344,151	1,410,710	
Cash Funds	25,445	79,756	79,756	85,205	
Cash Funds Exempt	41,663	787,745	842,539	770,531	
Capitol Complex Leased Space	1,518,764	1,520,816	1,794,521	1,616,020	
General Fund	1,154,352	1,144,483	1,296,891	1,228,556	
HUTF	25,218	25,579	34,775	26,877	
Cash Funds	100,608	175,814	227,210	176,884	
Cash Funds Exempt	238,586	174,940	235,645	183,703	
Lease Purchase of 1881 Pierce Street	796,183	803,242	805,214	0	
HUTF	67,771	68,373	74,871	0	
Cash Funds	176,989	375,959	337,324	0	
Cash Fund Exempt	551,423	358,910	393,019	0	
Communications Services Payments	51,301	71,677	80,131	69,573	
General Fund	13,659	18,906	21,136	19,047	
HUTF	3,511	4,906	5,485	4,762	
Cash Funds	20,281	44,968	50,272	43,648	
Cash Funds Exempt	13,850	2,897	3,238	2,116	

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	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08 Request	DI's Req. v Approp
Utilities	161,015	194,516	135,107		233,321	
General Fund	76,474	85,723	56,303		104,440	
HUTF	84,541	89,255	63,756		103,416	
Cash Funds	0	19,538	15,048		25,465	
TOTAL - (1) EXECUTIVE DIRECTOR'S OFFICE	**14,432,633**	**15,988,763**	**24,318,023**		**26,511,987**	**9.02%**
FTE	**39.6**	**43.5**	**43.5**		**43.5**	**0.00%**
General Fund	9,610,883	9,747,009	14,677,585		16,781,053	14.33%
HUTF	864,334	841,554	1,717,536		1,830,307	6.57%
Cash Funds	1,174,036	1,820,655	2,733,452		2,582,317	-5.53%
Cash Funds Exempt	2,783,380	3,579,545	5,189,450		5,318,310	2.48%

(2) CENTRAL DEPARTMENT OPERATIONS DIVISION

Receives and distributes all incoming documents, enters tax form data into database, and esablishes liability and taxpayer accounts. Cash fund and cash fund exempt sources include the Colorado State Titling and Registration Account, Identification Security Fund, and Limited Gaming Fund.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08 Request	DI's Req. v Approp
Personal Services	5,475,734	5,600,880	5,139,346		5,258,293	
FTE	108.7	105.0	109.9		109.9	
General Fund	4,732,943	5,091,745	4,765,475		4,920,752	
HUTF	0	0	0		91,984	
Cash Funds	361,919	196,213	65,984		95,726	
Cash Funds Exempt	380,872	312,922	307,887		149,831	
Seasonal Tax Processing - GF	359,131	371,341	367,603		376,217	
Operating Expenses	3,516,194	3,486,759	3,335,624	/a	3,522,696	**DI**
General Fund	3,335,470	3,217,900	3,198,737		3,119,383	
HUTF					12,676	
Cash Funds	0	91,140	0		31,569	
Cash Funds Exempt	180,724	177,719	136,887		359,068	
Pueblo Data Entry Center Payments	1,639,721	1,639,620	1,643,242	/a	1,755,282	**DI**
General Fund	1,639,233	1,639,233	1,639,233		1,751,273	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08 Request	DI's Req. v Approp
Cash Funds	78	0	571		571	
Cash Funds Exempt	410	387	3,438		3,438	
Microfilm Services - General Fund	295,982	343,987	344,039	/a	344,039	
TOTAL - (2) CENTRAL DEPARTMENT OPERATIONS	11,286,762	11,442,587	10,829,854		11,256,527	3.94%
FTE	108.7	105.0	109.9		109.9	0.00%
General Fund	10,362,759	10,664,206	10,315,087		10,511,664	1.91%
HUTF	0	0	0		104,660	n/a
Cash Funds	361,997	287,353	66,555		127,866	92.12%
Cash Funds Exempt	562,006	491,028	448,212		512,337	14.31%

/a does not include 1331 supplemental for $5,917 GF total for Central Operations

(3) INFORMATION TECHNOLOGY DIVISION

(A) Systems Support

Provides information technology support for the Department. Cash and cash funds exempt sources include the Colorado State Titling and Registration Account, Driver's License Revocation Account, Auto Dealer License Fund, and Automobile Inspection and Readjustment Account.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08 Request	DI's Req. v Approp
Personal Services	6,268,407	5,932,696	5,952,713		6,182,818	
FTE	75.4	74.7	84.4		84.4	
General Fund	5,048,598	4,832,611	4,294,760		4,440,572	
HUTF	0	0	0		427,990	
Cash Funds	298,743	345,693	257,376		445,397	
Cash Funds Exempt	921,066	754,392	1,400,577		868,859	
Operating Expenses	708,152	703,512	725,013		724,313	
General Fund	708,152	703,512	724,313		724,313	
Cash Funds Exempt	0	0	700		0	
Programming Costs for Session Legislation	67,052	124,286	95,695	/b	99,866	
FTE	0.8	1.4	2.2		2.2	
General Fund	432	44,717	16,744		16,744	
Cash Funds	0	0	0		4,171	
Cash Funds Exempt	66,620	79,569	78,951		78,951	
(A) SYSTEMS SUPPORT - SUBTOTAL	7,043,611	6,760,494	6,773,421		7,006,997	3.45%
FTE	76.2	76.1	86.6		86.6	0.00%
General Fund	5,757,182	5,580,840	5,035,817		5,181,629	2.90%

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's	Req. v Approp
HUTF	0	0	0	427,990		n/a
Cash Funds	298,743	345,693	257,376	449,568		74.67%
Cash Funds Exempt	987,686	833,961	1,480,228	947,810		-35.97%
/b does not include 1331 supplementals for $57,054 GF, $80,991 CFE from CSTARS fund, and (0.9) FTE total for Information Technology						
(B) Colorado State Titling and Registration Systen						
Maintains voter registration and motor vehicle title and registration system. Sources of cash funds and cash funds exempt are the Auto Dealers License Fund and the Colorado State Titling and Registration Account.						
Personal Services - Cash Funds Exempt	2,261,952	2,750,115	2,269,572	2,293,256		
FTE	25.9	28.2	31.5	31.5		
Operating Expenses - Cash Funds Exempt	2,567,900	3,221,879	2,648,251	2,615,145		
County Office Asset Maintenance - Cash Funds Exempt	0	0	568,230	568,230		
CSTARS Rewrite Project - Cash Funds Exempt	366,240	0	0	0		
FTE	2.3	0.0	0.0	0.0		
(B) COLORADO STATE TITLING AND REGISTRATION SYSTEM						
SUBTOTAL - Cash Funds Exempt	5,196,092	5,971,994	5,486,053	5,476,631		-0.17%
FTE	28.2	28.2	31.5	31.5		0.00%
TOTAL - (3) INFORMATION TECHNOLOGY DIVISION	**12,239,703**	**12,732,488**	**12,259,474**	**12,483,628**		**1.83%**
FTE	**104.4**	**104.3**	**118.1**	**118.1**		**0.00%**
General Fund	5,757,182	5,580,840	5,035,817	5,181,629		2.90%
HUTF	0	0	0	427,990		n/a
Cash Funds	298,743	345,693	257,376	449,568		74.67%
Cash Funds Exempt	6,183,778	6,805,955	6,966,281	6,424,441		-7.78%
(4) TAXATION BUSINESS GROUP						
(A) Administration						
Personal Services - General Fund	451,714	506,821	558,136	577,557		
FTE	5.6	5.9	7.0	7.0		
General Fund	451,714	506,821	558,136	574,003		
Cash Funds	0	0	0	714		
Cash Funds Exempt	0	0	0	2,840		
Operating Expenses - General Fun	14,251	11,232	15,000	15,000		

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
(A) ADMINISTRATION - SUBTOTAL	465,965	518,053	573,136	592,557	3.39%
FTE	5.6	5.9	7.0	7.0	0.00%
General Fund	465,965	518,053	573,136	589,003	
Cash Funds	0	0	0	714	
Cash Funds Exempt	0	0	0	2,840	

(B) Taxation and Compliance Division

Collects taxes and enforces tax law compliance; operates the Mineral Audit Program, which audits collections from both federal and state land. Cash funds and cash funds exempt are the Aviation Fund and indirect cost recoveries transferred from the Department of Natural Resources.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services	13,168,830	13,428,905	13,352,382	13,412,408	
FTE	205.0	217.4	215.4	215.4	
General Fund	13,018,769	13,279,218	13,190,195	13,284,608	
Cash Funds	22,450	15,577	1,269	1,269	
Cash Funds Exempt	127,611	134,110	160,918	126,531	
Operating Expenses - General Fund	637,736	626,736	636,761	656,927	
Joint Audit Program - General Fund	131,244	131,244	131,244	131,244	
Joint Federal/State Motor Fuel Tax - Federal Funds	5,868	0	30,415	30,415	
Mineral Audit Program	708,458	728,536	918,814	791,990	
FTE	8.2	7.7	11.0	11.0	
Cash Funds Exempt	32,720	41,814	41,814	66,000	
Federal Funds	675,738	686,722	877,000	725,990	
(B) TAXATION AND COMPLIANCE DIVISION - SUBTOTAL	14,652,136	14,915,421	15,069,616	15,022,984	-0.31%
FTE	213.2	225.1	226.4	226.4	0.00%
General Fund	13,787,749	14,037,198	13,958,200	14,072,779	0.82%
Cash Funds	22,450	15,577	1,269	1,269	0.00%
Cash Funds Exempt	160,331	175,924	202,732	192,531	-5.03%
Federal Funds	681,606	686,722	907,415	756,405	-16.64%

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
(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 primary source of cash funds is a transfer from the Debt Collection Fund.					
Personal Services	4,090,730	4,524,625	4,220,127	4,392,506	
FTE	75.6	75.1	77.1	77.1	
General Fund	3,746,400	4,370,073	4,130,409	4,302,788	
Cash Funds	344,330	154,552	89,718	89,718	
Operating Expenses	436,720	436,434	403,449	401,085	
General Fund	436,720	399,599	400,585	400,585	
Cash Funds	0	36,835	2,864	500	
Fuel Tracking System	471,869	481,849	481,320	482,238	
FTE	0.0	1.5	1.5	1.5	
HUTF	471,869	481,849	481,320	0	
Cash Funds Exempt	0	0	0	482,238	
(C) TAXPAYER SERVICES DIVISION - SUBTOTAL	4,999,319	5,442,908	5,104,896	5,275,829	3.35%
FTE	75.6	76.6	78.6	78.6	0.00%
General Fund	4,183,120	4,769,672	4,530,994	4,703,373	3.80%
HUTF	471,869	481,849	481,320	0	-100.00%
Cash Funds	344,330	191,387	92,582	90,218	-2.55%
Cash Funds Exempt	0	0	0	482,238	n/a
(D) Tax Conferee					
Resolves protests to tax adjustments, reviews issues related to 'home rule' city sales taxes and city and county use taxes.					
Personal Services - General Fund	714,797	876,361	820,667	853,419	
FTE	7.4	8.9	9.0	9.0	
Operating Expenses - General Fund	14,893	14,952	15,102	21,754	
(D) TAX CONFEREE - SUBTOTAL - General Fund	729,690	891,313	835,769	875,173	4.71%
FTE	7.4	8.9	9.0	9.0	0.00%
(E) Special Purpose					

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
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. The cash fund source is the Alternative Fuels Rebate Fund. All funds are continuously appropriated.					
Cigarette Tax Rebate - General Fund Exempt	14,427,309	15,320,042	13,600,000	12,500,000	
Amendment 35 Distribution to Local Governments - Cash Funds Exempt	0	0	1,548,108	1,439,168	
Old Age Heat & Fuel and Property Tax Assistance Grant - GF Exempt	5,836,625	11,676,772	13,900,000	15,000,000	
Alternative Fuels Rebate - Cash Funds Exempt	24,803	59,830	310,601	310,601	
(E) SPECIAL PURPOSE - SUBTOTAL	20,288,737	27,056,644	29,358,709	29,249,769	-0.37%
General Fund Exempt	20,263,934	26,996,814	27,500,000	27,500,000	0.00%
Cash Funds Exempt	24,803	59,830	1,858,709	1,749,769	-5.86%
TOTAL - (4) TAXATION BUSINESS GROUP	**41,135,847**	**48,824,339**	**50,942,126**	**51,016,312**	**0.15%**
FTE	**301.8**	**316.5**	**321.0**	**321.0**	**0.00%**
General Fund	39,430,458	47,213,050	47,398,099	47,740,328	0.72%
HUTF	471,869	481,849	481,320	0	-100.00%
Cash Funds	366,780	206,964	93,851	92,201	-1.76%
Cash Funds Exempt	185,134	235,754	2,061,441	2,427,378	17.75%
Federal Funds	681,606	686,722	907,415	756,405	-16.64%
(5) DIVISION OF MOTOR VEHICLES					
(A) Administration					
The primary cash funds exempt sources are the Motorist Insurance Identification Database Account and the Colorado State Titling and Registration Account.					
Personal Services	695,114	674,473	855,015	869,017	
FTE	7.5	6.4	11.0	11.0	
General Fund	487,527	485,015	492,528	527,848	
HUTF	189,458	189,458	362,487	209,343	
Cash Funds	7,089	0	0	158	
Cash Funds Exempt	11,040	0	0	131,668	
Operating Expenses	59,263	47,938	54,250	54,250	
General Fund	59,263	47,938	51,915	32,951	
HUTF	0	0	2,335	13,069	
Cash Funds	0	0	0	10	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08 Request	DI's Req. v Approp
Cash Funds Exempt	0	0	0		8,220	
(A) ADMINISTRATION - SUBTOTAL	754,377	722,411	909,265		923,267	1.54%
FTE	7.5	6.4	11.0		11.0	0.00%
General Fund	546,790	532,953	544,443		560,799	3.00%
HUTF	189,458	189,458	364,822		222,412	-39.04%
Cash Funds	7,089	0	0		168	n/a
Cash Funds Exempt	11,040	0	0		139,888	n/a

(B) Driver and Vehicle Services

Issues drivers licenses and identification cards, investigates document fraud vehicle registration fraud. The primary sources of cash funds and cash funds exempt include the Colorado State Titling and Registration Account, Drivers License Revocation Account, Identification Security Fund, and outstanding judgments and warrants.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation		FY 2007-08 Request	DI's Req. v Approp
Personal Services	13,888,789	14,464,737	13,374,426	/c	14,512,204	**DI**
FTE	338.0	309.8	321.2		346.2	
General Fund	4,615,107	4,329,051	12,333,096		13,569,527	
HUTF	8,441,863	8,948,375	0		0	
Cash Funds	1,340	2,798	3,842		3,842	
Cash Funds Exempt	830,479	1,184,513	1,037,488		938,835	
Operating Expenses	1,331,300	1,212,556	1,247,796	/c	1,230,876	
General Fund	1,326,061	1,207,407	1,242,557		1,225,637	
Cash Funds	2,000	2,000	2,000		2,000	
Cash Funds Exempt	3,239	3,149	3,239		3,239	
Drivers License Documents	3,019,953	2,754,669	3,145,579		2,426,334	
General Fund	2,438,241	2,223,222	2,545,579		1,902,742	
Cash Funds Exempt	581,712	531,447	600,000		523,592	
License Plate Ordering - Cash Funds	4,228,400	4,904,740	5,041,074		5,384,894	**DI**

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
(B) DRIVER AND VEHICLE SERVICES - SUBTOTAL	22,468,442	23,336,702	22,808,875	23,554,308	3.27%
FTE	338.0	309.8	321.2	346.2	7.78%
General Fund	8,379,409	7,759,680	16,121,232	16,697,906	3.58%
HUTF	8,441,863	8,948,375	0	0	n/a
Cash Funds	4,231,740	4,909,538	5,046,916	5,390,736	6.81%
Cash Funds Exempt	1,415,430	1,719,109	1,640,727	1,465,666	-10.67%

