

**COLORADO GENERAL ASSEMBLY**

**JOINT BUDGET COMMITTEE**



**FY 2007-08 SUPPLEMENTAL:  
DEPARTMENT OF REVENUE**

**PRIORITIZED AND NON-PRIORITIZED  
REQUESTS**

**JBC Working Document - Subject to Change**

**Staff Recommendation Does Not Represent Committee Decision**

**Prepared By:**

**David Meng, JBC Staff**

**January 16, 2008**

**For Further Information Contact:**

**Joint Budget Committee  
200 East 14th Avenue, 3rd Floor  
Denver, Colorado 80203  
Telephone: (303) 866-2061**

**DEPARTMENT OF REVENUE  
FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**TABLE OF CONTENTS**

	<b>Numbers Page</b>	<b>Narrative Page</b>
Supplemental #1 - Thompson v. Colorado Mediation Settlement	1	8
Supplemental #2 - Internal Audit Program	2	9
Supplemental #3 - Data Entry Rate Increase	3	12
Supplemental #4 - Microfilming Rate Increase	3	13
Supplemental #4a - Conservation Easement Appraisals	4	14
Supplemental #5 - Lottery Variable Costs Adjustment	4	16
Supplemental #6 - Variable Vehicle Rate Increase	5	17
Supplemental #7 - Titles Digital Imaging Storage	5	19
Supplemental #8 - Programming Costs for 2007 Session Legislation	5	22
Supplemental #9 - FY 2007-08 Long Bill Technical Correction	6	23
Staff Initiated Supplemental #1 - FY 2007-08 Long Bill Technical Correction	6	25
Statewide Common Policy Supplemental Requests	7	26
Totals for All Supplementals	7	N.A.

	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>DEPARTMENT OF REVENUE</b>					
<b>Executive Director - ROXY HUBER</b>					
<b>Supplemental #1 - Thompson v. Colorado Mediation Settlement</b>					
<i>(1) Central Department Operations</i>					
Operating Expenses	<u>3,316,772</u>	<u>1,131,078</u>	<u>3,368</u>	<u>3,368</u>	<u>1,134,446</u>
General Fund	3,186,215	994,191	3,368	3,368	997,559
Cash Funds Exempt	130,557	136,887	0	0	136,887
Postage	<u>0</u>	<u>2,391,618</u>	<u>46,027</u>	<u>46,027</u>	<u>2,437,645</u>
General Fund	0	2,125,192	46,027	46,027	2,171,219
Cash Funds	0	31,569	0	0	31,569
Cash Funds Exempt	0	234,857	0	0	234,857
<i>(5) Division of Motor Vehicles</i>					
<i>(B) Driver and Vehicle Services</i>					
Operating Expenses	<u>1,201,503</u>	<u>2,470,544</u>	<u>396,850</u>	<u>396,850</u>	<u>2,867,394</u>
General Fund	1,196,379	2,465,305	396,850	396,850	2,862,155
Cash Funds	2,000	2,000	0	0	2,000
Cash Funds Exempt	3,124	3,239	0	0	3,239
<b>Total for Supplemental #1</b>	<u>4,518,275</u>	<u>5,993,240</u>	<u>446,245</u>	<u>446,245</u>	<u>6,439,485</u>
General Fund	4,382,594	5,584,688	446,245	446,245	6,030,933
Cash Funds	2,000	33,569	0	0	33,569
Cash Funds Exempt	133,681	374,983	0	0	374,983

	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Supplemental #2 - Internal Audit Program</b>					
<i>(1) Executive Director's Office</i>					
Personal Services	3,621,403	3,391,306	213,641	213,641	3,604,947
FTE	<u>42.4</u>	<u>43.5</u>	<u>0.3</u>	<u>0.0</u>	<u>43.5</u>
General Fund	2,143,326	1,736,639	213,641	213,641	1,950,280
HUTF	406,824	385,567	0	0	385,567
Cash Funds	511,231	638,042	0	0	638,042
Cash Funds Exempt	560,022	631,058	0	0	631,058
Amortization Equalization Disbursement	<u>484,664</u>	<u>862,448</u>	<u>246</u>	<u>246</u>	<u>862,694</u>
General Fund	296,278	523,618	246	246	523,864
HUTF	39,485	67,077	0	0	67,077
Cash Funds	56,821	116,972	0	0	116,972
Cash Funds Exempt	92,080	154,781	0	0	154,781
Supplemental Amortization Equalization					
Disbursement	<u>0</u>	<u>161,399</u>	<u>95</u>	<u>95</u>	<u>161,494</u>
General Fund	0	93,843	95	95	93,938
HUTF	0	13,974	0	0	13,974
Cash Funds	0	21,336	0	0	21,336
Cash Funds Exempt	0	32,246	0	0	32,246

