

**COLORADO GENERAL ASSEMBLY**

**JOINT BUDGET COMMITTEE**



**FY 2006-07 SUPPLEMENTAL:  
DEPARTMENT OF REVENUE**

**PRIORITIZED AND NON-PRIORITIZED  
REQUESTS**

**JBC Working Document - Subject to Change**

**Staff Recommendation Does Not Represent Committee Decision**

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**DEPARTMENT OF REVENUE  
 FY 2006-07 SUPPLEMENTAL RECOMMENDATION  
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

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DEPARTMENT OF REVENUE Executive Director - M. Michael Cooke	Fiscal Year 2006-07 Supplemental				
	FY 2005-06 Actual	FY 2006-07 Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Supplemental #1 - Department Postage Costs</b>					
<i>(2) Central Department Operations Division</i>					
Operating Expenses	<u>3,486,759</u>	<u>3,335,624</u>	<u>187,072</u>	<u>187,072</u>	<u>3,522,696</u>
General Fund	3,217,900	3,198,737	187,072	187,072	3,385,809
Cash Funds	91,140	0	0	0	0
Cash Funds Exempt	177,719	136,887	0	0	136,887
<b>Supplemental #2 - Data Entry Costs</b>					
<i>(2) Central Department Operations Division</i>					
Pueblo Data Entry Center Payments	<u>1,639,620</u>	<u>1,643,242</u>	<u>59,431</u>	<u>59,431</u>	<u>1,702,673</u>
General Fund	1,639,233	1,639,233	59,431	59,431	1,698,664
Cash Funds (Family Resource Center Fund) C.]	0	571	0	0	571
Cash Funds Exempt	387	3,438	0	0	3,438
<b>Supplemental #3 - CITA FTE</b>					
<i>(1) Executive Director's Office</i>					
Personal Services	3,405,446	3,305,533	73,524	0	3,305,533
FTE	<u>43.5</u>	<u>43.5</u>	<u>1.0</u>	<u>0.0</u>	<u>43.5</u>
General Fund	2,068,611	1,800,212	73,524	0	1,800,212
HUTF	376,664	411,746	0	0	411,746
Cash Funds	444,407	512,192	0	0	512,192
Cash Funds Exempt	515,764	581,383	0	0	581,383
Operating Expenses	<u>912,803</u>	<u>946,531</u>	<u>6,510</u>	<u>0</u>	<u>946,531</u>
General Fund	452,759	449,309	6,510	0	449,309
HUTF	92,509	102,958	0	0	102,958
Cash Funds	130,658	139,385	0	0	139,385
Cash Funds Exempt	236,877	254,879	0	0	254,879
<b>Total for Supplemental #3</b>	4,318,249	4,252,064	80,034	0	4,252,064
FTE	<u>43.5</u>	<u>43.5</u>	<u>1.0</u>	<u>0.0</u>	<u>43.5</u>
General Fund	2,521,370	2,249,521	80,034	0	2,249,521
HUTF	469,173	514,704	0	0	514,704
Cash Funds	575,065	651,577	0	0	651,577
Cash Funds Exempt	752,641	836,262	0	0	836,262