/c does not include 1331 supplemental for $359,664 GF total for Division of Motor Vehicles

(C) Vehicle Emissions

Issues licenses to inspection stations, repair stations, emissions inspectors, emissions mechanics, and diesel inspectors. Conducts audits of emissions inspections stations. The cash funds exempt source is the Automobile Inspection and Readjustment (AIR) Account, a special purpose account in the Highway Users Tax Fund.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services - Cash Funds Exempt	927,366	919,300	962,937	986,191	
FTE	13.1	13.4	15.5	15.5	
Operating Expenses - Cash Funds Exempt	67,655	80,112	80,215	80,215	
(C) VEHICLE EMISSIONS - SUBTOTAL - Cash Funds Exempt	995,021	999,412	1,043,152	1,066,406	2.23%
FTE	13.1	13.4	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 are from the Colorado State Titling and Registration System Account.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services - Cash Funds Exempt	1,556,569	1,575,401	1,531,490	1,567,142	
FTE	33.9	33.4	34.5	34.5	
Operating Expenses - Cash Funds Exempt	150,680	134,047	146,841	146,841	
(D) TITLES - SUBTOTAL - Cash Funds Exempt	1,707,249	1,709,448	1,678,331	1,713,983	2.12%
FTE	33.9	33.4	34.5	34.5	0.00%

(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.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services - Cash Funds Exempt	1,602,942	1,621,163	654,715	327,569	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
FTE	7.9	6.8	1.0	1.0	
Operating Expenses - Cash Funds Exempt	16,500	16,404	500	500	
(E) MOTORIST INSURANCE IDENTIFICATION DATABASE PROGRAM - SUBTOTAL - Cash Funds Exempt	1,619,442	1,637,567	655,215	328,069	-49.93%
FTE	7.9	6.8	1.0	1.0	0.00%
TOTAL - (5) DIVISION OF MOTOR VEHICLES	**27,544,531**	**28,405,540**	**27,094,838**	**27,586,033**	**1.81%**
FTE	**400.4**	**369.8**	**383.2**	**408.2**	**6.52%**
General Fund	8,926,199	8,292,633	16,665,675	17,258,705	3.56%
HUTF	8,631,321	9,137,833	364,822	222,412	-39.04%
Cash Funds	4,238,829	4,909,538	5,046,916	5,390,904	6.82%
Cash Funds Exempt	5,748,182	6,065,536	5,017,425	4,714,012	-6.05%

(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 source is the Aviation Fund and the cash funds exempt source is the Hazardous Materials Safety Fund.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services	7,066,718	7,162,357	6,680,482	6,856,276	
FTE	130.7	127.9	131.2	131.2	
General Fund	307,999	200,947	630,517	601,295	
HUTF	6,698,672	6,908,039	5,999,227	6,137,649	
Cash Funds	60,047	53,371	50,738	52,260	
Cash Funds Exempt	0	0	0	65,072	
Operating Expenses	435,694	429,460	473,471	433,810	
General Fund	18,724	9,030	33,143	41,523	
HUTF	416,470	420,033	440,328	392,287	
Cash Funds	500	397	0	0	
Fixed and Mobile Port Maintenance - HUTF	82,037	83,778	83,784	83,784	
Motor Carrier Safety Assistance Program - Federal Funds	516,781	678,266	654,339	723,000	
FTE	6.6	8.6	9.0	9.0	
Hazardous Materials Permitting Program - Cash Funds	197,724	173,131	189,732	194,679	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
FTE	3.9	3.3	4.0	4.0	
(6) MOTOR CARRIER SERVICES DIVISION - SUBTOTAL	**8,298,954**	**8,526,992**	**8,081,808**	**8,291,549**	2.60%
FTE	**141.2**	**139.8**	**144.2**	**144.2**	0.00%
General Fund	326,723	209,977	663,660	642,818	-3.14%
HUTF	7,197,179	7,411,850	6,523,339	6,613,720	1.39%
Cash Funds	258,271	226,899	240,470	246,939	2.69%
Cash Funds Exempt	0	0	0	65,072	n/a
Federal Funds	516,781	678,266	654,339	723,000	10.49%

(7) ENFORCEMENT BUSINESS GROUP

(A) Administration

The primary cash fund and cash funds exempt sources are the State Lottery Fund, Auto Dealer License Fund, and Limited Gaming Fund.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services	466,987	458,462	475,979	499,227	
FTE	5.8	5.7	6.0	6.0	
General Fund	28,104	2,217	29,759	27,787	
Cash Funds	267,427	266,214	256,695	252,878	
Cash Funds Exempt	171,456	190,031	189,525	218,562	
Operating Expenses	10,651	10,654	10,880	10,880	
General Fund	734	471	697	606	
Cash Funds	5,977	5,885	5,885	5,511	
Cash Funds Exempt	3,940	4,298	4,298	4,763	
(A) ADMINISTRATION - SUBTOTAL	477,638	469,116	486,859	510,107	4.78%
FTE	5.8	5.7	6.0	6.0	0.00%
General Fund	28,838	2,688	30,456	28,393	-6.77%
Cash Funds	273,404	272,099	262,580	258,389	-1.60%
Cash Funds Exempt	175,396	194,329	193,823	223,325	15.22%

(B) Limited Gaming Divisior

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 source of cash funds is the Limited Gaming Fund. Line item allocations are determined by the Limited Gaming Control Commission and are not subject to appropriation by the General Assembly.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Personal Services - Cash Funds	4,545,273	4,641,640	4,886,761	4,999,073	
FTE	64.4	65.2	72.0	72.0	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Operating Expenses - Cash Funds	518,340	462,399	584,151	573,734	
Licensure Activities - Cash Funds	118,849	90,765	181,497	181,497	
Investigations - Cash Funds	40,334	44,034	263,964	263,964	
Payments to Other State Agencies - Cash Funds	2,251,096	2,513,541	2,429,848	2,429,848	
Distribution to Gaming Cities and Counties - Cash Funds	20,444,645	22,032,442	22,270,832	23,788,902	
Indirect Cost Assessment - Cash Funds	400,056	525,307	505,173	536,728	
Workers' Compensation - Cash Funds	55,429	0	0	0	
Legal Services - Cash Funds	122,564	0	0	0	
Payment to Risk Management and Property Funds - Cash Funds	9,879	0	0	0	
Vehicle Lease Payments - Cash Funds	67,473	0	0	0	
Leased Space for Gaming Site Offices - Cash Funds	54,384	0	0	0	
Lease Purchase at 1881 Pierce St. - Cash Funds	195,666	0	0	0	
(B) LIMITED GAMING DIVISION - SUBTOTAL - Cash Funds	28,823,988	30,310,128	31,122,226	32,773,746	5.31%
FTE	64.4	65.2	72.0	72.0	0.00%
(C) Liquor Enforcement Divisior					
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.					
Personal Services - Cash Funds	1,412,320	1,484,523	1,444,096	1,480,675	
FTE	18.2	19.0	19.0	19.0	
Operating Expenses - Cash Funds	50,661	51,267	51,323	51,323	
(C) LIQUOR ENFORCEMENT DIVISION - SUBTOTAL - Cash I	1,462,981	1,535,790	1,495,419	1,531,998	2.45%
FTE	18.2	19.0	19.0	19.0	0.00%

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's	Req. v Approp
(D) Tobacco Enforcement Program						
Enforces laws prohibiting the sale of tobacco to minors. The source of cash funds exempt is the Tobacco Settlement Fund, transferred from the Department of Public Health and Environment.						
Personal Services	374,147	405,575	416,593	443,563		
FTE	5.9	6.2	7.0	7.0		
General Fund	149,537	136,257	141,534	114,305		
Cash Funds Exempt	224,610	269,318	275,059	329,258		
Operating Expenses	27,107	27,723	27,943	27,943		
General Fund	5,194	5,343	5,563	7,201		
Cash Funds Exempt	21,913	22,380	22,380	20,742		
(D) TOBACCO ENFORCEMENT PROGRAM - SUBTOTAL	401,254	433,298	444,536	471,506		6.07%
FTE	5.9	6.2	7.0	7.0		0.00%
General Fund	154,731	141,600	147,097	121,506		-17.40%
Cash Funds Exempt	246,523	291,698	297,439	350,000		17.67%
(E) Division of Racing Events						
Licenses racetracks and individuals in dog and horse racing, allocates race days among racetracks, tests animals for drugs and oversees wagering. The cash funds sources are the Owners and Breeders Award and Supplemental Purse Fund and the Racing Cash Fund.						
Personal Services - Cash Funds	1,306,403	1,265,454	1,357,731	1,357,701		
FTE	17.5	17.1	18.5	18.5		
Operating Expenses - Cash Funds	97,486	89,995	97,845	97,845		
Laboratory Services - Cash Funds	104,502	104,293	104,992	104,992		
Commission Meeting Costs - Cash Funds	450	450	1,200	1,200		
Racetrack Applications - Cash Funds	141	0	25,000	25,000		
Purses and Breeders Awards - Cash Funds	1,156,808	1,087,008	1,106,142	1,106,142		
DIVISION OF RACING EVENTS - SUBTOTAL - Cash Funds	2,665,790	2,547,200	2,692,910	2,692,880		0.00%
FTE	17.5	17.1	18.5	18.5		0.00%
(F) Hearings Division						

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
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 are from federal grants, transferred from the Colorado Department of Transportation.					
Personal Services - Cash Funds Exempt	1,703,832	1,876,343	1,843,579	1,906,236	
FTE	24.7	25.3	28.4	28.4	
Operating Expenses - Cash Funds Exempt	58,969	72,186	73,450	73,450	
(F) HEARINGS DIVISION - SUBTOTAL - Cash Funds Exempt	1,762,801	1,948,529	1,917,029	1,979,686	3.27%
FTE	24.7	25.3	28.4	28.4	0.00%
(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.					
Personal Services	1,326,314	1,327,912	1,562,919	1,627,058	
FTE	20.8	20.8	26.2	26.2	
Cash Funds	1,326,314	1,327,912	1,254,474	1,627,058	
Cash Funds Exempt	0	0	308,445	0	
Operating Expenses	50,987	55,316	69,688	69,688	
Cash Funds	50,987	55,316	55,768	69,688	
Cash Funds Exempt	0	0	13,920	0	
(G) MOTOR VEHICLE DEALER BOARD - SUBTOTAL	1,377,301	1,383,228	1,632,607	1,696,746	3.93%
FTE	20.8	20.8	26.2	26.2	0.00%
Cash Funds	1,377,301	1,383,228	1,310,242	1,696,746	
Cash Funds Exempt	0	0	322,365	0	
TOTAL - (7) ENFORCEMENT BUSINESS GROUP	**36,971,753**	**38,627,289**	**39,791,586**	**41,656,669**	**4.69%**
FTE	**157.3**	**159.3**	**177.1**	**177.1**	**0.00%**
General Fund	183,569	144,288	177,553	149,899	-15.58%
Cash Funds	34,603,464	36,048,445	36,883,377	38,953,759	5.61%
Cash Funds Exempt	2,184,720	2,434,556	2,730,656	2,553,011	-6.51%

(8) STATE LOTTERY DIVISION

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
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.					
Personal Services - CFE	7,752,490	8,256,745	8,240,949	8,400,289	
FTE	115.2	120.2	126.0	126.0	
Operating Expenses - CFE	1,525,623	1,182,083	1,203,156	1,203,156	
Payments to Other State Agencies - CFE	193,028	154,453	340,488	340,488	
Travel - CFE	80,543	68,749	113,498	113,498	
Marketing and Communications - CFE	8,559,774	8,643,150	8,643,420	8,643,420	
Multi-State Lottery Fees - CFE	172,519	141,990	177,433	177,433	
Vendor Fees - CFE	7,641,575	6,819,113	9,811,513	9,811,513	
Prizes - CFE	248,809,640	279,963,707	306,413,810	306,413,810	
Powerball Prize Variance - CFE	4,389,286	7,160,019	4,220,000	4,220,000	
Retailer Compensation - CFE	31,674,971	34,670,916	38,609,220	38,609,220	
Ticket Costs - CFE	3,174,873	2,907,934	3,549,040	3,549,040	
Research - CFE	0	250,000	250,000	250,000	
Indirect Cost Assessment - CFE	309,814	312,057	358,373	458,880	
Legal Services - CFE	22,940	0	0	0	
Purchase of Services from Computer Center - CFE	4,864	0	0	0	
Vehicle Lease Payments - CFE	124,131	0	0	0	
Telecommunications - CFE	176,202	0	0	0	
Leased Space - CFE	787,493	0	0	0	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	DI's Req. v Approp
Capitol Complex Leased Space - Cash Funds Exempt	6,637	0	0	0	
TOTAL - (8) STATE LOTTERY DIVISION - Cash Funds Exe	**315,406,403**	**350,530,916**	**381,930,900**	**382,190,747**	0.07%
FTE	**115.2**	**120.2**	**126.0**	**126.0**	0.00%
DEPARTMENT OF REVENUE TOTALS	**467,316,586**	**515,078,914**	**555,248,609**	**560,993,452**	**1.03%**
FTE	**1,368.6**	**1,358.4**	**1,423.0**	**1,448.0**	**1.76%**
General Fund	74,597,773	81,852,003	94,933,476	98,266,096	3.51%
HUTF	17,164,703	17,873,086	9,087,017	9,199,089	1.23%
Cash Funds	41,302,120	43,845,547	45,321,997	47,843,554	5.56%
Cash Funds Exempt	333,053,603	370,143,290	404,344,365	404,205,308	-0.03%
Federal Funds	1,198,387	1,364,988	1,561,754	1,479,405	-5.27%

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LONG BILL FOOTNOTE UPDATE

2 **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. Until such time as the Secretary of State publishes the code of Colorado regulations and the Colorado register in electronic form pursuant to section 24-4-103 (11) (b), C.R.S., each principal department of the state is requested to produce its rules in an electronic format that is suitable for public access through electronic means. Such rules in such format should be submitted to the Office of Legislative Legal Services for publishing on the Internet. Alternatively, the Office of Legislative Legal Services may provide links on its internet web site to such rules. It is the intent of the General Assembly that this be done within existing resources.

Comment: The Department has complied with this footnote.

3 **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 2006-07. 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*. The Department did not formally submit the requested information; however, the federally-funded programs are reflected in its FY 2006-07 Long Bill appropriation: the Mineral Audit Program, the Motor Carrier Safety Assistance Program, and the Joint Federal/State Motor Fuel Tax Program.

113 **Department of Revenue, Executive Director's Office** -- As part of its FY 2007-08 budget request, the Department is requested to provide a report to the Joint Budget Committee that assesses its indirect cost recovery methodology including the accuracy of any underlying assumptions. The Department should also analyze other indirect cost recovery methodologies and determine whether a different methodology would prove more beneficial or accurate. If a different methodology is determined to be more effective, the Department should submit its FY 2007-08 budget request according to the parameters of the new plan. The Department's report should also include any over- and under-collections made by fund source during FY 2005-06.

Comment: *The Governor vetoed this footnote*. The Department has complied with this footnote.

113a Department of Revenue, Executive Director's Office, Leased Space; Division of Motor Vehicles, Driver and Vehicle Services, Personal Services; and Operating Expenses -- It is the intent of the General Assembly that five percent of the listed appropriations utilized for the purpose of State driver's license offices be allocated toward the restoration of offices closed for the sole purpose of saving General Fund in FY 2002-03.

Comment: *The Governor vetoed this footnote*. The Department states that the Governor directed the Department to monitor and analyze wait times in existing offices and submit any budget request it determines necessary and appropriate, and that, as such, the Department has submitted a decision item requesting additional resources for driver's license offices. (Note: The decision item requests additional FTE for existing offices and does not address restoration of offices closed.)