	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
Operating Expenses	917,761	954,541	17,909	17,909	972,450
General Fund	446,919	485,359	17,909	17,909	503,268
HUTF	102,442	81,629	0	0	81,629
Cash Funds	137,887	151,731	0	0	151,731
Cash Funds Exempt	230,513	235,822	0	0	235,822
<b>Total for Supplemental #2</b>	5,023,828	5,369,694	231,891	231,891	5,601,585
FTE	42.4	43.5	0.3	0.0	43.5
General Fund	2,886,523	2,839,459	231,891	231,891	3,071,350
HUTF	548,751	548,247	0	0	548,247
Cash Funds	705,939	928,081	0	0	928,081
Cash Funds Exempt	882,615	1,053,907	0	0	1,053,907
<b>Supplemental #3 - Data Entry Rate Increase</b>					
<i>(2) Central Department Operations</i>					
Pueblo Data Entry Center Payments	1,695,135	1,755,282	34,488	34,488	1,789,770
General Fund	1,694,049	1,751,273	34,488	34,488	1,785,761
Cash Funds	0	571	0	0	571
Cash Funds Exempt	1,086	3,438	0	0	3,438
<b>Supplemental #4 - Microfiliming Rate Increase</b>					
<i>(2) Central Department Operations</i>					
Microfilm Services - General Fund	343,264	344,039	38,833	38,833	382,872

	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Supplemental #4a - Conservation Easement Appraisals</b>					
<i>(4) Taxation Business Group</i>					
<i>(B) Tax Conferee</i>					
Personal Services - General Fund	809,561	850,853	33,250	0	850,853
FTE	8.2	9.0	0.0	0.0	9.0
<b>Supplemental #5 - Lottery Variable Costs Adjustment</b>					
<i>(8) State Lottery Division</i>					
Ticket Costs - CFE	2,142,602	3,549,040	(19,690)	(19,690)	3,529,350
Vendor Fees - CFE	5,964,762	9,811,513	1,063,998	1,063,998	10,875,511
Retailer Compensation - CFE	33,668,382	38,609,220	3,164,530	3,164,530	41,773,750
Prizes - CFE	280,000,739	306,413,810	30,307,570	30,307,570	336,721,380
Powerball Prize Variance - CFE	7,264,940	4,220,000	5,532,000	5,532,000	9,752,000
<b>Total for Supplemental #3</b>					
Cash Funds Exempt (Lottery Fund)	329,041,425	362,603,583	40,048,408	40,048,408	402,651,991

	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Supplemental #6 - Variable Vehicle Rate Increase</b>					
<i>(1) Executive Director's Office</i>					
Operating Expenses	<u>917,761</u>	<u>954,541</u>	<u>38,636</u>	<u>38,636</u>	<u>993,177</u>
General Fund	446,919	485,359	19,692	19,692	505,051
HUTF	102,442	81,629	18,944	18,944	100,573
Cash Funds	137,887	151,731	0	0	151,731
Cash Funds Exempt	230,513	235,822	0	0	235,822
<b>Supplemental #7 - Titles Digital Imaging Storage</b>					
<i>(5) Division of Motor Vehicles</i>					
<i>(D) Titles</i>					
Operating Expenses - Cash Funds Exempt (Colorado State Titling and Registration Account)	125,005	146,841	9,426	0	146,841
<b>Supplemental #8 - Programming Costs for 2007 Session Legislation</b>					
<i>(3) Information Technology Division</i>					
<i>(A) Systems Support</i>					
Line Item Name	<u>142,898</u>	<u>226,788</u>	<u>(73,575)</u>	<u>(73,575)</u>	<u>153,213</u>
General Fund	8,968	66,846	19,930	19,930	86,776
Cash Funds Exempt (Colorado State Titling and Registration Account)	133,930	159,942	(93,505)	(93,505)	66,437

	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Supplemental #9 - FY 2007-08 Long Bill Technical Correction</b>					
<i>(1) Exectutive Director's Office</i>					
Capitol Complex Leased Space	<u>1,794,521</u>	<u>1,694,271</u>	<u>0</u>	<u>0</u>	<u>1,694,271</u>
General Fund	1,296,891	1,315,937	(11,574)	0	1,315,937
Cash Funds	227,210	166,408	11,574	0	166,408
Cash Funds Exempt	270,420	211,926	0	0	211,926
<b>Staff Initiated #1 - FY 2007-08 Long Bill Technical Correction</b>					
<i>(4) Taxation Business Group</i>					
<i>(E) Special Purpose</i>					
Cigarette Tax Rebate - General Fund	13,213,188	12,500,000	0	0	12,500,000
Old Age Heat and Fuel and Property Tax Assistance Grant - General Fund	8,378,083	15,000,000	0	0	15,000,000
<b>Totals Excluding Pending Items</b>					
DEPARTMENT OF REVENUE					
TOTALS for ALL Departmental line items	511,836,122	563,010,175	40,807,602	40,764,926	603,775,101
FTE	<u>1,344.5</u>	<u>1,479.7</u>	<u>0.3</u>	<u>0.0</u>	<u>1,479.7</u>
General Fund	86,522,095	94,300,024	812,755	791,079	95,091,103
HUTF	8,859,192	9,186,859	18,944	18,944	9,205,803
Cash Funds	45,193,227	53,752,413	11,574	0	53,752,413
Cash Funds Exempt	369,931,497	404,224,665	39,964,329	39,954,903	444,179,568
Federal Funds	1,330,111	1,546,214	0	0	1,546,214