DEPARTMENT OF REVENUE Executive Director - M. Michael Cooke	Fiscal Year 2006-07 Supplemental				
	FY 2005-06 Actual	FY 2006-07 Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Supplemental #4 - Variable Vehicle Increase</b>					
<i>(1) Executive Director's Office</i>					
Operating Expenses	<u>912,803</u>	<u>946,531</u>	<u>14,340</u>	<u>0</u>	<u>946,531</u>
General Fund	452,759	449,309	4,000	0	449,309
HUTF	92,509	102,958	373	0	102,958
Cash Funds	130,658	139,385	3,843	0	139,385
Cash Funds Exempt	236,877	254,879	6,124	0	254,879
<b>Supplemental #5 - Lottery Variable Costs Adjustment</b>					
<i>(8) State Lottery Division</i>					
Ticket Costs - CFE	2,907,934	3,549,040	(58,300)	(58,300)	3,490,740
Vendor Fees - CFE	6,819,113	9,811,513	854,514	854,514	10,666,027
Retailer Compensation - CFE	34,670,916	38,609,220	3,256,160	3,256,160	41,865,380
Prizes - CFE	279,963,707	306,413,810	21,430,565	21,430,565	327,844,375
Powerball Prize Variance - CFE	7,160,019	4,220,000	3,922,000	3,922,000	8,142,000
<b>Total for Supplemental #5 - CFE</b>	<u>331,521,689</u>	<u>362,603,583</u>	<u>29,404,939</u>	<u>29,404,939</u>	<u>392,008,522</u>
<b>Supplemental # T-1 - Lease Purchase Technical Adjustment</b>					
<i>(1) Executive Director's Office</i>					
Lease Purchase of 1881 Pierce Street	<u>803,242</u>	<u>805,214</u>	<u>4,638</u>	<u>4,638</u>	<u>809,852</u>
HUTF	68,373	74,871	395	395	75,266
Cash Funds	375,959	337,324	2,171	2,171	339,495
Cash Funds Exempt	358,910	393,019	2,072	2,072	395,091
<b>Supplemental # T-2 - MIIDB Technical Adjustment</b>					
<i>(5) Division of Motor Vehicles</i>					
<i>(E) Motorist Insurance Identification Database Program</i>					
Personal Services - CFE (MIIDB Account)	1,621,163	654,715	37,436	37,436	692,151
FTE	<u>6.8</u>	<u>1.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
Operating Expenses-CFE (MIIDB Account)	16,404	500	71,800	71,800	72,300

DEPARTMENT OF REVENUE Executive Director - M. Michael Cooke	Fiscal Year 2006-07 Supplemental				
	FY 2005-06 Actual	FY 2006-07 Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Total for Supplemental # T-2 - CFE</b>	<u>1,637,567</u>	<u>655,215</u>	<u>109,236</u>	<u>109,236</u>	<u>764,451</u>
<b>Supplemental # T-3 - Lottery Technical Audit Adjustment</b>					
<i>(8) State Lottery Division</i>					
Personal Services - CFE	8,256,745	8,240,949	101,078	101,078	8,342,027
FTE	<u>120.2</u>	<u>126.0</u>	<u>0.0</u>	<u>0.0</u>	<u>126.0</u>
Payments to Other Agencies - CFE	154,453	340,488	(101,078)	(101,078)	239,410
<b>Total for Supplemental # T-3 - CFE</b>	<u>8,411,198</u>	<u>8,581,437</u>	<u>0</u>	<u>0</u>	<u>8,581,437</u>
<b>Supplemental # T-4 - Mineral Audit - State Land Board Increase</b>					
<i>(4) Taxation Business Group</i>					
<i>(B) Taxation and Compliance Division</i>					
Mineral Audit Program	728,536	918,814	24,186	24,186	943,000
FTE	<u>7.7</u>	<u>11.0</u>	<u>0.0</u>	<u>0.0</u>	<u>11.0</u>
Cash Funds Exempt (from DNR)      Stat	41,814	41,814	24,186	24,186	66,000
Federal Funds	686,722	877,000	0	0	877,000
<b>Supplemental # 1 BR - Drivers License Document Line Reduction</b>					
<i>(5) Division of Motor Vehicles</i>					
<i>(B) Driver and Vehicle Services</i>					
Drivers License Documents	<u>2,754,669</u>	<u>3,145,579</u>	<u>(405,832)</u>	<u>(405,832)</u>	<u>2,739,747</u>
General Fund	2,223,222	2,545,579	(358,265)	(358,265)	2,187,314
Cash Funds Exempt (ID Security Fund)	531,447	600,000	(47,567)	(47,567)	552,433
<b>Previously Approved 1331 Supplemental - HB 06S-1023 Costs</b>					
<b>(See narrative for more detail)</b>					
TOTAL - Various Line Items	25,576,795	25,145,718	372,533	372,533	25,518,251
FTE	<u>404.6</u>	<u>402.0</u>	<u>0.0</u>	<u>0.0</u>	<u>402.0</u>
General Fund	14,413,908	23,305,400	372,533	372,533	23,677,933
Cash Funds	287,325	98,995	0	0	98,995
Cash Funds Exempt	10,875,562	1,741,323	0	0	1,741,323