114 Department of Revenue, Information Technology Division; Division of Motor Vehicles -- The Department of Revenue is requested to provide a report to the Joint Budget Committee, which estimates the costs of complying with all requirements mandated by the federal Real ID Act of 2005 ("the Act"), as promulgated by the U.S. Department of Homeland Security. If applicable, this should include, but is not limited to, the costs of verifying citizenship status, storing documents required for such verification, informing the public of the Act's requirements, and additional FTE necessary to achieve federal compliance. This report should be provided by December 11, 2006, or thirty days after the date on which such rules are promulgated, whichever is sooner. While it is expected that the report will be as accurate as possible, it is understood that this report will not constitute a budget request and shall be available for revision by the Department of Revenue. If the U.S. Department of Homeland Security has not promulgated rules to implement the Act by December 11, 2006, then the Department of Revenue is requested to notify the chair of the Joint Budget Committee by letter of such fact.

Comment: The Department did not comply with this footnote. The Department sent a letter dated December 11, 2006, to the Chair stating that "Rules have not been promulgated as of this date."

115 Department of Revenue, Information Technology Division -- The Department of Revenue is requested to consistently reflect additional computer programming costs in fiscal notes for proposed legislation. The Department is requested to meet with the Legislative Council fiscal note staff and the Joint Budget Committee staff in an effort to continually revise and update the policy of reflecting programming costs pertaining to legislation enacted during the 2006 session. The Department is requested to submit, with its November 2006 budget request for FY 2007-08, a memorandum explaining its policy with respect to reflecting additional computer programming costs in fiscal notes for legislation during the 2007 legislative session. The Department is requested to submit a negative supplemental request for any estimated savings associated with implementing legislation enacted during the 2006 legislative session.

Comment: *The Governor vetoed this footnote*. The Department has complied with this footnote.

116 **Department of Revenue, Information Technology Division, Programming Costs for 2006 Session Legislation** -- The Department of Revenue is requested to submit a report to the Joint Budget Committee by June 30, 2006, summarizing the estimated computer programming costs to implement legislation enacted during the 2006 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, 2006, summarizing the actual programming costs of bills to implement legislation enacted during the 2006 legislative session.

Comment: The Department has complied with this footnote.

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Department Performance Measures

ISSUE:

The General Assembly has discussed performance budgeting and could benefit from more detailed knowledge of the performance goals and objectives listed in the strategic plan section of the Department's budget request.

DISCUSSION:

Department Mission

The Department's mission statement is:

> "Our mission is to provide exceptional service in an effective and innovative manner that instills public confidence while fulfilling our duties to collect revenues, responsibly license and regulate qualified persons and entities, increase productivity, and assure the vigorous and fair enforcement of the laws of Colorado. "

Goals and Performance Measures

The Department's strategic plan is 18 pages long and is comprised of 14 goals, 14 prioritized objectives, and 41 critical performance measures.

Staff Analysis

Staff analyzed the Department's performance measures using the following common checklist:

1. Do the goals and performance measures correspond to the program's directives provided in statute?
2. Are the performance measures meaningful to stakeholders, policymakers, and managers?
3. Does the Department use a variety of performance measures (including input, output, efficiency, quality, outcome)?
4. Do the performance measures cover all key areas of the budget?
5. Are the data collected for the performance measures valid, accurate, and reliable?
6. Are the performance measures linked to the proposed budget base?
7. Is there a change or consequence if the Department's performance targets are not met?

Annual Report
The Department's Annual Report, posted on its website, provides a wealth of data on the extent and volume of the Department's operations. This data, when combined with budget data, can be used to measure Department performance.

The Annual Report provides the primary measure for the state's tax collectors that would be directly of interest to the people of Colorado--the cost of collection. However, the 2005 Annual Report shows a total cost of collection for all tax and fee types of $0.012, a figure that may not account for all the costs of collection. That figure accounts for the costs of personal services and operations in the tax division, plus administrative expenses in the Executive Director's Office and Central Operations determined through a cost accounting system.

The Department's primary role is to collect the taxes needed to run state government. The expected outcome for tax collection is, then, dollars collected. The measure of efficiency in achieving that outcome is the relationship of the dollars spent to the dollars collected. That measure of performance for tax collectors could be expressed in terms of "cost of collection," defined as dollars spent per dollar collected. It could also be expressed in terms of "rate of return," defined as dollars collected per dollar spent. For example, if the Department spent one dollar to collect ten dollars in taxes, then the cost of collection would be $0.10 per dollar collected, and the rate of return would be $10 to one dollar spent.

Tax administrators nationwide express this performance measure in various ways, but since the Department reports "cost of collection," or the dollars spent per each dollar collected, this briefing will use cost of collection throughout, to express the relationship between dollars spent and dollars collected.

Statutory Goal
The statutory functions of the Department of Revenue are the collection of taxes levied and license fees imposed. Section 24-35-101 C.R.S. However, the following statement, posted on the Department's website, may not correspond to the program's directives in statute.

Statement of Colorado Taxpayer Rights

THE COLORADO DEPARTMENT OF REVENUE WILL NOT USE A BOUNTY SYSTEM
The use of taxes assessed or collected to evaluate individual employees or to impose or suggest production quotas or goals for individual employees is strictly prohibited.

According to the State Auditor, this "Statement of Taxpayer Rights" means that the goal of the Department's tax collection program is to promote voluntary compliance with tax law, as opposed to maximizing tax revenues. *Business Tax Performance Audit - January 2003*.

An individual's performance goals should presumably be linked in some way with agency goals. If Colorado's tax collectors are not evaluated based on taxes collected, then it raises a question as to what the agency's tax collection goals are. If the goals are to balance tax collection with customer service in tax collection, however that may be defined, there are implications not only for cost of collection but also for fairness.

Quantitative performance goals, such as tax dollars collected, can be defined in such a way as to incorporate quality standards as well, such as net collections, actual receipts, or undisputed tax collections. The professional association of tax administrators may be able to assist the Department in formulating performance measures designed to maximize revenue while also maximizing customer satisfaction.

<u>Strategic Plan v. Annual Report and Website</u>

The Department's annual report and web pages report outcomes separate from the performance outcomes reported in the budget request. For example, listed below is a performance measure as shown in the Department's budget request, compared with a performance measure as it is reported in the annual report and on the website.

Budget Request - *Objective # TBG 1.1: Fairshare production* *(in dollars)*
Annual Report - *Cost as % of Collections*

The Department's annual report and website report Department accomplishments and thus, by inference, those performance measures that would be most meaningful to outside stakeholders and policy makers. The strategic plan section of the budget request includes some performance measures and reports some performance outcomes that would be meaningful to stakeholders and policymakers, but it also includes many checklist and process indicators that would only be meaningful for managers. The strategic plan does not discuss one of its most important initiatives, the CITA tax system project.

<u>Types of measures</u>

For some measures, the Department provides a number, when a ratio is needed in order to be meaningful. For example, actual Fair Share dollar production and actual delinquent revenue dollars collected would be meaningful for performance evaluation only if reported in a ratio, such as cost of collection or rate of return. Similarly, number of inspections or numbers of investigations would be meaningful only in the context of results achieved from those efforts.

For some of the objectives in the budget request, the performance measure does not capture what is described in the objective. For example, for CSTARS and for core IT systems the objective is "free from failure' but the measures do not include error rates.

Some goals explain the Department's forward-looking initiatives to develop and implement new techniques that could be expected to improve performance on the outcomes goals. For example, the Department has an objective to develop and implement a plan for the acceptance of credit cards and other forms of electronic payment. The success of this project could be expected to improve the department's cost of collection.

Finally, the Department includes an objective, as some other departments do, of obtaining funding (E.17), which is circular in the context of a funding proposal.

Performance Measures as Basis for Funding Requests

The Department has requested 25 new staff for the Division of Motor Vehicles. The Department does not report on quantity and quality measures for the Division, such as unit cost, document turnaround time, error rate, or complaint rate, although it does have a measure addressing in-person wait times. The Department's strategic plan lists the performance measure: percent of drivers license customers processed within an average of 35 minutes (sic). However, the funding request does not include an analysis of actual wait times, or of projected wait times after the proposed change.

Questions for Department

Staff recommends that the Committee discuss the following questions with the Department during the FY 2007-08 budget hearing:

1. How do your performance measures influence department activities and budgeting?

2. To what extent do the performance outcomes reflect appropriation levels?

3. To what extent do you believe that appropriation levels in your budget could or should be tied to specific performance measure outcomes?

4. As a department director, how do you judge your department's performance? What key measures and targets do you used?

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Colorado Integrated Tax Architecture (CITA) Project

ISSUE:

The General Assembly appropriated more than $8 million capital construction funds this year to implement the first phase of a new tax information system.

SUMMARY:

❑ The Department released a Request for Proposal for the new Colorado Integrated Tax Architecture (CITA) system in September and is currently in the process of selecting a contractor.

❑ As a Type II purchasing agency, the Department conducts its own purchasing process. Although it is public information under state procurement rules, the Department has refused to release the names of the bidders on the project.

RECOMMENDATIONS:

Staff recommends the Committee ask the Department to discuss the scope of the CITA project and what has been accomplished so far. Staff also recommends the Committee ask the Department to provide the names of the vendors who submitted bids in response to the CITA Request for Proposal.

DISCUSSION:

In 1994, the Department began a $12 million income tax information system project. The Department began development September 1997 but halted the project in November 1998 when it fell behind schedule. In January 1999, a consultant determined that the Department needed to take a completely different approach. The Department states that the current project is different from the earlier one because:

1) the contractor must provide a COTS/MOTS (Commercial Off-the-Shelf/Modified Off-the-Shelf) system that is fully operational and configurable to Department tax-type functions,

2) the contractor must have successfully deployed its COTS/MOTS integrated tax system for at least one governmental entity, and

3) the contractor must be able to implement the system in a series of independent, stand-alone phases.

In FY 2004-05, the Department received $229,500 General Fund for a feasibility study for a new tax system. In FY 2006-07 the Department received $8.1 million in capital construction funds for the first phase of the project and has requested $9.5 million for FY 2007-08. The capital construction budget request projects a total cost for the project of approximately $41 million over the next five years, while the Office of Information Technology tracking report shows the project budget at $45 million. The Department estimates approximately $2.3 million per year after implementation, for ongoing costs of maintenance and updates.

The project will deploy by tax type rather than by functionality. Although the final sequence is yet to be negotiated with the vendor, the Department has proposed the following initial phases:

Phase	Tax Types	Completion Date
0	Project plan, RFP and contract negotiation	December 29, 2006
1	Severance, Cigarette and Tobacco Products, Vehicle Registration Fees	June 30, 2007
2	Income, Estate, Interstate Fuel Tax Agreement	June 30, 2008

Request for Proposal (RFP) - Overview of Specifications

The Department has requested an "out of the box" system that has a proven record of success in other states. The system must include standard functions such as the ability to register a Colorado taxpayer, create taxpayer accounts, record payments to taxpayer accounts, generate billing notices, manage and track refunds, manage tax offsets, manage various sales tax rates and distributions, edit in real time, create and manage required adjustments, create reports with ease, create and manage all mailing functions, create and manage correspondence, add and manage comments associated with taxpayer records, query data with ease, apply necessary data and system security, and provide audit and workflow capabilities.

More specifically, the RFP states the system must provide the Department with the ability to:

- Implement Generally Accepted Accounting Principals (GAAP)
- Improve its management of accounts held in suspense to eliminate backlog and ensure timely distribution to the State, counties, cities, and special districts
- Ensure timely processing of all chargeback items
- Capture all tax information at a detailed level rather than in the aggregate
- Reduce the amount of manual effort required for distribution of funds to State, counties, cities, and special districts
- Capture detailed tax information and make this information available for tracking and forecasting purposes to counties, cities, and special districts
- Apply data validation, math audit processes, and posting timeframes consistently across the various tax types
- Accept alternative forms of payment, for example, Electronic Funds Transfer (EFT) and credit cards
- Consolidate all data in a single repository
- Provide useful management reports and generate ad-hoc reports

- Analyze data to identify new areas of non-compliance
- Provide a single integrated tax profile for all taxpayers, which includes all of the taxes for which they are liable with the ability to process bankruptcy claims and suspend collection activity on these accounts
- Improve audit selection processing and tracking
- Improve receivables management

The new integrated tax system must also provide the accounting area with functions that are not available in the current system, including a single chart of accounts, GAAP-based double-entry accounting, interfaces to the Colorado Financial Reporting System (COFRS), and multiple accounting periods

There are 3-4 million master accounts for the various tax types (individual, business, etc.) associated with income tax. Data will be considered for conversion from the following support systems: Bankruptcy, 2Dbarcode, Case Management System, Cash Deposit and Reporting System, Food Services, Proc Docs/PHIL, PUC, Sales Tax Analysis, and Vending Machine Stickers.

The CITA infrastructure should be flexible and highly scalable, to include third party software, sites, disk drives, servers, tape drives, applications, and ability to add user groups. The contractor must propose all components for the system, including hardware, cables, software, implementation services, configuration, database creation, testing and validation, and IP addresses for a private IP installation.

The integrated tax system must be capable of generating DOR-defined reports, with industry-standard analytical techniques. These techniques must include variance analysis, projections, trends, regression analysis, and charting. The system must support user-defined and ad-hoc queries and must make readily available the purpose, frequency, requestor, author, recipient, action status, and type of data in a report in an enterprise-wide manner. Examples of expected reports are:

- aging
- performance targets
- workload
- job scheduling
- revenue projections
- productivity rates
- transactions that offset taxpayer payments reports

FY 2007-08 JBC Staff Budget Briefing
Department of Revenue

Division of Motor Vehicles Decision Item

ISSUE:

The Department has requested more than $1 million General Fund for 25 additional staff for drivers license offices.

SUMMARY:

- ❏ Footnote 113a says it is the intent of the General Assembly that five percent of the listed appropriations utilized for the purpose of State driver's license offices be allocated toward the restoration of offices closed for the sole purpose of saving General Fund in FY 2002-03. The decision item is in response to that footnote.

- ❏ The proposed new staff are intended to be used to increase staffing at existing offices, to address employees lost during the budget shortfall.

- ❏ In March 2006, the Department stated, "While the number of offices may not be optimal, we believe that it is sufficient to meet our statutory obligations."

RECOMMENDATIONS:

Staff recommends the Committee ask the Department to explain how the Department plans to reduce wait times at drivers license offices and improve the accessibility of drivers license offices.

DISCUSSION:

The Department states addition of 25 new staff would address two major priorities:

1) increasing staffing levels at one-person driver's license offices for security purposes
2) adding staff in the busiest offices that have the greatest customer service need historically.