	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Statewide Common Policy Supplementals</b>					
(see narrative for more detail)	<u>N.A.</u>	<u>N.A.</u>	<u>753,275</u>	<u>Pending</u>	<u>N.A.</u>
General Fund			230,985		
HUTF			(22,059)		
Cash Funds			7,372		
Cash Funds Exempt			536,977		
<b>Totals Including Pending Items in Request</b>					
DEPARTMENT OF REVENUE					
TOTALS for ALL Departmental line items	511,836,122	563,010,175	41,560,877	40,764,926	603,775,101
FTE	<u>1,344.5</u>	<u>1,479.7</u>	<u>0.3</u>	<u>0.0</u>	<u>1,479.7</u>
General Fund	86,522,095	94,300,024	1,043,740	791,079	95,091,103
HUTF	8,859,192	9,186,859	(3,115)	18,944	9,205,803
Cash Funds	45,193,227	53,752,413	18,946	0	53,752,413
Cash Funds Exempt	369,931,497	404,224,665	40,501,306	39,954,903	444,179,568
Federal Funds	1,330,111	1,546,214	0	0	1,546,214

Key:

"N.A." = Not Applicable

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**Supplemental # 1 - Thompson v. Colorado Mediation Settlement**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$446,245</u>	<u>\$446,245</u>
General Fund	446,245	446,245
Cash Funds	0	0
Cash Funds Exempt	0	0
Federal Funds	0	0

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	<b>YES</b>
Staff and the Department agree that this request meets the Joint Budget Committee's supplemental criteria because it is the result of a recently mediated settlement of a lawsuit that was reached between plaintiffs and the State.	

**Department Request:** The Department requests \$446,245 General Fund in order to fulfill the terms of a settlement agreement regarding fees for handicap parking placards. The request consists of \$3,368 for the Central Department Operations, Operating Expenses line item; \$46,027 for the Central Department Operations, Postage line item; and \$396,850 for the Division of Motor Vehicles, Driver and Vehicle Services, Operating Expenses line item.

**Staff Analysis:** Starting in 1992, the Department charged qualified citizens a fee of \$1.25 for handicap parking placards in accordance with Colorado statute (section 42-3-204 (2) (e), C.R.S., 2007). The fee was raised to \$2.25 in 1998. In 1998, the State was sued because this provision was alleged to have been in violation of the Americans with Disabilities Act (ADA), which prohibits surcharges "to cover the costs of measures" which are required by the Act. This suit was filed as a class action seeking \$400,000 in fees to be reimbursed, \$368,765 in interest and approximately \$1.4 million in attorney's fees.

The lawsuit was dismissed on the grounds that the placards are not required because special license plates are offered to drivers with disabilities at no additional charge. However, the plaintiffs were given latitude to ask to reinstate their claim for damages. The plaintiffs have recently sought to reinstate their previous claim for reimbursement.

The plaintiffs and the state went to mediation on June 8, 2007, the plaintiffs and the State settled on damages of \$362,914, plus interest as an amount to be donated to a charity of the plaintiffs' choice,

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

and payment of \$603,000, plus interest for attorney's fees. The payment of attorneys' fees is not a part of this request and will be handled through Risk Management in the Department of Personnel and Administration. In addition the Department is required to notify by mail citizens who bought the placards, and to advertise in newspapers in Colorado counties in which placards were sold, and to provide notification at each Driver's License and County Clerks' Office explaining the settlement. The Department's costs are broken out in the following table.

Category	Basis for Calculation	Amount
Term of settlement agreement	Mediated settlement terms	\$362,914
Interest	Calculated at 5% per annum from July 1, 2007 through March 31, 2008 (\$1,512 monthly)	13,608
Advertisement Costs	Average costs per newspaper of \$250 in 64 counties	16,000
Poster notification costs	Information posters in 200 Driver's License and County Clerk Offices and other public places (\$21.64 printing and distribution costs per poster)	4,328
Mail notification costs	Envelopes and paper costs for 112, 260 citizens, \$0.03 per notification	3,368
Postage Costs	First class mailing to 112,260 citizens, \$0.41 per notification	46,027
	<b>Total Request</b>	<b>\$446,245</b>

**Staff Recommendation:** Staff recommends that the Committee approve the Department's request of \$446,245 General Fund, split as follows: Central Department Operations, Operating Expenses – \$3,368; Central Department Operations, Postage – \$46,027; and Division of Motor Vehicles, Driver and Vehicle Services, Operating Expenses – \$396,850.

**Supplemental # 2 - Internal Audit Program**

	Request	Recommendation
Total	<u>\$231,891</u>	<u>\$231,891</u>
FTE	0.3	0.3
General Fund	231,891	231,891

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	<b>YES</b>
Staff and the Department agree that this request meets the criteria of the JBC for supplementals. The request is in response to an \$11 million employee theft that the Department identified in April 2007.	

**Department Request:** The Department requests \$231,891 and 0.3 FTE General Fund to develop and implement a system of internal controls throughout the Department and an Internal Audit Program to effectively monitor and enforce the controls. The request is allocated among the following line items in the Executive Director's Office: Personal Services – \$213,641 ; Amortization Equalization Disbursement – \$246; Supplemental Amortization Equalization Disbursement – \$95; and Operating Expenses – \$17,909.

**Staff Analysis:** In April 2007, the Department identified an \$11 million employee theft. The investigation into the theft identified a lack of accounting controls. Prior to 2003, the Department had an internal audit staff that consisted of three persons. That staff has been cut back to where now the Department has one internal auditor, and that auditor helps coordinate external audits of the Department. The Department estimates that hiring five additional auditors will increase the number of audits completed by 13 per year.

