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Fiscal Note

Drafting Number: LLS 21-0267 Date: April 16, 2021
Prime Sponsors: Rep. Valdez A.; Larson Bill Status: House Trans. & Local Govt.
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Bill Topic: TITLE AND REGISTRATION MOTOR VEHICLE REGULATION

- Summary of Fiscal Impact:
[X] State Revenue [X] TABOR Refund
[X] State Expenditure [X] Local Government
[X] State Transfer [] Statutory Public Entity

The bill requires certain individuals who are late registering their vehicles to pay back taxes and fees; imposes new late fees on late registrations; and authorizes the Department of Revenue to use the new revenue to implement an electronic system for vehicle registration and titling services.

Appropriation Summary: No appropriation is required in FY 2021-22.

Fiscal Note Status: This preliminary fiscal note reflects the introduced bill. See Technical Note.

Table 1
State Fiscal Impacts Under HB 21-1254

Table with 4 columns: Category, Sub-category, Budget Year FY 2021-22, and Out Year FY 2022-23. Rows include Revenue (Cash Funds, Highway Users Tax Fund, Total Revenue), Expenditures (Cash Funds, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and TABOR Refund.

1 35 percent of revenue collected by the state in the HUTF is distributed to local governments.

Summary of Legislation

This bill makes several changes to fees and taxes when vehicles are registered late, and directs new revenue generated to implement a third-party system for vehicle title and registration. Details are provided below.

Vehicle registration for new residents. This bill requires new residents of Colorado to provide documentation of their vehicle's previous registration, including dates of registration, as well as evidence of their residency date when registering their vehicle with DOR. If a vehicle owner fails to register their vehicle within 90 days of becoming a resident, this bill allows them to be charged back taxes and fees from the date the person became a resident to the date of vehicle registration.

Temporary registration permits. Under current law, DOR may issue a temporary 60 day registration permit to individuals who purchase a vehicle from another individual to give them time to complete an emissions test. DOR may also authorize up to two temporary registration permits if an individual purchases a vehicle from a licensed Colorado dealer and work needs to be done to issue a title or perfect the lien. Fees for late registration do not currently apply to temporary registration permits.

Under the bill, if purchasers or owners of a new vehicle apply for a third temporary registration permit, the bill requires them to pay the full taxes and fees required for normal registration in order to receive it. The bill also requires temporary registration permit holders to pay late fees, as well as back taxes and fees, if they register their vehicle after expiration of their temporary permit.

Electronic vehicle transactions system. Additional revenue collected under this bill from back registration fees will be transferred to the newly established Electronic Transactions Fund, which will be used to implement a system for electronic transmission of registration, lien, and titling information for vehicles and mobile machinery. Money in the fund is subject to annual appropriation by the General Assembly to facilitate the implementation of a third-party vehicle titling and registration system by DOR, when an adequate amount of funding has been collected. Upon fully implementing the new system, any remaining money in the fund will be transferred to the Highway Users Tax Fund (HUTF).

Background

House Bill 18-1299 allows DOR to license third-party providers to perform vehicle titling and registration services for motor vehicles, off-highway vehicles, or special mobile machinery and to establish a system for electronic transmission of registration, lien and titling information between third-party providers and the DOR. Implementation of the electronic system in HB 18-1299 was contingent upon gifts, grants, or donations. To date, no gift, grant, or donation has been provided to fund implementation of the electronic system.

State Revenue

This bill is anticipated to increase state cash revenue by \$28.6 million in FY 2021-22 and by \$58.1 million in FY 2022-23. This revenue, from back-due vehicle registration fees and late fees, is subject to TABOR, except that a portion of vehicles fees will be paid to the Statewide Bridge Enterprise, which is excluded from the state's TABOR limit. These impacts are summarized in Table 2, discussed below, and detailed in Appendix A.