On the following page is a list of the staffing at drivers license offices and a list of areas the Department proposes to assign the new staff:

Drivers License Offices - November 2006

Front Range Offices	FTE
Athmar	16.0
Aurora	12.6
Boulder	9..0
Broomfield	4.0
Colorado Springs	14.0
Ft. Collins	10.5
Greeley	5.5
Lakewood	9.0
Littleton	8.0
Longmont	5.0
Mail Renewal	4.0
Northglenn	14.0
Parker	13.0
Front Range Subtotal	**125.0**

Outlying Offices	
Alamosa	2.0
Canon City	2.0
Cortez	2.0
Craig	0.8
Delta	2.0
Durango	4.0
Frisco	3.0
Ft. Morgan	1.6
Glenwood	4.0
Grand County	1.0
Grand Junction	6.0
Gunnison	0.4
La Junta	0.6
Lamar	0.4
Meeker	0.1
Montrose	2.0
Pueblo	9.0
Rangely	0.1
Salida	0.6
Steamboat	1.0
Sterling	0.4
Trinidad	0.8
Walden	0.2
Walsenburg	
Outlying Subtotal	**44.0**
Current Total	**168.6**

County-operated Drivers License Offices	
Arapahoe County -	Littleton
Baca County -	Springfield
Cheyenne County -	Cheyenne Wells
El Paso County -	Cascade, Chapel Hills, Centennial Hall
Kiowa County -	Eads
Kit Carson County -	Burlington
Lake County -	Leadville
Lincoln County -	Hugo
Mesa County -	Fruita
Phillips County -	Holyoke
Saguache County -	Saguache
Sedgwick County -	Julesburg
Washington County -	Akron
Yuma County -	Wray, Yuma

If the Department's decision item is approved it proposes allocating the new staff as follows:

11 to Metro area	3 to Western Colorado
6 to Northern Colorado	2 to Northwestern region
2 to Colorado Springs area	1 to Southern Colorado

Of those, 3.0 FTE would be distributed among these offices that are currently one-person operations:
Steamboat Springs, Craig, Meeker, Rangely, Trinidad, Walsenburg, Salida

History

These are the drivers license offices that have closed over the past four years:

January and March 2002
Civic Center Plaza and Buckingham Square

December 2002
Aurora Southeast
Avon
Brighton
Buena Vista
Castle Rock
Dove Creek
Estes Park
Evergreen
Fowler
Georgetown
Hotchkiss
Kremmlin
Lakewood
Las Animas
Loveland
Ordway
Ouray
Rifle
Southwest Plaza
Strasburg
Woodland Park

January 2003
Colorado Springs
Lakewood Drive Test Center
Welton
Widefield/Security

August 2003
Creede
Del Norte
Silverton

February 2004
Kiowa

FY 2005-06
Gunnison (moved to a Gunnison County office
Lake City

FY 2006-07:
Walden
Lamar and La Junta (consolidated)
Nucla
Pagosa Springs
Salida and Gunnison (consolidated)

The table below shows the budget history for the Division of Motor Vehicles / Driver and Vehicles Services for the past five years:

Motor Vehicle Division / Driver and Vehicle Services - Budget History

	FY 01-02 Actual	**FY 02-03 Actual**	**FY 03-04 Actual**	**FY 04-05 Actual**	**FY 05-06 Actual**	**FY 06-07 Approp**
Total	$24,961,186	$ 21,296,325	$ 20,643,492	$ 22,468,442	$ 23,336,702	$ 23,168,539
FTE	351.3	325.7	307.2	338.0	309.8	321.2
General Fund	19,771,303	14,669,667	10,688,206	8,379,409	7,759,680	16,480,896*
HUTF	3,287,703	5,077,198	4,566,446	8,441,863	8,948,375	0
Cash Funds	1,100,000	2,000	3,727,405	4,231,740	4,909,538	5,046,916
CF Exempt	802,180	1,426,398	1,419,174	1,415,430	1,719,109	1,640,727
Federal Funds	0	121,062	242,261	0	0	0

*includes 1331 Supplemental for $359,664.

[Cash funds are from the Auto Dealer License Fund, the Persistent Drunk Driver Cash Fund, and the License Plate Cash Fund. Cash funds exempt are from the Colorado State Titling and Registration Account, the Driver's License Administrative Revocation Account, the Outstanding Judgments and Warrants Account, the AIR Account of the HUTF, the Penalty Assessment Account, and the Identification Security Fund.]

Drivers License Functions

In the past, the purpose and function of the drivers license was to certify that a driver is competent to operate a motor vehicle. Today, the drivers license serves not only as proof of the ability and permission to use state roads, but also as proof of identity and lawful presence for other essential needs, such as public benefits and voting. It also serves as proof of age for tobacco and liquor enforcement, and other purposes.

More specifically, under Colorado's new "Restrictions on Public Benefits" law, H.B. 06S-1023, citizen-applicants for federal, state, or local public benefits must present a Colorado driver's license or ID (or tribal or military ID) in order to receive public benefits. In addition, under Colorado's "Help America Vote Act" law, H.B. 03-1356, a person must provide a drivers license or ID number, or be issued a voter registration ID number by the Secretary of State, in order to register to vote. (That statute also requires the Department of Revenue to match information in the voter registration database with information in the motor vehicle database and to verify applicable information with the federal social security database.)

DMV Offices

There are more than 3.2 million licensed drivers in Colorado. Drivers license offices issue drivers licenses and state identification cards, as well as vehicle titles and registrations, dealer licenses, and other official state documents. Under current law, original drivers licenses and ID's must contain a biometric indicator of identity. This means that an applicant for an original license must appear in person at a location which can capture the biometric information. Currently, that location is a drivers license office.

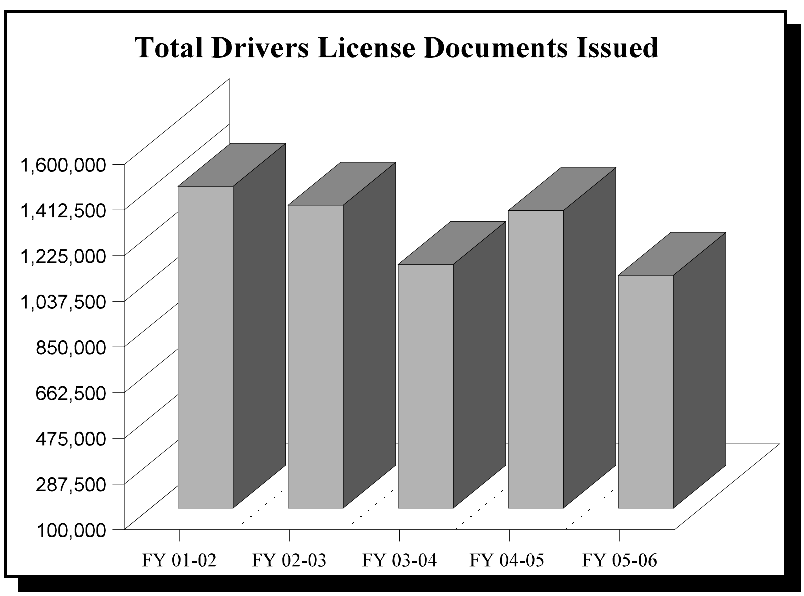
To obtain a Colorado title and vehicle registration, an applicant must present secure and verifiable identification, as well as the current title and other documents. At this time, the applicant must apply in person; the Division then mails the new title to the applicant or the lienholder.

Colorado currently provides drivers license renewal by mail, but not online. When the Department is able provide online renewal, that capability will allow more customer service options. For example, Pennsylvania contracts with private businesses to provide driver license renewal and other services via an online connection with the Department of Transportation. The contractor charges the normal state fee plus a service fee, and the business often may issue the document immediately.

Central issuance of drivers licenses and ID cards has enabled the Department to institute additional security measures within existing resources. The Department can run facial recognition, to prevent issuing duplicate documents to the same person under different names, and perform SAVE and SSOLV checks to verify lawful presence and Social Security number. In addition, central issuance provides more security for the equipment, to prevent the theft of photo document printers and supplies to print counterfeit cards. Central issuance means that the Department issues a temporary license or ID over the counter and then mails the regular document approximately 2-4 weeks later.

Budget Drivers

The volume of documents issued by drivers license offices has decreased in recent years, as shown below:



FY 01-02	FY 020-03	FY 03-04	FY 04-05	FY 05-06
1,421,626	1,344,643	1,101,291	1,322,344	1,056,727

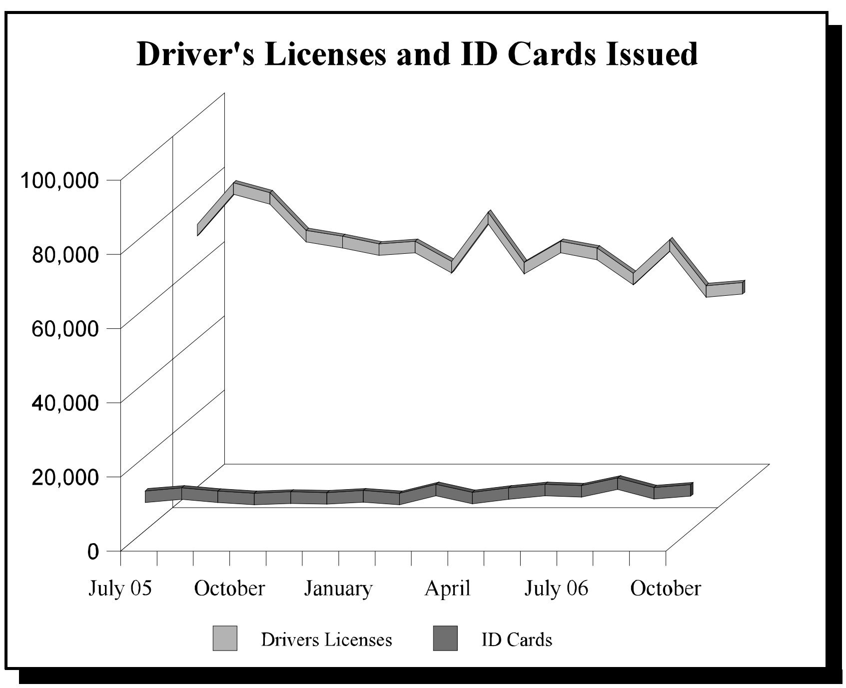
At the same time, recent changes in state and federal law have increased transaction times for drivers licenses and ID's, because the Department has had to institute new policies and procedures to implement requirements for secure and verifiable documents.

State Law - Drivers License Statute and new Public Benefits Statute

During the 2006 special session, the General Assembly adopted the "Restrictions on Public Benefits" (HB 06-1023) statute, which requires state agencies to verify the lawful presence in the U.S. of anyone 18 or older who applies for state or local public benefits or federal public benefits for him or herself. Public benefits are grants, contracts, loans, professional licenses, and commercial licenses; and retirement, welfare, health, disability, housing, postsecondary education, food assistance, unemployment, or any other similar benefit provided by a federal, state, or local agency or its appropriated funds.

This new state law did not change the proof of identity requirements to obtain a drivers license. However, the current drivers license law gives the Department of Revenue the discretion to determine what evidence the State of Colorado will accept as proof of identity. See Appendix A for a summary of the drivers license statute. The new state law, as well as the federal REAL ID Act, may have prompted the Department to institute new internal policies and procedures. The Department began using the SSOLV system in recent years to verify social security numbers and began using the SAVE system last spring to verify lawful presence. (The Department refused to provide a copy of its drivers license issuance procedures.)

The new state law took effect in August 2006. As shown below, the new requirements have not resulted in significant increases in overall volume so far.



	July 05	Oct 05	Jan 05	April 05	July 06	Oct 06
Drivers Licenses	69,220	67,610	64,631	58,997	56,023	53,534
ID Cards	9,169	8,517	9,242	8,780	10,577	10,827

Federal Law - U.S. REAL ID Act

The federal REAL ID Act, set to take effect in May 2008, has prompted the Department to begin taking measures that will allow Colorado comply with that statute. See Appendix A for a list of the requirements. Areas in which the state may already be in compliance are (*referencing the Appendix*):

- features that must be present on an approved driver's license or identification card (*items 1-9*)
- documents which may be accepted as breeder documents (*items 10-13*)
- no foreign documents are acceptable other than a passport (*item 20*)
- facial recognition (*item 24*)
- termination of other state's document required before issuance (*item 27*)
- term of validity no longer than 8 years (*item 31*)
- verification of Social Security information (*item 26*)
- verification of lawful presence (SAVE program) (*item 14*)
- documents issued to temporary residents expire on same date as visas (*items 15-18*)
- MOU with Department of Homeland Security for SAVE program (*item 21*)

U.S. Department of Homeland Security rules for implementing the act were due to be promulgated in November 2006, but the deadline continues to be delayed. The Department expects the rules to provide further guidance for compliance in the following areas:

- secure issuance processes and data storage
- data capture and retention (referencing breeder/source ID documents)
- storage of paper copies (breeder/source ID documents)
- requirements for existing licenses

The *National Impact Analysis*, issued by the National Governors Association and the National Conference of State Legislatures on September 21, 2006, estimated the costs of compliance nationwide at $11 billion and predicts that the following requirements will have significant up-front and ongoing costs to states in the first five years after the law takes effect:

All DL/ID holders must be re-credentialed within five years of the May 2008 deadline.
States must independently verify each identification document with its issuing agency.
Document design requirements could effectively require central issuance.
Requirements for security clearances on employees involved in production and issuance.

Furthermore, the act will reduce efficiencies and increase wait times for individuals. In order to re-verify their identity with the state, individuals will have to gather and present all their identification documents, which may more than double the length of time they spend at their state agency. The act will also effectively reverse practices designed to ease an applicant's interaction with the agencies, such as internet, mail-in renewal, and over-the-counter issuance.

Without regulations, states were unable to estimate several elements of the act that will almost certainly contribute additional cost and administrative burdens to the compliance process, including facility security requirements, expansion of the AAMVAnet system to support additional verification connectivity requirements, law enforcement training, expanded public education, and increase data privacy protection.

The federal homeland security appropriations act for FFY 2007 set aside $0 for state implementation of the REAL ID Act.

<u>Division Funding Alternatives</u>

The Division of Motor Vehicles has been funded with General Fund since 1995, except for FY 2003-06, when it was allowed to be funded in part from the Highway Users Tax Fund (HUTF) off-the-top distributions. If the General Assembly wished to again cash fund the Division or a part of the Division from the Highway Users Tax Fund or from a separate cash fund, the state constitution would allow it. Article X, Section 18 of the Colorado Constitution provides:

> On and after July 1, 1935, the proceeds from the imposition of any license, registration fee, or other charge with respect to the operation of any motor vehicle upon any public highway in this state and the proceeds from the imposition of any excise tax on gasoline or other liquid motor fuel except aviation fuel used for aviation purposes shall, except costs of administration, be used exclusively for the construction, maintenance, and supervision of the public highways of this state.

The constitution requires that drivers license fees be used for the public highways but does not specify that the fees go to a specific fund. The constitution would thus allow General Assembly to choose to fund the Division with cash funds, from the HUTF off-the-top allowance or through a separate sub-account, or from a cash fund separate from the HUTF. If the Committee wished to consider alternative funding mechanisms for the Division, possible options include:

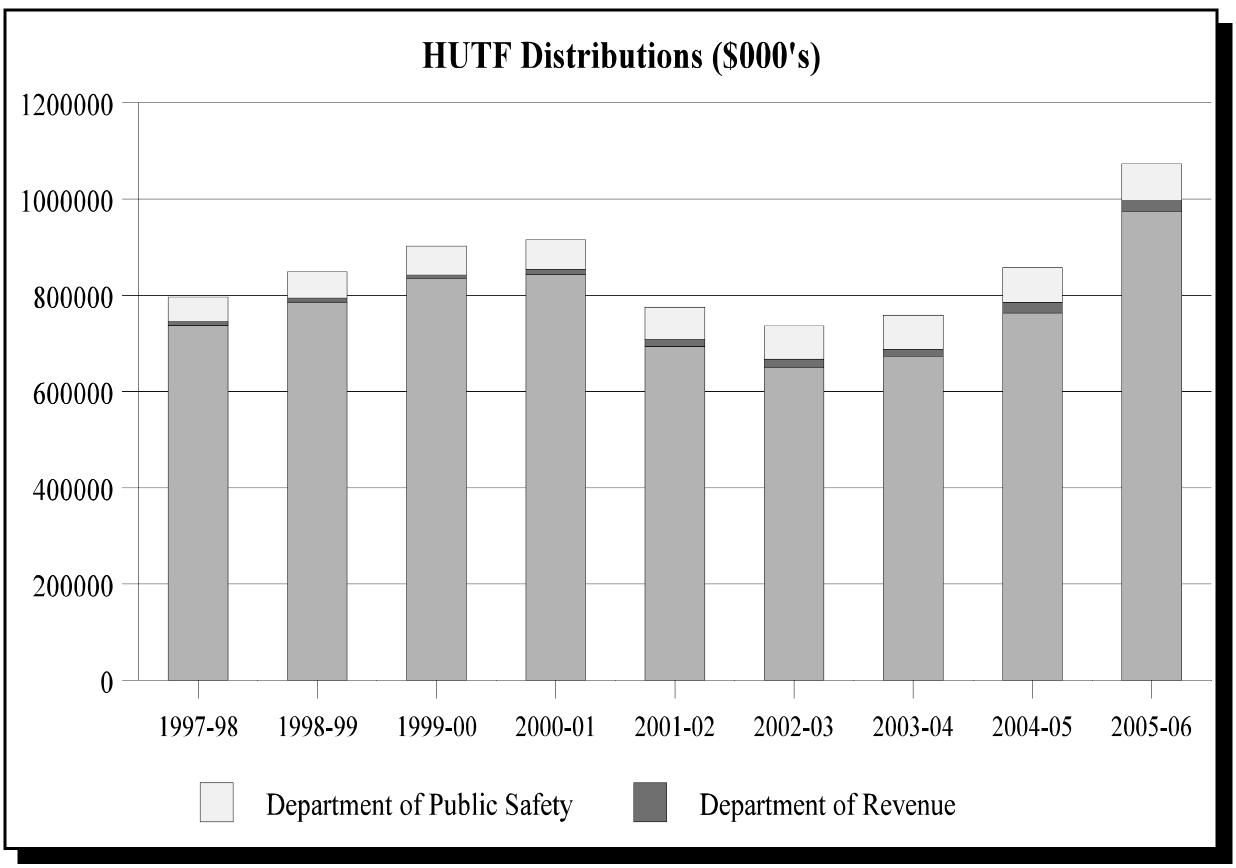
Amend statute to allow HUTF off-the-top funding of the Division of Motor Vehicles
Create a new cash fund for the Division, within or separate from the HUTF

All drivers license fee income must be used for the public highways. Since a Division of Motor Vehicles cash fund could not be used for non-highway-related purposes, there would be no advantage to creating a fund separate from the HUTF. Creating such a cash fund as a sub-account within HUTF would make it clear that those revenues were being used as directed in the constitution.