As a benchmark, the Institute of Internal Auditors indicated that governmental entities with an income tax collection range of \$3-\$4 billion, similar to Colorado, typically employ 28 internal auditors. While the Department states that an increase to this level is "both unreasonable and unrealistic in the short-term," increasing the level of internal audit staff at this time is a "first step in determining what level [of staffing] is appropriate."

The Department has also compared its internal audit staff to other state agencies, the results of which are shown in the table below:

<b>Internal Audit Staff Ratio for Comparable Colorado State Agencies</b>			
<b>Department</b>	<b>Internal Audit FTE</b>	<b>Total FTE</b>	<b>Total Employees per Internal Audit FTE</b>
Department of Transportation	9.0	3,316.0	368.4
Department of Human Services	7.0	5,437.1	776.7
Department of Revenue	1.0	1,479.7	1,479.7

As can be seen, the Department of Revenue has the lowest ratio of internal auditors to employees of any of these three agencies, even though the Department collects almost all revenue for the State and has the highest risk for fraud.

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

The Department's request is to hire a contractor that is equipped to apply the internal control findings from the risk assessment that primarily addressed the Department's tax functions to all areas/functions and risk points. This includes developing and conducting an anti-fraud program, an information security awareness program, and a communication plan to lay the foundation upon which the Internal Audit Program will continue to build. If this supplemental is approved, the Department expects to issue an Request for Proposals for the Internal Controls Program Specialist in March 2008 and award the contract in April 2008. The Department expects to implement the Internal Controls Program between June and August 2008.

The second part of the program is to begin the process of developing an internal audit team and program by the hiring of the internal audit team. This will start with the hiring in the last three months of the current fiscal year staff that consists of a Chief Auditor, and four additional staff auditors. The Chief Auditor would be hired for three months, an Auditor V for two months, and the remaining three auditors for one month each. Because of the pay-date shift for June, they would be paid for a total of three months, resulting in a request for 0.3 FTE this year.

The request is broken down as follows with the costs for FY 2007-08 and the annualized costs for FY 2008-09 (which will be discussed at figure setting as a budget amendment):

Category (Executive Director's Office)	FY 2007-08		FY 2008-09	
	Appropriation (General Fund)	FTE	Appropriation (General Fund)	FTE
Personal Services - Internal Controls Program Specialist (Contract)	\$192,500		\$0	
Personal Services	21,141	0.3	393,296	5.0
Amortization Equalization Distribution	246		5,638	
Supplemental Amortization Equalization Distribution	95		2,547	
Operating Expenses	17,909		4,750	
Total	\$231,891	0.3	\$406,231	5.0

**Staff Recommendation:** Staff recommends that the committee approve the request for \$231,891 General Fund to develop and implement a system of internal controls throughout the Department and an Internal Audit Program to effectively monitor and enforce the controls. Staff agrees with the Department that a robust internal audit program is an essential part of an entity such as the Department of Revenue, which handles almost all of the State's revenues (\$9.4 billion in FY 2005-06). The request shall be allocated among the following line items in the Executive Director's Office

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

as follows: Personal Services – \$213,641; Amortization Equalization Disbursement – \$246; Supplemental Amortization Equalization Disbursement – \$95; and Operating Expenses – \$17,909.

**Supplemental # 3 - Data Entry Rate Increase**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$34,488</u>	<u>\$34,488</u>
General Fund	34,488	34,488

<p><b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b>      <b>YES</b>          [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]</p> <p>Staff and the Department agree that this request meets the JBC criteria for supplementals. Rates charged to the Department by the Department of Personnel and Administration were changed in June 2007 for the FY 2007-08 Budget.</p>
---

**Department Request:** The Department requests \$34,488 General Fund for data entry services in the Central Department Operations Division, Pueblo Data Entry Center Payments line item. Rates charged to the Department were increased in June 2007 for FY 2007-08, too late for the Department to include those rates in its regular budget submission.

**Staff Analysis:** The Department of Revenue is required to use the Department of Personnel and Administration for certain centralized services (Section 24-30-1104, C.R.S.). One of those services is data entry which is needed to capture information from paper forms submitted by taxpayers in an electronic format. The rate increase was from \$3.71 per 1,000 keystrokes to \$3.89 per 1,000 keystrokes, a 4.9% increase.

The Department of Revenue states that it is critical to its function to capture the data, the purposes of which include providing statistical data, maintaining controls, effective account management, fraud detection, collections, and tax compliance efforts. Possible consequences of not funding the request is that the functions identified above will be less effective.

**Staff Recommendation:** Staff recommends that the committee approve the Department's request of \$34,488 General Fund for Pueblo Data Entry Center Payments line item in the Central Department Operations.

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**Supplemental # 4 - Microfilming Rate Increase**

	Request	Recommendation
Total	\$38,833	\$38,833
General Fund	38,833	38,833

<p><b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b>      <b>YES</b>          [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]</p> <p>Staff and the Department agree that this request meets the JBC criteria for supplementals. Rates charged to the Department by the Department of Personnel and Administration were changed in June 2007 for the FY 2007-08 Budget.</p>
---

**Department Request:** The Department requests \$38,861 General Fund to accommodate increases in Microfilming costs imposed by the Department of Personal and Administration in June 2007 for FY 2007-08. The Department of Revenue was unable to include these increases in its FY 2007-08 budget request.