DEPARTMENT OF REVENUE Executive Director - M. Michael Cooke	Fiscal Year 2006-07 Supplemental				
	FY 2005-06 Actual	FY 2006-07 Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Previously Approved 1331 Supplemental - Programming Costs for 2006 Legislaton</b>					
<i>(3) Information Technology Division</i>					
<i>(A) Systems Support</i>					
Programming Costs for Session Legislation	124,286	95,695	131,093	131,093	226,788
FTE	<u>1.4</u>	<u>2.2</u>	<u>(0.9)</u>	<u>(0.9)</u>	<u>1.3</u>
General Fund	44,717	16,744	50,102	50,102	66,846
Cash Funds Exempt (CSTARS Account)	79,569	78,951	80,991	80,991	159,942
<b>Totals Excluding Pending Items</b>					
DEPARTMENT OF REVENUE					
TOTALS for ALL Departmental line items	515,078,914	555,248,609	29,981,670	29,887,296	585,135,905
FTE	<u>1,358.4</u>	<u>1,423.0</u>	<u>0.1</u>	<u>(0.9)</u>	<u>1,422.1</u>
General Fund	81,852,003	94,933,476	394,907	310,873	95,244,349
HUTF	17,873,086	9,087,017	768	395	9,087,412
Cash Funds	43,845,547	45,321,997	6,014	2,171	45,324,168
Cash Funds Exempt	370,143,290	404,344,365	29,579,981	29,573,857	433,918,222
Federal Funds	1,364,988	1,561,754	0	0	1,561,754
<b>Statewide Supplementals</b>					
<b>(see narrative for more detail)</b>	<u>N.A.</u>	<u>N.A.</u>	<u>(1,756,000)</u>	<u>Pending</u> <u>(1,756,000)</u>	<u>N.A.</u>
General Fund			(1,462,311)	(1,462,311)	
HUTF			(36,992)	(36,992)	
Cash Funds			(111,482)	(111,482)	
Cash Funds Exempt			(145,215)	(145,215)	
<b>Totals Including Pending Items in Request</b>					
DEPARTMENT OF REVENUE					
TOTALS for ALL Departmental line items	515,078,914	555,248,609	28,225,670	<u>Pending</u> 28,131,296	583,379,905
FTE	<u>1,358.4</u>	<u>1,423.0</u>	<u>0.1</u>	<u>(0.9)</u>	<u>1,422.1</u>
General Fund	81,852,003	94,933,476	(1,067,404)	(1,151,438)	93,782,038
HUTF	17,873,086	9,087,017	(36,224)	(36,597)	9,050,420
Cash Funds	43,845,547	45,321,997	(105,468)	(109,311)	45,212,686
Cash Funds Exempt	370,143,290	404,344,365	29,434,766	29,428,642	433,773,007
Federal Funds	1,364,988	1,561,754	0	0	1,561,754

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**Supplemental # 1 - Department Postage Costs**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$187,072</u>	<u>\$187,072</u>
General Fund	187,072	187,072
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>	<b>YES</b>
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
The request is the result of a U.S. Postal Service (USPS) rate increase, and a USPS decision reclassifying Department mailings.	

**Department Request:** The Department requests \$187,072 General Fund to meet U.S. Postal Service (USPS) rate increases for Department mailings.

In January 2006, the USPS raised rates across the board by 5.4 percent. The Department absorbed that increase last year, but will need an additional \$50,631 this year to meet the increased costs for the same volume of mail. In 2006, the Department received a USPS ruling classifying the Department's withholding and sales tax coupon books as first class mail. This raises postage costs by an estimated \$136,441 this year.

The Department mails a wide variety of items to taxpayers and licensees, including tax forms, motor vehicle titles, driver license renewal applications, reminders, bills, refund warrants, inquiries, licenses, hearing notices, driver licenses, tax booklets, and others. The total quantity mailed has decreased from 7.5 million in 2003 to 6.4 million in 2006, in part due to Department initiatives such as electronic tax filing, and direct deposit of refunds. While there are still opportunities to reduce mailings, the Department does not expect substantial further decreases in mailings in the near term. The amount requested would allow the Department to meet the increased postage costs for the same overall volume of mail.