Fund the Division of Motor Vehicles from the HUTF Off-the-top

The State Patrol and Motor Carrier Services (ports of entry) receive a portion of HUTF revenues for supervision of the highways before any other distributions are made. The distribution to the State Patrol and the Ports of Entry is taken "off-the-top" before the formula allocation of HUTF to the highway fund, counties, and cities. Statute limits the off-the-top HUTF expenditures for highway supervision to 6 percent annual growth over the previous year's off-the-top appropriation, regardless of any increase or decrease in overall highway-related revenues. Section 43-4-201 (3)(a)(I)(B), C.R.S. The off-the-top limit is calculated on the previous year's base; it is not a proportion of revenues going to HUTF, nor is there a specific monetary cap.

The State Patrol receives a substantial portion of its annual funding from the HUTF off-the-top, although last year the General Assembly appropriated General Fund for a new highway unit. Ports of Entry also receives off-the-top funding. Before the adoption of S.B. 95-47, the Motor Vehicle Division was considered part of the supervision of the public highways and funded with highway moneys. Again, during the recent economic downturn, it was partially refinanced from the HUTF. The following graph shows the growth of the off-the-top distribution.



State Treasurer's Reports of HUTF Distributions

Fiscal Year	Department of Public Safety*	Department of Revenue*	Total Public Safety and Revenue	Other Distributions	Total Distributions
1997-98	51,663,911	7,969,234	59,633,145	736,973,371	796,606,516
1998-99	54,644,655	8,804,061	63,448,716	785,541,342	848,990,058
1999-00	59,383,936	8,310,217	67,694,153	834,183,563	901,877,716
2000-01	61,627,158	10,682,676	72,309,834	843,241,886	915,551,720
2001-02	67,502,495	13,389,757	80,892,252	693,990,722	774,882,974
2002-03	69,431,499	16,597,648	86,029,147	650,637,360	736,666,507
2003-04	70,652,400	15,715,432	86,367,832	671,698,181	758,066,013
2004-05	72,660,803	22,076,996	94,737,799	763,193,166	857,930,965
2005-06	76,475,194	23,586,614	100,061,808	973,128,936	1,073,190,744

*includes capital construction

Funding the Division of Motor Vehicles from HUTF off-the-top expenditures would require amending the HUTF statute. Article X of the constitution provides that "other limits on district revenue, spending, and debt may be weakened only by future voter approval," but the Legislative Legal Services believes this restriction is not applicable to the HUTF off-the-top growth limit.

If the General Assembly wished to fund the Division of Motor Vehicles from the HUTF off-the-top, it could revise the off-the-top restrictions by

- limiting off-the-top expenditures to a percentage of total HUTF revenues,
- changing the base for the 6 percent growth rate, or
- eliminating the 6 percent growth limit, among other options.

This last option would mean that the State Patrol and the Ports would directly compete with the Department of Transportation for state highway moneys. (Currently the State Patrol and Ports appropriations are balanced to the off-the-top growth limit.) On the other hand, eliminating the off-the-top limit could over time allow for greater funding for highway construction, depending on appropriations to the Departments of Public Safety and Revenue. Many states already accept this implicit balancing between highway supervision and highway infrastructure by placing their motor vehicles agencies within their departments of transportation, including Iowa, Arizona, Wyoming, Idaho.

<u>Fund the Division of Motor Vehicles from a Cash Fund within or separate from the HUTF</u>

In FY 2005-06, Division expenditures were 8.3 million, and the revenues collected for the HUTF were approximately $230.4 million. If the General Assembly wished to consider establishing a cash fund for the Division of Motor Vehicles, points to consider are the fee amount, the basis for the fee, and what costs the fee should cover.

Coloradans want their state identification documents to be secure and verifiable, which comes associated with higher costs. At the same time, those documents must be affordable because of their expanding essential functions of providing access to basic necessities of life (food stamps) or constitutional rights (voting). Because of their new functions, the documents are also now more valuable than before and more vulnerable to fraud, another reason to keep fees low.

The position of the American Association of Motor Vehicle Administrators, the professional association which has partnered with the National Conference of State Legislatures and the National Governors Association on drivers license policy, is that drivers license fees should not be used to generate revenue. As a point of reference, listed below are the fees currently being charged for an original basic adult drivers license valid for two years or more by Colorado and surrounding states:

Colorado	$15.60
Arizona	$25.00 (to age 40)
New Mexico	$16.00
Utah	$25.00
Nevada	$21.25
Kansas	$19.00
Nebraska	$23.75
Wyoming	$20.00
Texas	$24.00
Oklahoma	$21.50
Idaho	$24.50
Iowa	$20.00

Cost of Sales Tax Collection

ISSUE:

Colorado's sales and use tax structure is highly complex, relative to other states, and its complexity may result in a higher cost of collection of those taxes.

SUMMARY:

❑ The Department reports a higher cost of collection for sales and use taxes than for most other categories of taxes.

❑ Tax simplification could reduce the cost of collection, as well as providing other important benefits.

RECOMMENDATIONS:

Staff recommends the Committee ask the Department discuss the cost of collection of sales and use taxes, and its method of determining the cost of collection.

DISCUSSION:

Tax administrators nationwide use total revenues collected in relation to total dollars spent, or cost of collection, as a measure of performance. Tax administrators rely on voluntary compliance with tax laws to achieve a low cost of collection. Nationwide, compliance rates typically run around 80-90%. Voluntary compliance is generally related to three factors: public communication, ease of compliance, and clear tax laws.

Colorado's sales tax structure is particularly complex, relative to other states. In addition to collecting the state sales tax, the Department collects sales and use taxes on behalf of 246 separate local jurisdictions. In the past five years there have been several changes to the definitions of special districts, as well as ongoing changes in local tax rates.

Recent legislation has increased both the numbers and complexity of special tax districts. In the last five years, the General Assembly has created a new Republican River Water Conservation District, authorized a Mental Health Care Service District, authorized Regional Library Authorities, and allowed additional regional transportation authorities. It also authorized several changes to the Regional Transportation District (RTD), the Denver Metropolitan Scientific and Cultural Facilities District (SCFD), and the Metropolitan Football Stadium District, and authorized multi-jurisdictional housing authorities to levy sales and use taxes. See Appendix B for a complete listing of taxing entities and current tax rates.

Colorado Sales and Use Tax Collection

In FY 2004-05, the Department collected almost $2 billion in state sales and use taxes. In addition to the state tax, the Department collects local taxes for most counties, cities and special districts in Colorado, and tracks and distributes the collections monthly to the local governments. Local sales taxes include: county lodging, local marketing, regional transportation, football stadium, scientific and cultural, local improvement, mass transit, and short term rental tax.

Retail sales tax and the retail sales taxes of counties, cities and special districts that are collected by the Department are due monthly, quarterly, or annually, depending on the amount of tax collected, with the tax rate associated with the jurisdiction code assigned to the account. When a tax account has more than one business location, the Department cannot easily determine to which branches the local taxes apply.

Taxpayers use the "Colorado Retail Sales Tax Return" to file, and those with multiple locations may file on a department approved spreadsheet. Even when a taxpayer has a filing period in which they have zero state sales tax to report, they must file a return. The Department has an online sales tax ZeroFile service, which is operated by Enablx. Taxpayers who have collected more than $75,000 in state and local sales tax during the previous calendar year must pay through electronic funds transfer (EFT). EFT is optional for all other sales and retailer's use tax filers.

Most businesses do not fill out the sales tax return correctly. Electronic filing and matching electronic payment could help with math calculation or payments not matching the amount due on form. The Department mails preprinted forms that have the taxpayer's tax rates on the form and tell them which portions of the form don't apply to their business location, but some taxpayers put amounts in the N/A fields or cross out fields where they should enter amounts.

Multi-State Streamlined Sales and Use Tax Project

In September 1999, the National Governors Association and the National Conference of State Legislatures (NCSL) requested tax administrators to address sales tax simplification. This was prompted in part by growing problems with collecting taxes on remote sales, including:

- **Compliance with sales tax laws by multi-state corporations too complex**
- **Local merchants suffering from lack of level playing field**
- **Expected loss of revenue due to growth in electronic commerce**

By 2002, several states had developed an interstate agreement to streamline sales and use tax collection, and by July 2006, 21 states had enacted legislation to bring their sales and use tax statutes into compliance with the Streamlined Sales and Use Tax Interstate Agreement. Key features are:

- ✓ one level of tax administration per state
- ✓ one rule that establishes who has the right to tax a transaction
- ✓ fewer tax rates within each state and locality-one general rate; one rate on food, drugs, and electricity delivered by seller; one local rate per jurisdiction

- ✓ common state and local tax bases
- ✓ common tax base for local jurisdictions
- ✓ common definitions
- ✓ uniform sourcing rule for goods and services
- ✓ simplified electronic tax return
- ✓ uniform exemption certificate

In *Nexus in the New Economy: Ensuring a Level Playing Field for All Commerce*, published in August 2006, the National Conference of State Legislatures endorsed actions for states to take to simplify sales and use tax collection systems. NCSL also called on Congress to let states which have simplified their tax structure to require all businesses to collect those states' sales taxes. The businesses could be required to collect sales tax for any of those states, regardless of where the business is physically located, with an exception for small businesses.

Electronic tax filing is an important feature of the streamlined sales tax agreement. The federal government already requires electronic filing for larger income tax filers. H.B. 04-1237 took a step toward streamlining Colorado's system by creating a certified, electronic retail sales tax database of state addresses to determine to which jurisdiction tax is owed. Electronic filing, in which taxpayers enter their own tax data into the tax information system, would greatly reduce data entry costs and would also make tax data immediately available to revenue forecasters and budget managers.

Whether or not Colorado decides to participate in the Interstate Agreement, there are significant benefits that Colorado could potentially achieve by simplifying its sales and use tax structure:

- ■ **Reduce the cost of collection**
- ■ **Provide the foundation for future collection of sales and use tax on internet commerce from companies who do not have a physical presence in the state**
- ■ **Strengthen state revenue forecasting and budget management**

<u>Department's Reported Cost of Collection of Sales Tax</u>

The Department reports a cost of collection of sales tax as $0.007. The chart below lists the Department's reported cost of collection for various tax types:

Tax	FY2005-06 Collections	FY2005-06 Costs	FY2005-06 Cost of Collection	FY2004-05 Cost of Collection
Severance	$ 212,753,355	$ 920,389	$0.004	$0.002
Individual Income	4,219,443,330	16,166,965	0.004	0.004
Corporate Income	457,673,239	3,002,919	0.007	
Sales	1,941,754,399	14,522,571	0.007	0.003
Fuel	555,990,693	2,266,477	0.004	0.002

FY 2007-08 JBC Staff Budget Briefing
Department of Revenue

Ad Valorem (Property Tax) Severance Tax Credit

ISSUE:

The complexity of the ad valorem severance tax credit may result in a higher cost of collection of severance taxes, and greater volatility of severance tax revenues.

SUMMARY:

- "Other than a change in the severance tax rates, the elimination of or a substantial reduction in the ad valorem tax credit for oil and gas production would result in the single most significant change in the severance tax, from both a revenue and an administrative standpoint." *Severance Tax Performance Audit - June 2006*.

- The severance tax credit could be restructured so as to generate the same amount of revenue at a lower cost of collection. (Note that if a restructuring would result in a tax increase, it would require a vote of the people.)

- The ad valorem credit exacerbates the volatility of the already-volatile tax base, because it is linked to more than 2,600 ever-changing local property tax rates. The lag between severance tax due dates and property tax due dates further contributes to the complexity.

- The state is unable to report the cost of the ad valorem severance tax credit, because the Department does not currently capture that data from the schedule of the severance tax return that reports the amount of ad valorem credit claimed.

RECOMMENDATIONS:

Staff recommends the Committee ask the Department to discuss the cost of collection of severance taxes, its method of determining the cost of collection, and its best estimate of the total amount of the ad valorem credit in FY 2005-06.

DISCUSSION:

Mineral owners and producers pay income tax on mineral income, property (ad valorem) taxes on mineral lands, severance tax on production, and a conservation mill levy. For the severance tax on mineral production, taxpayers may be eligible for certain credits, exemptions, and deductions that reduce their severance tax liability:

Ad valorem credit

Severance taxpayers may reduce their severance tax liability by an amount equal to 87.5 percent of the property taxes owed to local governments on oil and gas lands (excluding buildings, improvements, and equipment). County tax assessors value that land based on a percentage of the sale price of the mineral at the wellhead location being taxed. For metals, the taxpayer may reduce the severance tax liability by an amount equal to 100 percent of the ad valorem taxes, not to exceed 50 percent of the tax. A producer may be subject to property taxes by counties and other taxing districts, such as school, fire, or improvement districts, each of which sets its own mill levy.

Impact assistance credit

Producers may claim credit on their severance tax return for contributions of property or money to local governments for planning, construction, or expansion of public facilities deemed necessary because of a new or larger severance operation.

Stripper well exemption

The marginal, or "stripper," well provision exempts certain oil and gas production from taxation. Because wells often produce both oil and gas, companies must track each mineral's production to determine eligibility. If a well qualifies for the exemption for oil, it may not necessarily qualify for the exemption for gas.

Coal exemption

There is a credit of 50 percent against the tax for coal produced from underground mines. In addition, the first 300,000 tons of coal produced in each quarter, or an annual production of 1.2 million tons of coal, per mine, are exempt from severance tax.

Federal income tax deduction / Colorado income tax basis reduction

Taxpayers may claim a deduction on the federal income tax return for severance taxes paid. The deduction is accounted for in federal taxable income, which is the basis for the Colorado income tax.

Cost of Collection

One significant reason for the complexity of Colorado's severance tax, as noted by the State Auditor, is that it is applied at the mineral interest owner level. This means that producers, working interest owners, royalty interest owners, and those with any other interest from oil and gas produced in Colorado, must pay severance taxes on their respective ownership percentage. Because each owner is only responsible for reporting a percentage of the gross income, it is difficult for the Department to verify that the total amount of oil and gas produced by a well has been reported.