**Staff Analysis:** Pursuant to Section 39-21-113 (3), C.R.S., the Department is required to preserve all income tax reports and returns for four years, all other taxes must be retained for three years. Microfilming is the preferred method of record retention. The Department of Revenue is required to use the Department of Personal and Administration for certain centralized services, including microfilming (Section 24-30-1104, C.R.S.). For FY 2007-08, the Department of Personnel and Administration imposed a 17.9 percent increase for microfilming income tax documents and a 27.7 percent for microfilming business tax documents. The following table shows the rates charged by DPA for microfilming for the last four fiscal years.

<b>DPA Microfilming Rates from FY 2004-05 to FY 2007-08</b>				
Fiscal Year	Income Tax		Business Tax	
	DPA Rate	Percent Increase	DPA Rate	Percent Increase
FY 2004-05	\$0.0385	n/a	\$0.0361	n/a
FY 2005-06	0.0404	4.9%	0.0372	3.0%
FY 2006-07	0.0420	4.0%	0.0383	3.0%
FY 2007-08	0.0495	17.7%	0.0489	27.7%

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

During this period of time, the Department of Revenue's line item for microfilming has remained constant at \$344,049. At current levels of document microfilming, this increase in rates will cause the Department to exceed the current appropriation. The Department states that "maintaining the current level of microfilming will allow the tax programs to operate efficiently and effectively." Both the Taxpayer Services Division and the Taxation and Compliance Division would experience increased processing time when tax returns and associated documents are required to be accessed. This could result in delays in working taxpayer account errors and reduced revenues from audits.

**Staff Recommendation:** Staff recommends that the committee approve \$38,833 General Fund to the Central Department Operations, Microfilm Services.

**Supplemental # 4a. - Conservation Easement Appraisals**

	Request	Recommendation
Total	<u>\$33,250</u>	<u>\$0</u>
General Fund	33,250	0

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	<b>NO</b>
The Department believes that the data presents a case of new data resulting in significant changes in funding needs. Staff does not agree that this represents new data, instead staff believes this is a continuation of a trend of increasing number of Conservation Easements claimed that has been in process for six years.	

**Department Request:** The Department requests \$33,250 General Fund to increase the number of appraisals for conservation easements needed to allow the Tax Conferee to render judgment on cases under its review. The increase would be in the Personal Services line item in the Tax Conferee section of the Taxation Business Group.

The Department states that it has "identified a growing trend of unresolved cases since FY 2006-07 in the Tax Conferee section. The Department did not have any caseload in FY 2005-06, but starting in FY 2006-07 there were 34 cases referred, and so far in FY 2007-08, there have been 21 cases referred. Conservation easements have increased in number and value each year since Tax Year 2001, as shown in the following table.



**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

History of Conservation Easements			
Tax Year	Credit Claimed	Value	Average Value
2001	N/A	\$2,325,194	N/A
2002	620	8,544,427	13,781
2003	827	7,504,785	9,075
2004	1,584	30,389,231	19,185
2005	2,064	51,558,100	24,980
2006	2,110	76,655,160	36,329

The Department is concerned with the following issues regarding conservation easements:

- Overvaluation of easements
- Easements that have little or no conservation value
- Easement granted to entities that can not or will not defend those easements
- Lack of Departmental resources to administer this program

The Department states that it has contracted with an appraiser to begin a pilot review of these appraisals. The funding for this contract is based on a one-time savings in the Taxation and Compliance Division. Funding was sufficient to perform twelve appraisals.

**Staff Analysis:** The Department is requesting this supplemental to institute a program to begin the process of performing appraisals to administer the program. The Department's figures show that Conservation Easements have been increasing in number and value since 2001 (see table above titled History of Conservation Easements). Staff does not agree that these figures presented by the Department show "new" data that justifies the supplemental. Staff believe that the figures are a continuation of an increase in the number of easements that have been granted over the last six years, not "new" data.

**Staff Recommendation:** Staff recommends that the Committee deny this request because it does not meet the criteria the Committee has set forth for the consideration of Supplemental Budget Requests.

**Supplemental # 5 - Lottery Variable Costs Adjustment**

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

	Request	Recommendation
Total	<u>\$40,048,408</u>	<u>\$40,048,408</u>
Cash Funds Exempt (Lottery Fund)	40,048,408	40,048,408

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b>	<b>YES</b>
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
Staff and the Department agree that this request meets the criteria of the JBC for supplementals. This request incorporates updated sales data used to prepare this supplemental showing increased lottery sales.	

**Department Request:** The Department requests a total of \$40,048,408 cash funds exempt (Lottery Fund), to adjust its variable cost line items. The request is broken down by line item as follows: Ticket Costs - (\$19,690); Vendor Fees - \$1,063,998; Retailer Compensation - \$3,164,530; Prizes - \$30,307,570; and Powerball Prize Variance - \$5,532,000.

The Department states that these adjustments are necessary because the most recent sales forecasts are showing higher than projected. The Lottery uses an "upper limit" on sales, based on forecast sales time 120%, which gives the Lottery enough spending authority in each line to accommodate sales that are 20% higher than forecast.

**Staff Recommendation:** Staff recommends that the committee approve \$40,048,408 cash funds exempt for variable expenses for the State Lottery Division, as broken down above.