**Staff Recommendation:** Staff recommends that the committee approve \$187,072 General Fund to the Central Operations Division/ Operating Expenses budget line.

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**Supplemental # 2 - Data Entry Costs**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$59,431</u>	<u>\$59,431</u>
General Fund	59,431	59,431
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>
The request is the result of a rate increased imposed by the Department of Personnel and Administration.	

**Department Request:** The Department requests \$59,431 General Fund for increased data entry costs due to rate increases imposed by the Department of Personnel and Administration in June 2006. The requested funding increase would allow the Department to purchase the same number of keystrokes this year as it did last year.

The Department of Revenue is the biggest customer of the Department of Personnel's Pueblo Data Entry Center. Data entry staff enter information from paper forms submitted by taxpayers into the tax databases. Data entry services will still be needed to enter data into the new CITA integrated tax system for all tax returns filed on paper.

Capturing data from tax forms is critical to tax compliance and auditing. The Department analyzes tax return data to identify areas of noncompliance, and much of this type of auditing is done by computer matching of records from different sources to determine differences. Capturing tax data is also essential for managing the state budget. The funding requested would enable the Department to maintain the current number of data fields captured from paper documents.

The Department may be able to reduce data entry needs, beginning in FY 2008-09, depending on legislative action. The statewide internet portal project includes electronic filing of sales tax returns. This option is expected to be available in FY 2007-08; however, the Department does not anticipate significant data entry savings without legislative mandates for electronic filing. The U.S. government now requires electronic filing of some corporate income tax returns. The Department plans to participate in this program starting in 2007, although it would have a low volume of users initially and would not result in significant data entry savings next year.

**Staff Recommendation:** Staff recommends that the committee approve \$59,431 General Fund to the Central Operations Division/ Pueblo Data Entry Center Payments budget line.



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**Supplemental # 3 - CITA FTE**

	Request	Recommendation
Total	\$80,034	\$0
FTE (part year)	<u>1.0</u>	<u>0.0</u>
General Fund	80,034	0
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>NO</b>
The Department states the request is due to an unforeseen contingency; however, it has not identified any such contingency. Staff has not been able to discover any contingency or new information that might have triggered this request.	

**Department Request:** The Department requests \$80,034 and 1.0 FTE General Fund to hire two new employees, a Project Manager and a Project Management Analyst, this year for the CITA project. The annualized base increase would be approximately \$177,000 General Fund and 2.0 FTE.

Project management services are already included in the CITA project capital construction budget. The General Fund requested for this supplemental would replace Capital Construction Funds which have already been approved for project management.

The request does not meet any of the threshold criteria for a supplemental budget change. The Department has offered no additional piece of information that it has received since last year's budget process nor has it mentioned any unforeseen occurrence that might have prompted the change of plan. It simply states that the Department would prefer to hire someone who is a Department of Revenue employee and that the Department has determined that requesting FTE is the best alternative.

In FY 2004-05 the Department received \$230,000 General Fund for a feasibility study for the new CITA tax system (then known as RITA). The study was completed in January 2005. The CITA project plan included project management consulting services, and Capital Constructions Funds were approved for that purpose. The Department now wishes instead to hire new employees to manage the project, based on other Departments' experiences with unsuccessful IT project management by private contractors. However, other projects may have fallen because, in part, of a lack of independent project management, rather than because of contracting this function.

The tax system feasibility study originally contemplated a consultant Senior Project Manager plus the vendor's business analyst as part of the project team, and at last year's budget hearing the Department stated

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it would contract with a firm for project management services. The FY 2006-07 capital construction request for the CITA project identified \$900,000 for project management services, which would amount to \$200,000 per year for the next four years, plus \$100,000 for the current year. The Department now proposes to hire two employees for project management, a Project Manager and a Project Management Analyst.

While the request reflects the Department's efforts to stay on track for successful and timely completion of this project, the Department has not provided any evidence that using an employee will better achieve that objective. Separate from the fact that the request does not meet supplemental criteria, staff has concerns about the Department's request, including concerns related to the timing of the request during the supplemental bill process, as noted below.