However, according to Department staff, the most confusing aspect of Colorado's severance tax for both government personnel and for taxpayers is the ad valorem (property) tax credit. Department of Revenue severance tax auditors report that the application of the ad valorem credit is the most problematic aspect of severance tax returns and that it may contribute to taxpayer noncompliance.

The ad valorem credit for local property taxes paid on mineral lease property is particularly complex for the Department to administer. Although the Department does not track ad valorem credits, the Department has found that the majority of oil and gas severance tax filings result in refunds due to the ad valorem credit. In 2004, of the 8,007 severance tax returns filed, more than 6,500 of these returns resulted in refunds of the severance tax previously withheld, according to the State Auditor. (Producers or first purchasers must withhold and remit 1 percent of mineral income for each mineral interest owner.)

The complexity of local property tax rates contributes to the complexity of the ad valorem tax credit and severance tax collection. There are currently more than 2,600 mill levy rates in Colorado. In addition, one mineral lease can be subject to several different mill levy rates if cuts across jurisdictions or if it is located in overlapping jurisdictions. Furthermore, the ever-changing nature of local government mill levies compounds the confusion, according to the State Auditor.

The complexity of the ad valorem severance tax credit, as well as other complexities in the severance tax structure may increase the risk of taxpayer noncompliance with filing requirements simply because of the complexity of filing. As an illustration of the complexity of the ad valorem credit structure at every stage, an excerpt from the oil and gas producer/first purchaser withholding instructions is provided below:

INSTRUCTIONS
FOR PREPARING
FORM DR 21W

Box 1 - 5	Enter the information requested.
Line 6	Enter the total gross payments made to the interest owner on **both a cash basis and accrual basis. For cash basis**, report all payments made during the year even if they are for prior period production or are take or pay payments for future production. For **accrual basis**, report payments on all production during the calendar year, even if they are not disbursed to the interest owner within the year.
Line 7	Enter that portion of payments, on both the **cash** and **accrual basis**, that are from tax exempt **oil and gas** production from a stripper well.
Line 8	Enter the amount of ad valorem tax on **both cash and accrual basis**. For cash basis, report only ad valorem taxes **actually paid** to the county assessors during the year. For accrual basis, report the **actual ad valorem tax amount assessed at the mill levy date** (usually in November or December) within the year.
Line 9	Enter that amount of ad valorem tax for **both the cash and accrual basis** that related to **oil and gas** production from a stripper well.
Line 10	Enter amount of severance tax **actually withheld and remitted** to Colorado Department of Revenue for the calendar year.

It is difficult for the state to accurately report to the public or to accurately forecast the amount of the ad valorem severance tax credit, because the Department of Revenue does not currently capture that information, nor does any other state agency. Currently, the Department draws on a sample of the larger severance tax returns to develop an estimate of the value of the ad valorem credit. The Department states that its research group has begun a project to compile information on the ad valorem credit from hardcopy returns ordered from archives for prior years.

Volatility of Severance Tax Revenues

Oil and gas production is the largest source of production value and of severance tax revenue, but the revenues are volatile and hard to forecast because of the various structural components of the tax. Department of Local Affairs (DOLA), Division Local Government Services publications explain that the severance tax does not directly follow trends in the value of mineral production because of the large credit for property (ad valorem) tax payments:

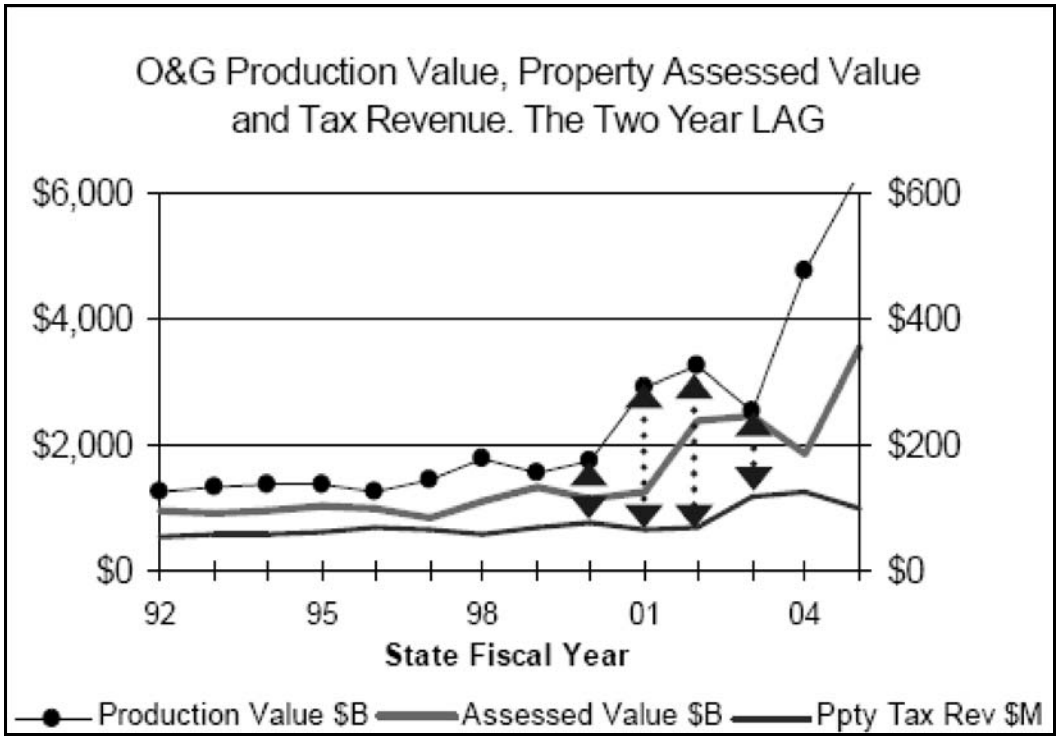
Calculation of oil & gas severance tax =

Quantity of production
less quantity from exempt stripper well
x Price of oil and price of gas
less Transportation, processing, and manufacturing costs
x Tax rate for oil and tax rate for gas
less Property (ad valorem) tax credit

Local property tax revenue from oil and gas-producing property is very large relative to gross severance tax paid, but the due date for property tax cycles two years behind actual production from that property. Variations in property tax payments thus lag two years behind variations in production. For example, for 2005 production, the taxpayer would report production to the county tax assessor in April 2006, the county would levy the property tax in December 2006, and the taxpayer would pay the property tax in April 2007.

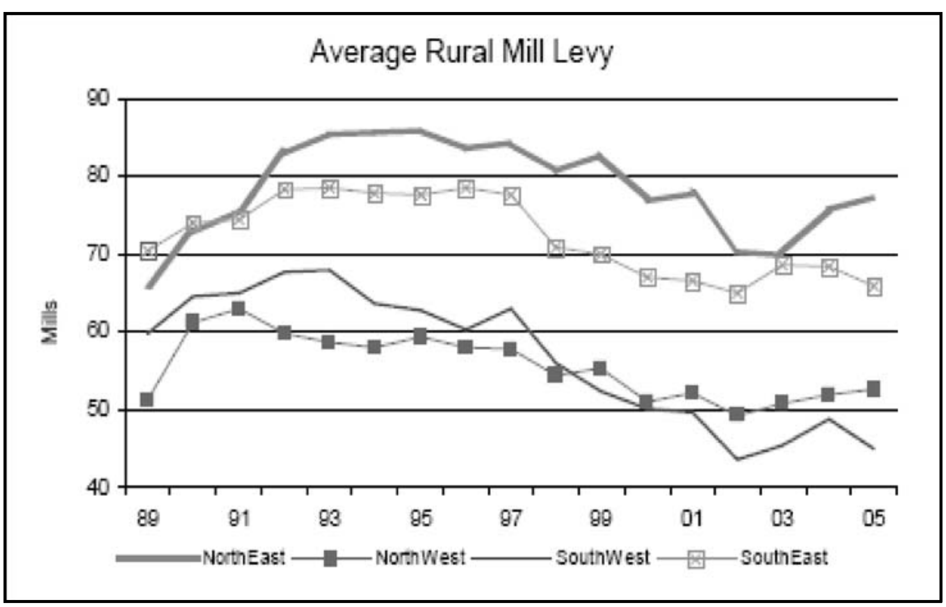
The gap between production property value and property tax due, therefore, varies widely over time. Since severance tax is levied close to the time of production, on production value, the gap between production value and property tax payments, which lag two years behind production, is the true severance tax base.

The graph on the following page illustrates this phenomenon.



Forecasting oil and gas severance tax thus requires:

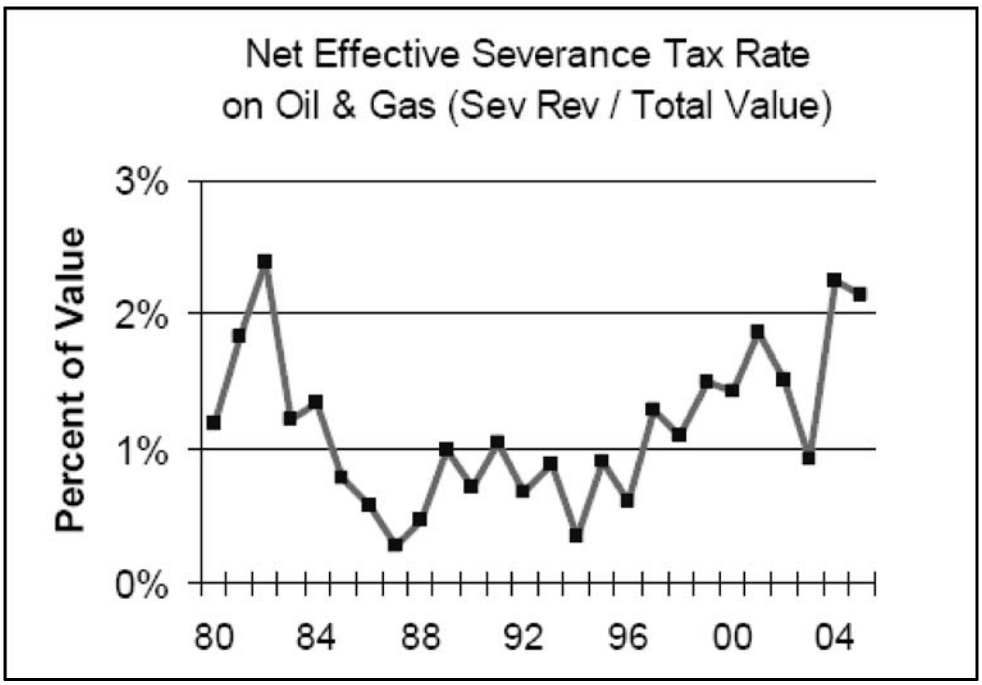
1. A projection of the value of production, by county--which requires a projection of
   - the quantity of production, *by county*
   - the sales price
2. A deduction from the production value for the exemption for marginal wells, *by county*.
3. A projection of the property tax payments, by county--which requires a projection of:
   - the mill levy *for each county*--an aggregate of many local jurisdictions' rates



Volatility of Effective Severance Tax Rate

Finally, the structure of the ad valorem severance tax credit results not only in volatility of revenues and difficulty in forecasting revenues, but also in volatility of the effective severance tax rate. The Department of Revenue is not able to determine the effective severance tax rate because, while it reports the amount of severance taxes collected ($212.8 million in FY 2005-06) it does not capture data from the severance tax returns that reports the mineral value on which the tax is levied.

The Department of Local Affairs Division of Local Government Services reports the effective severance tax rate and states that, "as a result of the GAP and the LAG [in the ad valorem credit], the net effective rate of severance tax as a percent of oil and gas production value zig-zags widely around a long run 1% average." The Division of Local Government's graph is shown below:



Department's Reported Cost of Collection of Severance Tax

For FY 2005-06, the Department reports collecting $212.8 million in severance taxes, at a cost of $920,000, for a cost of collection of $0.004. For FY 2004-05, the Department reported collecting $145.1 million in severance taxes, at a cost of $347,000, for a cost of collection of $0.002.

The complexity of the ad valorem severance tax credit has been linked to higher administrative costs and thus a higher cost of collection than for other tax types. However, the costs of collection for severance tax reported by the Department are lower than those reported for other tax types. For FY 2005-06 the Department reports an overall rate of $0.005 for all tax types, and for FY 2004-05 the Department reports an overall rate of $0.004 for tax types other than severance and fuel taxes. See the chart on page 58 for a comparison of the cost of collection rates for the various tax types.

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Department of Revenue

Conservation Easement Income Tax Credit

ISSUE:

The conservation easement income tax credit may not be reaping the intended benefit for the people of Colorado.

SUMMARY:

- ❏ The cost of the credit has risen dramatically since its creation in January 2000.
- ❏ The Department has found that properties that are the basis of the easement credit vary greatly in the conservation value they provide to the public.
- ❏ The U.S. Internal Revenue Service recently reported, for Colorado: "To date we have found very few cases that appear to have complied with the statute <u>and</u> have a realistic valuation of the easement. In addition we have found some very abusive situations...."
- ❏ There is no way to assess the public benefit derived from the tax credit, because there is no mandatory registry for conservation easement donations.

RECOMMENDATIONS:

Staff recommends the Committee ask the Department to discuss enforcement of the conservation easement tax credit.

DISCUSSION:

In 1976, the General Assembly created a new interest in real property, the "conservation easement in gross." A conservation easement in gross is a right to prohibit (or require) acts upon land, water, airspace, or water rights appropriate to the maintaining of that property, including improvements, "predominantly in a natural, scenic, or open condition, or for wildlife habitat, or for agricultural, horticultural, wetlands, recreational, forest, or other use or condition consistent with the protection of open land, environmental quality or life-sustaining ecological diversity, or appropriate to the conservation and preservation of buildings, sites, or structures having historical, architectural, or cultural interest or value." Section 38-30.5-102, C.R.S.

The new easement is typically a negative easement, and it is an easement "in gross." Historically, easements are positive and appurtenant. They are positive because they give the easement holder the right to use the property burdened with the easement for certain purposes. They are also appurtenant, meaning that they are held by the owner of a parcel of land that adjoins the burdened property.

In modern times, courts have recognized new types of easements, including negative easements and easements "in gross" (as opposed to "appurtenant"). Colorado's conservation easement is typically negative, meaning that it prohibits the owner of the burdened property from using it for certain purposes, rather than giving the easement owner the right to use it for certain purposes. Colorado's conservation easement on a property is "in gross," because it can be owned apart from ownership of an adjoining parcel of land. The easement is perpetual unless otherwise stated in the instrument creating it, and the instrument creating or transferring it must be recorded in order to be valid.

Under the conservation easement statute, a conservation easement in gross may only be created through a grant to or a reservation by a local government or a charitable organization.

<u>Income Tax Credit</u>
The legislature created an income tax credit, effective January 2000, for Colorado taxpayers for donating a conservation easement to a government agency or a 501(c)(3) charitable organization that was created at least two years before the donation. The credit is refundable when the state has a budget surplus. The credit is also transferable and inheritable. Credits typically sell for 80 cents on the dollar, the purchaser paying 90 percent and the broker receiving 10 percent.