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**Supplemental # 6 - Variable Vehicle Rate Increase**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$38,636</u>	<u>\$38,636</u>
General Fund	19,692	19,692
HUTF (CFE)	18,944	18,944

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b>	<b>YES</b>
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
Staff and the Department agree that this request meets the criteria set by the JBC for supplementals. The request is the result of new rates charged to the Department by the Department of Personnel and Administration.	

**Department Request:** The Department requests an increase of \$38,636 (\$19,692 General Fund and \$18,944 Cash funds exempt (HUTF) in the Executive Director's Office Operating Expenses-Variable Vehicle line item for FY 2007-08 and ongoing to offset the variable vehicle rate increase that the Department of Personnel and Administration implemented in July 2007. The Department states that it needs to maintain the vehicle utilization level to perform its core responsibilities and statutorily required functions. These functions are:

- Pickup and deliver mail to various DOR location in the metropolitan area to receive and process payments.
- Provide ongoing training to the county clerks on the Colorado State Titling and Registration System.
- Contact delinquent taxpayers throughout the State.
- Conduct driver's license office site visits and audits, perform training throughout the State, conduct emission inspection audits (including covert audits).
- Enforce commercial vehicle laws and regulations for mobile Port of Entry operations.
- Conduct statewide liquor and tobacco enforcement compliance checks, conduct racing investigation and inspections, hold motor vehicle hearings in outlying offices, enforce the State's gaming laws and regulations, and conduct auto dealership impropriety investigations and follow up on consumer complaints.
- Provide Scratch ticket inventory and customer service to the 2,800 lottery retailers throughout the State.

**Staff Analysis:** The Department of Personnel and Administration has implemented several previous variable rate increases in response to rising fuel costs. In addition to the current rate increase (July 2007, it increased rates in January and July 2006. At DPA's instruction, following the January 2006

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

rate increase, the Department requested, as part of a statewide supplemental, \$46,489, of which \$40,758 was approved. The Department requested a FY 2006-07 supplemental to offset the July 2006 increase, but that was denied by the JBC.

The Department has provided information on its actual mileage driven over the last five fiscal years, broken down in the following table.

<b>Department of Revenue Vehicle Miles Driven</b>		
<b>Fiscal Year</b>	<b>Miles Driven</b>	<b>% Increase (Decrease)</b>
FY 2003-04	2,937,374	-2.1%
FY 2004-05	2,954,366	0.6%
FY 2005-06	2,961,639	0.3%
FY 2006-07	2,920,936	-1.4%
FY 2007-08 (Projected)	2,920,936	0.0%

The Department's miles driven are projected for FY 2007-08 to be slightly below (by about 0.56%) the levels driven in FY 2003-04. Despite essentially static miles driven over that period, variable vehicle expenditures have risen from \$396,875 in FY 2003-04 to a projected \$688,742 during FY 2007-08 (an increase of 87%), based on the Department of Personnel and Administration's rate increase implemented in July 2007. The increase in expenses has only been partially offset with increases in its budget. The history of the line is shown in the table below:

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

DEPARTMENT OF REVENUE Appropriation/Expenditure History since FY 2003-04					
Fiscal Year (Actuals except for FY 2007-08)	Appropriation	Increase over Prior Year	Expenditures	Increase over Prior Year	Surplus/ (Deficit)
FY 2003-04*	\$405,955		\$396,875	7.8%	\$9,120
FY 2004-05*	409,184	0.8%	412,965	4.1%	(3,781)
FY 2005-06	458,932 (Includes Supplemental)	12.2%	601,680	45.7%	(142,748)
FY 2006-07	500,003 (Includes internal transfer from Capital Outlay)	9.0%	650,106	8.1%	(150,103)
FY 2007-08	497,932	-0.4%	688,742	5.9%	(190,810)

\* For FY 2003-04 and 2004-05, Gaming Variable Vehicle and Lottery Variable Vehicle were broken out separately in each Division. For FY 2005-06 the appropriations were transferred to EDO as part of a central pot consolidation. They are combined in the total here for clarification.

**Staff Recommendation:** Staff recommends that the committee approve the Department's request for a total of \$38,636 (\$19,692 General Fund and \$18,944 Cash Funds Exempt-HUTF) in Operating Expenses-Variable Vehicle. The Department of Personnel and Administration increased the variable mileage rate in July 2007, which was too late for the Department of Revenue to include in its budget submission.

---

**Supplemental # 7 - Titles Digital Imaging Storage**

	Request	Recommendation
Total	<u>\$9,426</u>	<u>\$0</u>
Cash Funds Exempt (Colorado State Titling and Registration Account)	9,426	0

**DEPARTMENT OF REVENUE  
FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	<b>NO</b>
The Department states that this request is a result of an unforeseen contingency such as a significant workload change. It also states that the increase is the result of a fee increase for these services from the Department of Personnel and Administration. Staff disagrees, and believes that this is an increasing trend that could have been foreseen.	

**Department Request:** The Department requests an increase of \$9,426 Cash Fund Exempt (Colorado State Titling and Registration Account) to the Division of Motor Vehicles, Titles, Operating Expenses line item in order to meet an increase in digital imaging storage costs in FY 2007-08.