1. Increasing state FTE should receive a full analysis and hearing during the regular budget process whenever possible. The Department could have requested this increase in their regular FY 2006-07 budget submission.
2. This is a change that would replace Capital Construction Funds with General Fund, thus putting the expenditures within the 6% General Fund growth limit for the current year and the next four years of the project.
3. Staff project managers hired for the duration of the project would have a strong incentive for the project to continue on. The new tax system project is expected to be completed in FY 2010-11; project management staff will no longer be needed after the project is complete.
4. A contract can be structured so as to provide incentives for timely and successful completion of the project to the state's satisfaction, without add-ons. The Department can avail itself of legal assistance to draft a well-structured contract that will meet its needs.
5. The Department has requested the new Project Manger and Project Management Analyst to be located in the Executive Director's Office, rather than in the Information Technology Division. This would diffuse responsibility for the CITA project. The Department already has an IT Director, and adding a new IT Project Manager and staff in the Executive Director's Office would divide control and responsibility.

The Department states that the Project Manager will report to a board consisting of the Executive Director, the CFO, CIO, and the Director of the Taxation Business Group. The individual, while reporting to the Executive Director, would be answerable to two Division Directors and the Chief Financial Officer as well. If the Department wants accountability for the timely and successful completion of the project, a single chain of command reporting structure would likely be more effective.

6. The Department states that hiring two new management staff would be less costly than contracting for the same services. Staff questions whether the Department has captured all costs of hiring two new employees for the project. The amount requested, \$80,000 for the current year, is based on a

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projected \$177,000 annual base increase. This may be inadequate for the salary, benefits, and all of the indirect costs for a Project Manager and a Project Management Analyst to manage a \$45 million project.

Finally, the Department has offered no evidence that using state employees would be more effective than using consulting services for CITA project management.

**Staff recommends that the committee deny the request.**

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**Supplemental # 4 - Variable Vehicle Increase**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$14,340</u>	<u>\$0</u>
General Fund	4,000	0
HUTF	373	0
Cash Funds	3,843	0
Cash Funds Exempt	6,124	0
Federal Funds	0	0

<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]	
The request is a result of a rate increase for variable vehicle costs by the Department of Personnel and Administration.	

**Department Request:** The Department requests \$14,340, consisting of \$4,000 General Fund, \$373 HUTF, and \$3,843 cash funds from various sources and \$6,124 cash funds exempt from various sources.

Staff is recommending against approval of this request because the Department did not provide data on vehicle usage and on variable vehicle rates that would demonstrate the need for the amount requested. Without data on usage and costs, there was no basis for an analysis as to whether the Department might be able to absorb the increased costs.

**Staff recommends the Committee deny the request.**

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

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$29,404,939</u>	<u>\$29,404,939</u>
General Fund	0	0
Cash Funds	0	0
Cash Funds Exempt	29,404,939	29,404,939
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>
The request is the result of an estimate of expected ticket sales in the current fiscal year, based on more recent actual data.	

**Department Request:** The Department requests \$29,404,939 cash funds exempt from Lottery proceeds, to reflect current sales projections, allocated as shown in the numbers pages, page 4.

The Department proposes that the legislature use an "upper limit" of the forecast of total sales to determine the appropriation for Lottery variable cost line items. The Department is now projecting total sales of \$458 million, and an upper limit on total sales of \$549.6 million. The upper limit forecast is 120 percent of the forecast. (Actual FY 2005-06 sales were \$468.8 million.) The adjusted upper limit forecast is the basis for the requested adjustments in the Lottery vendor fees, retailer compensation, and prizes budget lines.

**Staff recommends \$29,404,939 cash funds exempt from the Lottery Fund for various line items in the State Lottery Division, as shown in the numbers pages, page 4.**

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**Supplemental # T-1 - Lease Purchase Technical Adjustment**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$4,638</u>	<u>\$4,638</u>
General Fund	0	0
HUTF	395	395
Cash Funds	2,171	2,171
Cash Funds Exempt	2,072	2,072
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>
The request is a result of a technical error in the appropriation.	