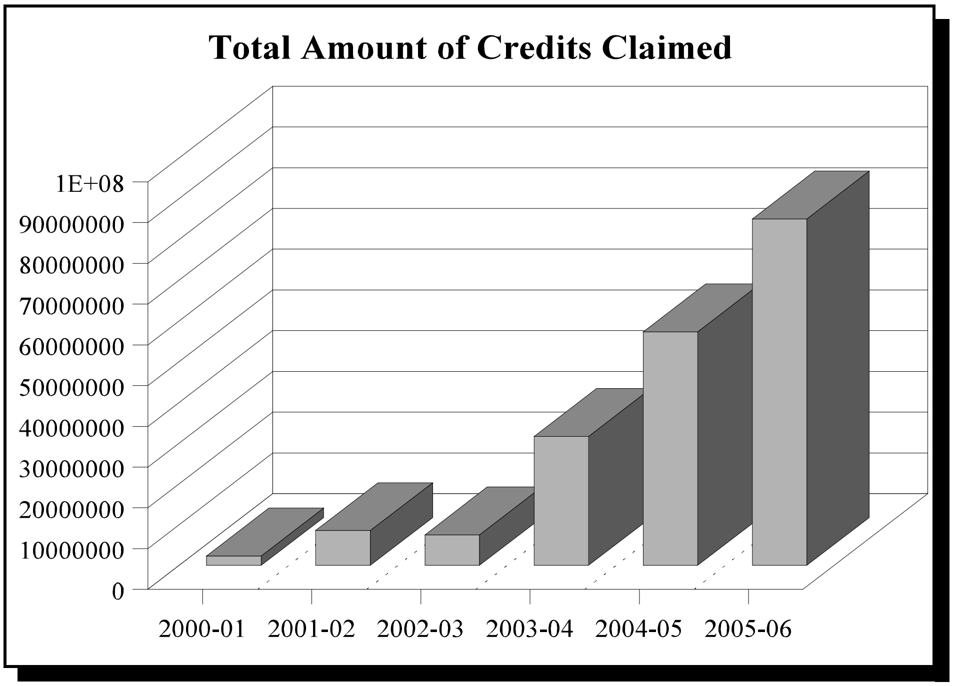
The restrictions imposed by conservation easements must be monitored and enforced by the easement owner, often a charitable organization to which it has been donated, or the grantor. The easement grantor or the easement owner may enforce the easement by filing court proceedings. Available remedies include both injunctions and money damages.

Since Colorado rules link to federal rules for charitable donations, a donation eligible for a Colorado income tax credit is also eligible for a federal income tax deduction and may reduce federal and state estate tax liability as well.

This past session the General Assembly adopted HB 06-1354 amending the conservation easement income tax credit, effective January 1, 2007. This bill changed the structure of the credit to 50% of the fair market value of the donation, to a maximum of $375,000 for the credit. Previously the credit had been two-tiered, with a 100% credit for part of the value of the donation and a portion of the value of the rest. There had been concern as to whether the donation could be considered a charitable contribution under the federal tax code, because the donor was receiving a dollar-for-dollar tax credit for the first $100,000 of value. Changing the credit to 50% of the total value of the easement, up to the maximum, addressed this concern.

Amount of the Credit

The maximum amount of the credit has been increased twice since its creation, from $100,000 in January 2000, to $260,000 in January 2003, to $375,000 starting January 2007. Total conservation easement credits claimed are shown below:



	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Individual	$ 2,296,104	$ 7,818,994	$ 7,846,619	$ 30,389,231	$ 51,558,100	$ 76,655,160
Corporate	$ 29,090	$ 756,691	$ (341,834)	$ 1,282,323	$ 5,783,246	$ 8,401,391
Total	$ 2,325,194	$ 8,575,685	$ 7,504,785	$ 31,671,554	$ 57,341,346	$ 85,056,551

If a taxpayer claims a refund, the amount of the credit is limited to $50,000 per donation per tax year, for donations made after January 1, 2003. (Before January 2003 the limit was $20,000.) The credit is refundable only when there is a TABOR surplus; thus far a refund has been available only in tax years 2000, 2001, and 2005: it will not be available from 2006 - 2010. The credit in any one year is limited to the tax liability for that year; excess credits may be carried forward up to 20 years.

Areas of Concern

Department of Revenue staff and other commentators have identified continuing areas of concern in the application of the conservation easement tax credit, including:

- Valuation of the easements
- Phasing easement projects on a single property over time

- Fragmenting a single property into smaller parcels under different but related ownerships
- Conservation easements on land not likely to be developed
- Conservation easements on land without conservation value
- Conservation easements by developers on parcels already restricted by zoning laws
- Creation of pass-through entities on order to qualify as a Colorado taxpayer

The General Assembly took steps to address the valuation issue with the passage of H.B. 05-1244. This statute gives the Executive Director of the Department the authority to require additional information from the taxpayer or transferee regarding the easement's appraisal value, the amount of the credit, and the validity of the credit and to reject them for good cause.

Enforcement

One other very significant issue is the concern that charitable organizations that own conservation easements may not have the resources or continuity to monitor and enforce the easements. While the Department of Natural Resources Wildlife conservation easements are monitored and enforced by the Department, the conservation easements are monitored by the agency or organization that owns them.

IRS Findings

To address the valuation issue, the Colorado Department of Revenue has asked the U.S. Internal Revenue Service for assistance in auditing the assessments of conservation easements that are the basis of tax credit claims. The Department refused to provide information about this project, but the IRS provided the following summary of the status of the conservation easement project:

The Colorado Department of Revenue contacted the Denver office of the IRS for assistance as part of our long standing cooperative agreement. The DOR had found a large number of state tax returns claiming a credit for conservation easements. In reviewing these claims they believed that the values being used were greatly overstated. The DOR did not have the resources to address these cases themselves so they asked if we could provide assistance. The DOR provided us copies of state returns and the federal returns for these taxpayers were reviewed to determine if a deduction was claimed. The local engineering group was then contacted to see if they would be able to assist with the cases. The engineering group manager said he could provide 4 engineers to assist. These engineers then worked with the agents to re-screen the federal returns to determine which appear to have the most potential for problems. About 150 returns were selected initially for the project based on the review. With related cases being discovered the number is now around 250 returns under examination.

To date we have found very few cases that appear to have complied with the statute and have a realistic valuation of the easement. In addition we have found some very abusive situations and have made at least one abusive promoter referral for investigation. (emphasis added)

The statutory issues revolve around the items mentioned previously, protections of habitat and scenic benefit. The valuation issues center around the determination of the value of the property before the easement was placed on the property. In most cases the "before" value is based on unrealistic or unsupportable conclusions by the appraisers. It should be noted that one of the appraisers involved in the cases being examined has been sanctioned by an appraisal association and was required to take additional CPE courses to improve his knowledge.

The before values are being obtained by projecting the land values as if the land was being developed for real estate/housing developments when no such potential exists. In some of these cases the water rights had been separated from the land and sold by the land owners. Without access to water, it would be impossible for the land to be developed. Other values were determined as if the land was going to be developed into an operating gravel mine. Again there is no indication that this was a realistic possibility. We have seen real estate developers attempt to take a contribution for land that they were required by the county to set aside for parks and/or open space before the development plans would be approved (quid pro quo). In at least one case it appears that the developer and county zoning agent flipped the zoning on the property in question so that at the time of the donation it was zoned for commercial development. This caused the land value to be increased. Immediately after the donation the zoning reverted back to agricultural and the lowest possible per acre value.

While we have not yet received all of the engineering reports on the open cases, the preliminary indications are that in most cases there is little or no decrease in the value of the property after the easement is created and that the methodology used to determine the before value by the taxpayers' appraisers did not result in a realistic value on which to base the deductions.

On the statutory requirement side, few if any of the properties have been determined to have significant wildlife/plant habitat or meet the scenic enjoyment or public benefit definitions.

Suggestions to Improve Applications of Statute – It is important to remember that the law as currently structured is almost impossible to administer. It is costly for the taxpayers, the legal terms are not well defined, and the valuation of property is not a science. For the Service the same items are relevant plus the limited resources available we have at our disposal to validate the taxpayers' values only permits us to work a small percentage of the cases involving this issue. This compromises the fairness of the statute.

The following are some of the ideas that the agents/engineers working the cases or the members of the IMT have discussed as possible solutions to the problems encountered:

- Building façade easements should not result in a deduction. The data reviewed has indicated no diminution in value as a result of placing a façade easement on the property.

- All real estate developers should be precluded from taking a charitable deduction for easements. In most cases the total cost of the land/development is past through to the purchasers of the homes/developed property as a cost of goods sold. The value of most of the developments are enhanced by the setting aside of parks or open space. In most areas developers are required to provide open space as part of their development plan before they receive approval from the local governmental organizations.

- The value of the easement should be established by a method that does not require the taxpayer and/or Service to engage outsider experts to determine the appropriate value. Some possibilities are

- Use the assessed value of the property for real estate taxes to set the before and after values. This sets up a natural check on the value- the property owner will normal always want a low tax value while the local government agency will want a high value. The down side is not all property is subject to real estate tax, some states have special rules re. homestead property.

- Limit the deduction to the basis of the property. Some concerns with property held for long periods or passed down from generation to generation and the actual market conditions

- Set the deductible amount at a set value based on the size of the parcel covered by the easement. Example, 0-20 acres result in a deduction of $25,000, 21-40 acres - $50,000, etc.

- Do not use tax law to try to encourage conservation. Instead provide funding to BLM, National Parks Service or some other agency to obtain easements from the property owners. These agencies are already involved in similar activities. In Colorado, Greater Outdoors Colorado, GOCO, functions in this manner. The State provides some funds for acquiring easements.

Sources consulted:

Changes to Colorado's Conservation Income Tax Credit Law, Jessica E. Jay, Colorado Lawyer, Feb 2003.

Environmental Law: Public Good and Private Magic in the Law of Land Trusts & Conservation Easements, Federico Cheever, University of Denver Law Review, (73 Denv. U. L.Rev.1077), 1996.

FY 2007-08 JBC Staff Budget Briefing
Department of Revenue

Motor Carrier Fees and fines

ISSUE:

The State Auditor's October 2006 Performance Audit of the Ports of Entry found that Colorado's fees and fines are significantly lower than those of surrounding states.

SUMMARY:

❏ Crashes involving commercial vehicles account for a disproportionate share of highway deaths and injuries.

❏ The State Auditor found that Colorado's low fines may not be acting as a deterrent to unsafe vehicles and drivers.

❏ The stated mission of the Ports of Entry is the prevention of fatal commercial motor vehicle accidents, but the Department does not report the numbers or rates of fatal commercial motor vehicle accidents. It is thus unable to determine if fees and fines, or any enforcement efforts, are related to highway safety.

RECOMMENDATIONS:

Staff recommends the Committee ask the Department to discuss Colorado's commercial vehicle fees and fines, and how they are related to highway safety in Colorado.

DISCUSSION:

In FY 2005-06, approximately 6 million commercial vehicles traveled over Colorado roads. Motor Carrier Services operates 10 fixed and 10 mobile ports of entry stations. The fixed ports are located in Cortez, Dumont, Fort Collins, Fort Morgan, Lamar, Limon, Loma, Monument, Platteville, and Trinidad, as shown on the map on the following page. A new Trinidad Port Facility was completed in early 2006, and construction will soon begin on a new Fort Collins Port building. The Department states that the mission of the Ports of Entry is twofold:

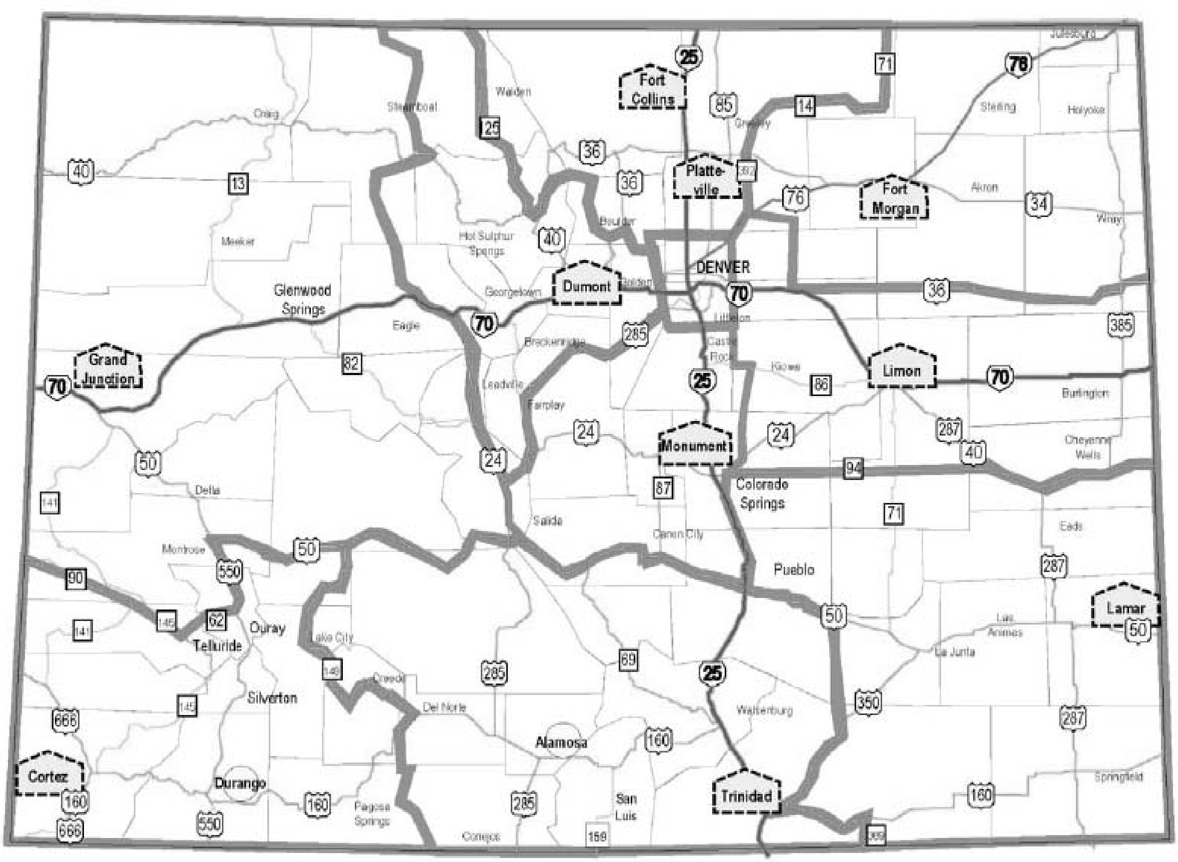
1) the prevention of fatal commercial motor vehicle accidents, and
2) preservation of the highway infrastructure through rigorous enforcement of size and weight regulations.

The Ports collect approximately 70 different fees and fines, about $4.3 million in FY 2004-05, which fund highway infrastructure and safety through the Highway Users Tax Fund. The October 2006 Ports of Entry Performance Audit report found that Colorado's fees and fines are significantly lower than those of other states. One study found Colorado among the six states with the lowest fines for overweight vehicles. For example, Utah fines vehicles $300 for a 5,000 pounds overweight violation, while Colorado fines them $60. Furthermore, Colorado is more lenient toward repeat violators of overweight or safety regulations.

In response to the State Auditor's recommendations, the Department has agreed to, in cooperation with the Departments of Transportation and Pubic Safety and the Public Utilities Commission, issue a report by July 2007, with findings and recommendations on the following:

- ✓ Analyze and compare Colorado's commercial vehicle fees/fines with those of other states.
- ✓ Assess the costs to administer commercial vehicle laws and the costs to repair the damage to the state's highway infrastructure from commercial motor vehicles.
- ✓ Identify ways to increase revenue from fees and fines to support law enforcement and to finance infrastructure.
- ✓ Propose statutory changes.

Shown below is a map of Colorado's fixed ports of entry.



Appendix A: Division of Motor Vehicles - Related Statutes
Colorado Drivers License Statute
U.S. REAL ID Act
Colorado Restrictions on Public Benefits Statute

Statutory Requirements for Colorado Drivers License C.R.S. 42-2-107

Every application must:

- state the full name, date of birth, sex, AND residence address of the applicant
- briefly describe the applicant
- be signed by the applicant
- have affixed thereon the applicant's fingerprint
- state whether the licensee has ever been licensed as a minor driver or driver and,
  if so, when and by what state or country AND
  whether any license has ever been denied, suspended, or revoked, reasons, date
- include the applicant's social security number, but
  if the applicant does not have a social security number,
  they shall submit a sworn statement they do not have a social security number.

Every applicant shall submit...

- proof of age OR
- proof of identity OR
- both, *as the department may require*.