Staff asked the Department to explain the unforeseen contingency that necessitates this request. Their answer is as follows:

"Similar to the requests for data entry and microfilming (Central Department Operations Division), the Department requests supplemental funding for title imaging that results from a fee increase associated with services provided by the Department of Personnel and Administration. However, unlike data entry and microfilming costs, imaging costs for the titles program has been traditionally charged to its operating expenses line item and not a separate line item. As the graph on page 6 of the narrative indicates, the department spends a significant amount of its operating appropriation on digital storage. Discretionary spending has already been reduced, thus, program deliverables will be compromised if funding is not provided."

The graph that was mentioned in their response shows that 42 percent of the estimated FY 2007-08 operating expenses for the Titles section are for image storage expenses. Digital image storage costs are increasing dramatically, as shown in the table below, "Actual and Projected Costs for Digital Images."

The Department has taken steps to reduce this cost, mostly by decreasing the image resolution from the industry standard of 200 dots per inch (dpi) to 150 dpi, the lowest possible setting. This change in image resolution requires less storage per image.

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Actual and Projected Storage Costs for Digital Images			
Fiscal Year	Number of Images Stored	Storage Costs	Costs per Image Stored
FY 2005-06 Actual	2,106,709	\$14,253	\$0.00676
FY 2006-07 Actual	3,709,782	57,361	0.01546
FY 2007-08 Projected	5,263,914	66,787	0.01268
FY 2008-09 Projected	6,818,046	85,231	0.01250
FY 2009-10 Projected	8,372,178	103,545	0.01236

The Department states that its practice is to purge stored images after ten years, however, at the present time, the volume of new images being stored is outpacing the images being purged. Since storage costs are cumulative, the number of images is increasing, the cost of digital storage are increasing year to year as well.

**Staff Analysis:** Staff does not agree with the Department that this request represents an unforeseen contingency that meets the Committee's criteria for justifying Supplementals. The Department's figures show a continuing trend of increases in the amount of storage the Department requires. Furthermore, the Department's submission states that "Based on continuous increases in total volume, DPA has lowered the rate per kilobyte for all stored images." The chart immediately above shows actual and projected number of images, storage costs and costs per image.

While the rate per image increased between FY 2005-06 and FY 2006-07, the rate has decreased since then, from 1.546 cents per image in FY 2006-07 to a projected 1.268 cents per image in FY 2007-08. The increased costs for storage, then, Staff believes, comes from an increase in volume which the Department has projected, not an unforeseen contingency.

**Staff Recommendation:** Staff recommends that the Committee deny this request because it does not meet the criteria the Committee has set forth for the consideration of Supplemental Budget Requests. Staff does not believe that this request represents an unforeseen contingency that the Department has identified.

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**Supplemental # 8 – Programming Costs for 2007 Session Legislation**

	Request	Recommendation
Total	(\$73,575)	(\$73,575)
General Fund	19,930	19,930
Cash Funds Exempt (Colorado State Titling and Registration Account)	(93,505)	(93,505)

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b>	<b>YES</b>
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
Staff and the Department agree that this request meets the JBC's supplemental criteria, it is based on new and more accurate data that reflects actual costs of implementing 2007 session legislation.	

**Department Request:** The Department is requesting to increase this line by \$19,930 General Fund and decrease the line by \$93,505 Cash Funds Exempt (Colorado State Titling and Registration Account) resulting in an overall decrease of the line of \$73,575. This request is the result of actual costs of implementing 2007 session legislation, taking into account economies of scale in programming for similar bills.

**Staff Analysis:** Each year since the 2001 session, the Department has received an appropriation for programming and implementing session legislation. After the Department has completed its programming, it is expected to request a supplemental either increasing or decreasing the line. This request is that supplemental.

During the 2007 session, the General Assembly passed a total of 15 laws requiring programming costs in the Department, seven of them were General Fund and eight involved Cash Funds Exempt (Colorado State Titling and Registration Account). Five of those were new license plates. The Department's programming costs are summarized below:



**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Programming Costs for 2007 Session Legislation					
	General Fund	Cash Fund	Cash Funds Exempt	Federal Funds	Total
FY 2007-08 Appropriation	\$66,846	\$0	\$159,942	n/a	\$226,788
FY 2007-08 Actual Programming Costs	86,776	0	71,200	n/a	157,976
Economies of Scale	0	0	(4,763)	n/a	(4,763)
Total for Legislative Programming	\$86,776	\$0	\$66,437	n/a	\$153,213
<b>Total Supplemental Request</b>	<b>\$19,930</b>	<b>\$0</b>	<b>(\$93,505)</b>	<b>n/a</b>	<b>(\$73,575)</b>

**Staff Recommendation:** Staff recommends that the committee approve an increase of \$19,930 General Fund, a decrease of \$93,505 Cash Funds Exempt (Colorado State Titling and Registration Account) for an overall line decrease of \$73,575 for Programming Costs for Session Legislation.

**Supplemental # 9 - FY 2007-08 Long Bill Technical Correction**

	Request	Recommendation
Total	<u>\$0</u>	<u>\$0</u>
General Fund	(11,574)	(11,574)
Cash Funds Exempt	11,574	11,574

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	<b>YES</b>
Staff and the Department agree that these are technical errors in the FY 2007-08 Long Bill and meet the JBC's supplemental criteria.	