**Department Request:** The Department requests \$4,638, comprised of \$395 HUTF, \$2,171 cash funds from various sources, and \$2,072 cash funds exempt from various sources, to correct a discrepancy between its Long Bill appropriation for the "Lease Purchase-1881 Pierce Street" line item and the Department of Personnel Capital Construction appropriation for the Certificates of Participation Projects / "Lease Purchase of 1881 Pierce Street Building" line item. The final debt service payment occurs in FY 2006-07.

**Staff recommends that the Committee approve \$4,638, comprised of \$395 HUTF, \$2,171 cash funds from various sources, and \$2,072 cash funds exempt from various sources.**

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**Supplemental # T-2 - MIIDB Technical Adjustment**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$109,236</u>	<u>\$109,236</u>
General Fund	0	0
Cash Funds	0	0
Cash Funds Exempt	109,236	109,236
Federal Funds	0	\$0

<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]	
The request is a result of an error in the fiscal note for HB 06-1178, which led to an error in the appropriation.	

**Department Request:** The Department requests \$109,236 cash funds exempt from the Motorist Insurance Identification Database Account to cover the contract costs with the Statewide Internet Portal Authority beginning January 1, 2007.

House Bill 06-1178 provided that the Motorist Insurance Identification Database Program could transition from contract services with a private vendor to services provided by the Statewide Internet Portal Authority (SIPA). SIPA will begin providing those services on January 1, 2007. The fiscal note was based on a contract start date of July 1, 2007, instead of the actual start date of January 1, 2007.

The Department also requests a transfer of \$71,800 cash funds exempt from the Motorist Insurance Identification Database Account from the Division of Motor Vehicles/Motorist Insurance Identification Database Program/Personal Services line item to the Division of Motor Vehicles/Motorist Insurance Identification Database Program/Operating Expenses line item to correct the initial appropriation, because a portion of the initial costs of transitioning to the statewide internet portal were for hardware and software.

**Staff recommends that the Committee approve \$109,236 cash funds exempt from the MIIDB Fund to the Motorist Insurance Identification Database Program, including the requested transfer of \$71,800 cash funds exempt from the Personal Services line to the Operating Expenses line.**

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**Supplemental # T-3 - Lottery Technical Audit Adjustment**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$0</u>	<u>\$0</u>
General Fund	0	0
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>	<b>YES</b>
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
The request is a result of the Department's discovery of an error in the Lottery appropriation for drawing contracts.	

**Department Request:** The Department requests that the appropriation for lottery drawings be moved from the Payments to Other Agencies line to the Personal Services line.

The Lottery is required to have a Certified Public Accountant witness each lottery drawing. The Department paid the State Auditor's Office to contract with an independent auditing firm to administer drawing contracts. In FY 2005-06, the State Auditor requested the Department to assume responsibility for the drawing contracts, and the Department began to do so. This supplemental corrects the budget line that those expenses should be attributed to.

**Staff recommends that the Committee approve \$101,078 cash funds exempt from Lottery proceeds to the State Lottery Division/ Personal Services budget line, and \$(101,078) cash funds exempt from Lottery proceeds to the State Lottery Division / Payments to Other Agencies budget line.**

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**Supplemental #T-4 - Mineral Audit-State Land Board Increase**

	<b>Request</b>	<b>Recommendation</b>
Total	<u>\$24,186</u>	<u>\$24,186</u>
General Fund	0	0
Cash Funds	0	0
Cash Funds Exempt	24,186	24,186
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>
The request is a result of new data in the form of a request from the State Land Board to perform an additional one or two royalty audits each year.	

**Department Request:** The Department requests \$24,186 cash funds exempt from the Department of Natural Resources, State Land Board for royalty audits.

The Department currently performs three oil and gas or coal royalty audits each year. The increase will allow the Department to perform one or two more royalty audits each year for the State Land Board. The Department estimates it collects an additional \$25,000 in unpaid taxes for each audit.

The State Land Board is able to pay for the additional audit services within its existing program budget.

**Staff recommends that the Committee approve \$24,186 cash funds exempt to the Taxation Business Group/ Taxation and Compliance Division/ Mineral Audit Program, from the Department of Natural Resources, State Board of Land Commissioners.**

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**Supplemental # 1 BR - Drivers License Document Line Reduction**

	<b>Request</b>	<b>Recommendation</b>
Total	( <u>\$405,832</u> )	( <u>\$405,832</u> )
General Fund	(358,265)	(358,265)
Cash Funds	0	0
Cash Funds Exempt	(47,567)	(47,567)
Federal Funds	0	0

<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]	
The request is a result of new estimates based on recent actual data on decreased drivers license demand.	