An applicant who submits proof of age or proof of identity not issued by a state or the U.S.
shall also submit *such proof as the department may require*
that the applicant is lawfully present in the U. S.

An applicant who submits, as proof of age or proof of identity, a driver's license or identification card issued by a state that issues drivers' licenses or identification cards to those not lawfully present
shall also submit *such proof as the department may require*
that the applicant is lawfully present in the United States.

The Department shall issue such a license only upon the furnishing of
such evidence of Colorado residency *as the department may require.*

Requirements for ID cards are similar, except that the department shall issue an identification card only upon the furnishing of
a birth certificate OR
other documentary evidence of identity *that the department may require*.
C.R.S. 42-2-302.

Note:

The Department currently does not accept a U.S. passport alone as proof of identification. Customers who present a U.S. passport must also provide an additional identification document.

Applicants for a U.S. passport must present proof of U.S. citizenship and proof of identity. Following are the U.S. passport document requirements:

U.S. Passport Document Requirements

A U.S. passport requires proof of U.S. citizenship and proof of identity. Proofs of U.S. citizenship include a previous U.S. passport; certified birth certificate issued by a U.S. city, county, or state; consular report of birth abroad or certification of birth; naturalization certificate; or certificate of citizenship. A person born in the U.S. who does not have a previous U.S. passport or a certified birth certificate may provide a "letter of no record" issued by the state, and as many of the following as possible:

- baptismal certificate
- hospital birth certificate
- census record
- early school record
- family bible record
- doctor's record of post-natal care
- "Affidavit of Birth" from an older blood relative with personal knowledge of their birth.

A person born abroad who does not have a consular report or certificate must provide:

- foreign birth certificate
- proof of citizenship of the U.S. citizen parent, and
- affidavit of the citizen parent showing times + places of residence and presence abroad
- parents marriage certificate (if claiming citizenship through both parents)

Proofs of identity are documents containing the person's signature, and physical description or photo, that establish identity to the satisfaction of the acceptance agent. A person who cannot provide such evidence of identity must bring an identifying witness who is a U.S. citizen, U.S. national, or permanent resident alien who has known them for at least two years, plus evidence of applicant's identity and evidence of the witness's identity.

U.S. REAL ID Act (Public Law 109-13, Division B, Title II)

Beginning May 11, 2008, a federal agency may accept a drivers license or state ID for an official purpose ONLY when the state meets the following requirements:

Document requirements. The drivers license or ID must include:

1 full legal name
2 date of birth
3 gender
4 license or ID number
5 digital photo
6 principal residence address
7 signature
8 physical security features
9 a common machine-readable technology, with defined minimum data elements

Issuance standards. Before issuing a drivers license or ID, the state must require presentation and verification of

10 photo-identity document or non-photo identity document with full legal name and DOB
11 document showing DOB
12 proof of SSN or verification that person is not eligible for a SSN
13 document showing name and principal residence address
14 evidence of lawful status (citizen, lawful permanent resident, refugee, asylee, etc.).

Temporary drivers licenses and ID's must:

15 be valid only during the period of authorized status in the U.S. (or one year if no specified period)
16 clearly show it is temporary
17 state the expiration date
18 only be renewed upon documentation showing that authorized status has been extended.

Other standards:

19 documents presented under the issuance standards must be verified with the issuing agency
20 documents cannot be a foreign document, except for an official passport
21 the state must enter into a MOU to use, and use, the SAVE system to verify lawful status

Other requirements. The state must adopt the following practices:

22 capture digital images of identity source documents
23 retain paper copies of source documents
24 have mandatory facial image capture
25 establish a procedure to verify a renewing applicant's information
26 confirm SSN, and resolve any discrepancies and take appropriate action
27 confirm that the person is or has terminated their driver's license from another state
28 insure the physical security of locations where drivers licenses and ID's are produced and of the materials that the licenses and ID's are produced from
29 subject to security clearance all persons authorized to produce drivers licenses and ID's
30 establish fraudulent document recognition training for employees who issue licenses and ID's
31 limit the period of validity of drivers licenses and ID's to not more than 8 years
32 if a drivers license or ID does not satisfy the requirements of this act, insure that it clearly states on its face that it may not be accepted by a federal agency for any official purpose and uses a unique design or color
33 provide electronic access to the state's motor vehicle database to all other states
34 maintain a state motor vehicle database that contains all data fields printed on drivers licenses and ID's and motor vehicle drivers' histories, including motor vehicle violations, suspensions, and points on licenses

C.R.S. Title 24, Article 76.5. Restrictions on Public Benefits. (H.B. 06S-1023)

Beginning August 1, 2006, every agency and political subdivision of the state must

verify the lawful presence in the U.S. of any natural person age 18 or older

who applies for state or local public benefits or federal public benefits for the applicant.

A state or local public benefit is

- a grant, contract, loan, professional license, or commercial license

  provided by an agency of a state or local government or by their appropriated funds

- retirement, welfare, health, disability, public or assisted housing, postsecondary education, food assistance, unemployment, or any other similar benefit

  provided by an agency of a state or local government or by their appropriated funds

A federal public benefit is

- a grant, contract, loan, professional license, or commercial license

  provided by an agency of the U.S. or by appropriated funds of the U.S.

- retirement, welfare, health, disability, public or assisted housing, postsecondary education, food assistance, unemployment, or any other similar benefit

  provided by an agency of the U.S. or by appropriated funds of the U.S.

<u>Except</u> verification of lawful presence is not required for

- any purpose for which lawful presence is not required,
- emergency medical assistance other than organ transplants,
- emergency disaster relief,
- immunizations, and testing and treatment of symptoms of communicable diseases,
- services in federal law that are through nonprofits, not conditioned on income, necessary for life or safety, or prenatal.

Document requirements. The agency or political subdivision must *verify lawful presence* with:

Colorado driver's license or ID,

U.S. military card or military dependent ID,

U.S. Coast Guard Merchant Mariner card, or

Native American tribal document,

and

affidavit that they are a U.S. citizen, or

affidavit that they are a lawful permanent resident or otherwise lawfully present

<u>Except</u>

- the Department of Revenue may issue emergency rules effective until March 1, 2007

  that allow additional forms of identification and a waiver process.

- agencies or subdivisions may vary the affidavit requirement

  to improve efficiency, reduce delay, or adjudicate unusual hardship, and

  variations must be no less stringent that the requirements of this section.

Procedural requirement. When the applicant provides an affidavit that they are a lawful permanent resident or otherwise lawfully present the agency or subdivision must:

verify lawful presence through the federal SAVE program.

Reporting requirement. A state agency or department that administers a *state or local public benefit* must

provide an annual report to the House and Senate State, Veterans, and Military Affairs committees.

Appendix B:
Colorado Sales / Use Tax Rates and Districts
Sales Tax Changes Effective January 1, 2007

DR 1002 (06/23/06)
COLORADO DEPARTMENT OF REVENUE
TAXPAYER SERVICE DIVISION
1375 SHERMAN STREET
DENVER CO 80261

Colorado Sales/Use Tax Rates

This publication, which is updated on January 1 and July 1 each year, lists Colorado Sales/Use Tax rates throughout the state. The total tax rate for any jurisdiction must be computed by adding all taxes applicable to that jurisdiction. To order copies of this publication call (303) 238-SERV (7378). It is also available on the Web at *www.taxcolorado.com*

State Sales Tax

The state sales/use tax rate is 2.9% with exemptions (see page 3) A-B-C-D-E-F-G-H. A service fee is a deduction of 3 1/3% for timely filed returns. Tax is remitted on Form DR 0100, "Retail Sales Tax Return."

RTD/CD/FD Tax

Regional Transportation District (RTD)

The Regional Transportation District (RTD) levies a sales/use tax of 1.0% effective January 1, 2005. The RTD boundaries include the counties of Denver, Boulder, Broomfield (except certain areas immediately adjacent to I-25 and Highway 7 interchange), Jefferson, Adams (west of Box Elder Creek), Arapahoe (south of I-70 west of Picadilly Rd. to Jewell, then west of Gun Club Rd. to Quincy, then generally west of Monaghan Rd. including Arapahoe Park and Aurora Reservoir), and Douglas (northern portion plus Highlands Ranch) and parts of Weld County that have been annexed by the City of Longmont and the Town of Erie since 1994.

In the northern portion of Douglas County, the RTD boundaries consist of the city of Lone Tree (original Lone Tree), all annexed areas of Lone Tree, the Acres Green area, and the Park Meadows Mall (in unincorporated Douglas County and not in the city of Lone Tree). Those areas of annexed Lone Tree include:

- Estates
- Westbrook Development
- Mimi's Cafe
- Applebee's
- C470 Joint Venture
- Rampart Range
- Heritage Hills
- Centennial Ridge
- Carriage Club

Effective July 1, 2006, the area within the boundaries of the town of Castle Rock will not have RTD sales/use tax.

Football Stadium District (FD)

The Football District, which has a 0.1% sales and use tax, applies to all sales that are subject to the RTD tax in all areas except in the city of Lone Tree (original Lone Tree) and the Acres Green area in Douglas County.

Effective July 1, 2006, the area within the boundaries of the town of Castle Rock will not have FD sales/use tax.

Scientific and Cultural Facilities District (CD)

Effective July 1, 2006, the Scientific and Cultural facilities District, which has a 0.1% sales and use tax, will consist of all areas within the county boundaries of Adams, Arapahoe, Boulder, Jefferson, Denver, and Broomfield. It also includes all of Douglas County except within the boundaries of the towns of Castle Rock and Larkspur.

RTD/CD/FD exemptions (see page 3) include A-C-D-E-F. A service fee of 3 1/3% is allowed for timely filed returns. Tax is remitted on Form DR 0100 in the Special District column. If you have more than one location in the Douglas County exception areas, the tax is remitted on Form DR 0200.

Local Improvement District Tax (LID)

A sales tax of 0.5% sales tax within designated areas of southeast Jefferson and Boulder (Old Town Niwot and Cottonwood Square) counties. Exemptions include utilities and telephone and telegraph services. Service fee is a deduction of 3 1/3% for timely filed returns. Boulder County does not allow a service fee. Tax is remitted on form DR 0100 in the city/LID column.

A sales tax of 0.2% applies in the Flatirons Crossing Mall area and is collected by Broomfield.

Local Marketing District Tax

The Local Marketing District levies a tax of 1.4% on lodging services including hotels, motels, condominiums and camping spaces inside the town of Vail. Alamosa County levies a 4% Local Marketing Tax on hotel and motel rooms. Steamboat Springs levies a 2% Local Marketing Tax. Tax is remitted quarterly to the Department of Revenue on Form DR 1490 "Local Marketing District Tax Return."

Mass Transit District Tax

A sales tax of 0.5% in Eagle County and .75% in Summit County. A sales/use tax of 0.5% in Pitkin County. A service fee is a deduction of 3 1/3% for timely filed returns. Tax is remitted on Form DR 0100 in the County column combined with the county tax. Exemptions are the same as the county tax.

Rural Transportation Authority (RTA)

The following Rural Transportation Authority (RTA) areas have a sales, or sales and use tax for the specified locations. The RTA sales tax is remitted on form DR 0100 in the Special District Column. The RTA use tax is remitted on form DR 0173 for Retailer's Use and DR 0251 for Consumer Use. *See bottom of page 3 for specific exemptions.*

Roaring Fork RTA	Sales/Use Exemptions - A,B,C,D,E,F,G,H 0.4% Basalt amd New Castle 0.7% Carbondale 0.6% Glenwood Springs 0.2% Areas of unincorporated Eagle County in the El Jebel area and outside the city limits of Carbondale
Pikes Peak RTA	Sales/Use Exemptions - A,B,C,D,E,F,G,H 1.0% All of El Paso County except the towns of Calhan, Fountain, Monument, Palmer Lake and Ramah
Gunnison Valley RTA	Sales (Only) Exemptions - A,B,C,D,E,F,G,H 0.6% All of Gunnision County except the towns of Marble, Ohio, Pitkin and Somerset. 0.35% within the city limits of Gunnison.

Short-term Rental Tax

Douglas County has a tax of 1% on property rented for thirty days or less (excluding motor vehicle). Tax is remitted on Form DR 1480.

County Lodging Tax

The following counties have a tax on lodging services including hotels, motels, condominiums, and camping spaces:

Tax is remitted quarterly on Form DR 1485, "County Lodging Tax Return."

2.0%	Clear Creek, Fremont, Prowers, San Juan and San Miguel (Mountain Village omitted)
1.9%	Alamosa, Archuleta (Pagosa Springs omitted), Chaffee, Conejos, Costilla, Delta, Hinsdale, Lake, La Plata (Durango omitted), Logan, Mineral, Moffat, Montezuma (Cortez omitted), Morgan, Rio Blanco, Rio Grande and Saguache.
1.8%	Grand (Winter Park omitted)
0.9%	Bent
4%	Gunnison

Colorado Counties

NO.	NAME	NO.	NAME	NO.	NAME
1	Denver	23	Rio Grande	45	Kiowa
2	Pueblo	24	Garfield	46	Cheyenne
3	Weld	25	Conejos	47	Douglas
4	El Paso	26	Kit Carson	48	Archuleta
5	Las Animas	27	Washington	49	Rio Blanco
6	Larimer	28	Routt	50	San Miguel
7	Boulder	29	Bent	51	Clear Creek
8	Mesa	30	Alamosa	52	Custer
9	Otero	31	Chaffee	53	Grand
10	Arapahoe	32	Montezuma	54	Park
11	Jefferson	33	Lincoln	55	San Juan
12	Adams	34	Elbert	56	Ouray
13	Logan	35	Saguache	57	Pitkin
14	Fremont	36	Crowley	58	Dolores
15	Morgan	37	Phillips	59	Jackson
16	Huerfano	38	Costilla	60	Gilpin
17	Prowers	39	Sedgwick	61	Summit
18	Delta	40	Gunnison	62	Mineral
19	Yuma	41	Lake	63	Hinsdale
20	La Plata	42	Moffat	64	Broomfield
21	Montrose	43	Teller		
22	Baca	44	Eagle		

Sales Tax Changes Effective January 1, 2007

State-Collected Cities	Tax Rate	Exemptions	Use Tax	Service Fee
Basalt (increased sales tax from 2%)	3%	None	None	3 1/3%
Blanca (increased sales from 2%)	3%	B-C	None	3 1/3%
Brush (increased sales/use tax from 2%)	3.6%	None	Y-Z 3.6%	3 1/3%
Firestone (sales tax remains at 2% except for PIF area[7])	2%	A-B	Y-Z 2%	0
Firestone (sales tax rate in PIF area)	0.75% [7]	A-B [7]	Y-Z 0.75% [7]	0
Palmer Lake (increased sales/use tax from 2%)	3%	A	Y-Z 3%	3 1/3%

State-Collected Counties	Tax Rate	Exemptions	Use Tax	Service Fee
Adams County (increased sales tax from 0.7%)	0.75%	A-B-C-D-E-F-G-H	None	0
Saguache County (new tax)	1%	A-B-C-E	None	0
Washington County (new tax)	1.5%	A-B-C-D-E-F-G-H	Y-Z 1.5%	3 1/3%

Special Districts	Tax Rate	Exemptions	Use Tax	Service Fee
Summit County Housing Authority (new tax)	0.125%	A-B-C-D-E-F-G-H	Y 0.125%	3 1/3%

Lodging Tax	Tax Rate	Exemptions	Use Tax	Service Fee
Huerfano County (new tax)	2%	---	---	---

Self-Collected Cities	Tax Rate	Service Fee	License Fee
Boulder (increased sales/use from 3.46% through 12/31/07)	3.56%	None	$25
Boulder (increased tax on food from 3.56% through 12/31/07)	3.71% [3]	None	$25
Denver (increased sales/use from 3.5%; other Denver tax rates are unchanged.)	3.62%	0.5%	W
Longmont (increased sales/use from 2.95%)	3.275%	3% [6]	$5