**Department Request:** The Department requests to make the following technical changes to the FY 2007-08 Long Bill:

**DEPARTMENT OF REVENUE  
FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

1. Amend the fund splits in the Capitol Complex Leased Space appropriation by decreasing the General Fund appropriation by \$11,574 and increasing the cash funds appropriation by the same amount. The Letternote that allocates these funds is already correct.
2. Amend the language for letternote "b" in the Motor Carrier Services Division as follows: Of these amounts, ~~\$6,118,846~~ \$6,603,298 shall be from the Highway Users Tax Fund pursuant to Section 43-4-201 (3) (a) (III) (C), C.R.S., ~~\$484,452 shall be from the Hazardous Materials Safety Fund created in Section 42-20-107 (1), C.R.S.~~, and \$65,072 shall be from the Motor Carrier Safety Assistance Program for purposes of indirect cost recoveries.
3. Amend the language for letternote "c" in the Department Totals, Part XIX, as follows: Of this amount, \$685,358 contains a (T) notation, ~~\$9,188,733~~ \$9,186,859 is from the Highway Users Tax Fund pursuant to Section ~~43-4-201 (3) (a) (I) (B)~~ 43-4-201 (3) (a) (III) (C), C.R.S., and \$497,532 is from the Highway Users Tax Fund exempt from the statutory limit under Section 43-4-201 (3) (a) (V), C.R.S.

**Staff Analysis:** This request is the result of several technical errors that were made in the drafting of the 2007 Long Bill.

The first requested change concerns an incorrect fund split in the Capitol Complex Leased Space line item. The requested change reduces General Fund expenditures and increases Cash Funds Exempt expenditures by a like amount. The second requested change concerns Letternote "b" in the Motor Carrier Services Division. The Letternote shows a fund source that should not have been used in the Division. The third requested change concerns the Department Totals section, Letternote "c" which has an incorrect total from the fund source (HUTF) and a corrected statutory citation. The statutory citation is a more recent and clearer statute than the original citation in the Long Bill.

None of the requested changes affect total appropriations.

**Staff Recommendation:** Staff recommends that the committee approve the request to correct technical errors identified in the 2007 Long Bill.

---

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**Staff Initiated Supplemental # 1 - FY 2007-08 Long Bill Technical Correction**

	Request	Recommendation
Total	<u>\$0</u>	<u>\$0</u>

<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b>	<b>YES</b>
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
Staff believes this meets the JBC's supplemental criteria since this is a technical correction language in a letternote in the FY 2007-08 Long Bill	

**Staff Request:** Staff requests to amend the language in letternote "a", Special Purpose, Taxation Business Group. The requested amendment is as follows:

For purposes of complying with the limitation on state fiscal year spending imposed by Article X, Section 20 of the state Constitution, these moneys are included for informational purposes. ~~They~~ THESE AMOUNTS are continually appropriated by a permanent statute or constitutional provision and ~~are not subject to the limitation of General Fund Appropriations as set forth in~~ SHALL NOT BE DEEMED TO BE AN APPROPRIATION SUBJECT TO THE LIMITATIONS OF Section 24-75-201.1 (1) (a) (III) (C), C.R.S. ~~These appropriations are General Fund Exempt pursuant to Section 21 of Article X of the State Constitution.~~

**Staff Analysis:** The language in the FY 2007-08 contained a technical error in the language of the referenced letternote that this supplemental request seeks to correct. It has no fiscal impact, but cleans up the language in the Long Bill.

**Staff Recommendation:** Staff recommends that the committee approve the requested change to letternote "a" in the Special Purpose section, Taxation Business Group.

**DEPARTMENT OF REVENUE  
 FY 2007-08 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

**Statewide Common Policy Supplemental Requests**

These requests are not prioritized and are not analyzed in this packet . These items will be acted on separately by the JBC when it makes a decision regarding common policies.

	<b>Total</b>	<b>General Fund</b>	<b>HUTF</b>	<b>Cash Funds</b>	<b>Cash Funds Exempt</b>	<b>Federal Funds</b>	<b>FTE</b>
1. Workers' Compensation	(\$185,679)	(\$134,078)	(\$17,827)	\$1,756	(\$35,530)	\$0	0.0
2. Payment to Risk Management and Property Funds	(24,153)	(17,708)	(3,838)	6,297	(8,904)	0	0.0
3. Purchase of Services from Computer Center	615,688	615,072	0	0	616	0	0.0
4. Vehicle Lease Payments	(52,145)	(14,726)	(7,457)	(11,998)	(17,964)	0	0.0
5. Communication Service Payments	(10,941)	(8,050)	180	(3,152)	81	0	0.0
6. Capitol Complex Leased Space	(14,269)	(9,732)	(1,078)	2,668	(6,127)	0	0.0
7. Administrative Law Judge Services	7,487	0	0	7,487	0	0	0.0
8. Multiuse Network Payments	417,287	(199,793)	7,961	4,314	604,805	0	0.0
<b>Total Statewide Supplemental Requests for Revenue Department</b>	<b>753,275</b>	<b>230,985</b>	<b>(22,059)</b>	<b>7,372</b>	<b>536,977</b>	<b>0</b>	<b>0.0</b>

**Staff Recommendation:** The staff recommendation for these requests is pending committee approval of common policy supplementals. Staff asks permission to include the corresponding appropriations in the Department's supplemental bill when the committee approves the common policy supplemental. If staff believes there is reason to deviate from the common policy, staff will appear before the committee later to present the relevant analysis.