**Department Request:** The Department requests (\$405,832), comprised of (\$358,265) General Fund and (\$47,567) cash funds exempt from the Identification Security Fund, based on actual data on reduced demand for drivers license renewals because of the change in the term of drivers licenses.

The General Assembly in 2001 increased the drivers license expiration period from five years to ten years, thus reducing expected demand for new license documents in 2006-2010. Senate Bill 05-47 decreased the drivers license expiration period from ten years to back five years, so demand is expected to increase again in 2011-2012. The Department requests a reduction in the appropriation to this line item for the current fiscal year to reflect projections of reduced demand derived from actual reduced demand thus far this year.

**Staff Recommendation:** Staff recommends that the committee approve (\$405,832), comprised of (\$358,265) General Fund and (\$47,567) cash funds exempt from the Identification Security Fund, to the Division of Motor Vehicles/ Driver and Vehicle Services/ Drivers License Documents.

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**Previously Approved 1331 Supplemental - HB 06S-1023 Costs**

	Previously Approved	Current Staff Recommendation
Total	\$372,533	\$372,533
FTE	<u>0.0</u>	<u>0.0</u>
General Fund	372,533	372,533
Cash Funds	0	0
Cash Funds Exempt	0	0
Federal Funds	0	0

**Description of Supplemental:**

During the 2006 special session, the General Assembly passed a new statute, "Restrictions on Public Benefits," which requires state agencies to verify the lawful presence in the U.S. of every natural person 18 or older who applies for state or local public benefits or federal public benefits for the applicant. Under the new law, each applicant must provide a Colorado driver's license or ID (or a military, Coast Guard, or Native American tribal ID) and an affidavit as to their lawful presence. The new law affected the Department of Revenue in two ways: 1) increased demand for driver's licenses and ID cards for individuals needing the documents to apply for benefits administered by other agencies, 2) new verification requirements for the public benefits administered by the Department.

Increased demand for Colorado driver's licenses and ID cards

The Department estimated that at least 10 percent of benefits recipients statewide, or approximately 100,000 people, would need to obtain new driver's licenses or ID cards to prove lawful presence in order to obtain or continue to obtain public benefits. Temporary emergency rules effective until March 1, 2007, allow benefits applicants to use a waiver issued by the Department to meet verification requirements. The Department expected most of the workload increase for staff who issue driver's licenses and ID's to occur before March 1, because those who do not have one of the required verification documents will need to obtain one before then. The Department requested \$359,664 and 10.6 temporary FTE General Fund for Driver and Vehicle Services personal services and associated operating expenses, based on the projected workload increase.

New verification requirements for benefits the Department administers

The Department administers two public benefits that are expected to require additional resources to administer under the new verification requirements: Old Age Heat and Fuel Grant and Property Tax Assistance Grant, also known as the Property Tax Credit (PTC). The Department receives approximately 39,000 applications for these benefits each year. The Department estimates, based on information on file for current recipients, that approximately 15 percent, or 5,850, will require followup investigations.

The Taxpayer Services Division administers the PTC grants. Before issuing a grant, Taxpayer Services will verify the lawful presence of each applicant, which may include requests for information and written responses. While this process is expected to significantly increase tax examiners' review and response time,

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the estimated fiscal impact on the Taxpayer Services Division is unknown at this time.

The Information Technology Division estimated that it would need a total of 200 programming hours to implement the new verification requirements for the PTC benefits. It will need approximately 120 hours to expand data capture for driver's licenses and affidavits submitted with PTC applications and to automate the SAVE verification process, and approximately 80 hours to establish a pre-qualifier file for PTC applicants. The Department requested \$6,952 for computer programming costs.

Finally, the Department requested \$5,917 for the Central Department Operations Division for operations costs associated with processing PTC applications: \$2,269 for data entry, for the additional keystrokes required to enter driver's license numbers and affidavit information, \$3,299 for postage and forms for returning applications received without proper documentation (assuming that all applications will be returned until the PTC forms and instructions are updated), and \$349 to microfilm the affidavits.

Summary of Request

The Department requested a total of \$372,533 General Fund and 10.6 temporary FTE. The following table shows the line items affected by this request. All amounts are General Fund:

	<b>FY 2005-06 Actual</b>	<b>FY 2006-07 Appropriation</b>	<b>Supplemental Request</b>	<b>Staff Recommendation</b>
<b>TOTAL</b>	\$9,913,510	\$18,774,406	\$372,533	\$372,533
<b>Central Dept Operations</b>				
Operating Expenses	3,217,900	3,198,737	3,299	3,299
Pueblo Data Entry Center	1,639,233	1,639,233	2,269	2,269
Microfilm	343,987	344,039	349	349
<b>Information Technology</b>				
Programming Costs for Session	41,910	16,744	6,952	6,952
<b>Division of Motor Vehicles / Driver &amp; Vehicle Services</b>				
Personal Services	3,463,073	12,333,096*	353,919	353,919
Operating Expenses	1,207,407	1,242,557	5,745	5,745

\*This amount had been temporarily partially financed from the Highway Users Tax Fund.

**Staff recommended that the Committee approve the request for \$372,533 General Fund, and 10.6 temporary FTE, for various line items, and the Committee approved this request.**

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**Previously Approved 1331 Supplemental - Programming Costs for 2006 Legislation**

	Previously Approved	Current Staff Recommendation
Total	\$131,093	\$131,093
FTE	(0.9)	(0.9)
General Fund	50,102	50,102
Cash Funds	0	0
Cash Funds Exempt	80,991	80,991
Federal Funds	0	0

**Description of Supplemental:**

This supplemental request was made pursuant to a December 2000 agreement among the Department of Revenue, the Legislative Council Fiscal Note Section, the Joint Budget Committee, and the Office of State Planning and Budgeting. Under the agreement, the Department receives a continuation level of funding for programming costs for session legislation in each year's Long Bill in a new line item, "Programming Costs for Session Legislation." After the end of the session, the line item is adjusted through an early supplemental.

This method of appropriation was created to prevent fiscal impacts of computer programming from serving as the primary basis for defeating potential legislation.

This year, 18 new laws required programming changes in the Department of Revenue. Eight of those were for special license plates.

The Department requested \$50,102 General Fund, \$80,991 cash funds exempt, from the Colorado State Titling and Registration System cash fund, and (0.9) FTE.

**Staff recommended that the Committee approve the request for \$131,093 and (0.9) FTE, comprised of \$50,102 General Fund and \$80,991 cash funds exempt from the CSTARS Account, for the Information Technology Division, Systems Support, and the Committee approved this request.**

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**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>Department of Revenue's Portion of Statewide Supplemental Request</b>	<b>General Fund</b>	<b>HUTF</b>	<b>Cash Funds</b>	<b>Cash Funds Exempt</b>	<b>FF</b>	<b>Total</b>	<b>FTE</b>
Workers Compensation	(\$156,696)	(\$23,036)	(\$20,986)	(\$41,364)	\$0	(\$242,082)	
Purchase of Services from Computer Center	(1,625,771)	0	0	(3,715)	0	(1,629,486)	0.0
Multiuse Network Payments	288,483	(22,961)	(31,411)	(25,166)	0	208,945	0.0
Payments to Risk Management and Property Funds	\$60,602	\$14,310	\$12,081	\$23,086	\$0	\$110,079	
Vehicle Lease Payments	\$2,957	\$3,157	(\$12,110)	(\$44,920)	\$0	(\$50,916)	0.0
Capitol Complex Leased Space	(31,795)	(8,186)	(51,618)	(53,164)	0	(144,763)	0.0
Communications Services Payments	(91)	(276)	(7,438)	28	0	(7,777)	0.0
<b>Total Statewide Supplemental Requests for Department of Revenue</b>	<b>(1,462,311)</b>	<b>(36,992)</b>	<b>(111,482)</b>	<b>(145,215)</b>	<b>0</b>	<b>(1,756,000)</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 this 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.