Table 2
Revenue Under HB 21-1254

	FY 2021-22	FY 2022-23
Back Registration Fees (Various Cash Funds) ¹	\$21,483,095	\$43,660,694
Late Registration Fee (HUTF)	\$7,122,330	\$14,475,425
Total Revenue	\$28,605,425	\$58,136,119

¹ It is assumed that back registration fees will be deposited to the Electronic Transactions Cash Fund in FY 2021-22 only, and then to various cash funds based on the applicable registration fees.

Back registration fees. The bill increases revenue from back registrations fees by about \$21.5 million in FY 2021-22 (half-year impact) and \$43.7 million in FY 2022-23. These back-due fees apply to both new residents in Colorado who fail to register after the 90 day grace period after becoming a resident and persons who fail to register on time after purchasing a vehicle. For new residents, the back registration fees are calculated from the date the person became a resident to the date of vehicle registration; for new vehicle purchases, the back-due fees are calculated from the expiration of a temporary registration permit. On average, Coloradans pay \$580 in registration fees and surcharges when registering a vehicle, which would result in back-due fees of about \$48 for every month that a person does not properly register their vehicle. Back registration fees under the bill will be deposited into the Electronic Transactions Fund until the third-party registration system is implemented, then it is assumed to be deposited to various cash funds. Detailed information on back registration fees by months late and type of registration are shown in Appendix A at the end of this fiscal note.

Enterprise fee revenue. Back registration fee revenue identified above includes the bridge safety surcharge, which is credited to the Colorado Bridge Enterprise. The enterprise portion of revenue is expected to total about 20 percent of the total identified registration fee revenue increase; this revenue is exempt from TABOR.

Late fees for temporary registration permits. Currently, vehicle owners with a temporary registration permit are exempt from paying late fees when registering their vehicle with DOR. This bill removes this exemption. The late fee is set at \$25.00 per month, up to a maximum of \$100.00. For each late fee that is assessed, \$10 is retained by counties and the rest is deposited to the HUTF. Removing this exemption is expected to increase state revenue by \$7.1 million in FY 2021-22 and \$14.5 million in FY 2022-23. Appendix A shows detailed estimates on late fee revenue expected under the bill.

Colorado Department of Transportation. Of the HUTF revenue from registration late fees, 65 percent is credited to the State Highway Fund (SHF) for expenditure by the Department of Transportation, 26 percent is credited to counties, and 9 percent is credited to municipalities. Table 3 outlines the estimated HUTF revenue generated under this bill.

Table 3
Estimated HUTF Distributions Under HB 21-1254

	FY 2021-22	FY 2022-23
Revenue: State Highway Fund (65 percent)	\$4,629,489	\$9,408,974
Revenue: Counties (26 percent)	\$1,851,796	\$3,763,590
Revenue: Municipalities (9 percent)	\$641,006	\$1,302,781
Total Revenue	\$7,122,291	\$14,475,345

State Transfers

After the third-party registration system is implemented, any unspent and unencumbered moneys in the Electronic Transactions Fund will be transferred to the HUTF. Based on the costs in FY 2022-23 described in the State Expenditures section (\$1.7 million) and the estimated revenue from back registration fees not credited to the Colorado Bridge Enterprise in FY 2021-22 and FY 2022-23 (\$52.1 million), up to \$50.4 million could be transferred to the HUTF on July 1, 2023 at the end of the second fiscal year. The exact amount of the transfer will depend on the costs of implementing the system and the timing of when the transfer occurs.

State Expenditures

The fiscal note assumes that the bill will generate sufficient revenue in the Electronic Transactions Fund to require the DOR to begin implementation of the third-party registration system. It is assumed that funding will be requested by DOR for FY 2022-23 through the annual budget process. For informational purposes, the fiscal note provides an estimate of these costs.

To implement the third-party vehicle registration system, the bill is estimated to increase costs in the DOR by \$1.8 million and 7.5 FTE in FY 2022-23. Ongoing costs for operating the third-party system are estimated at about \$382,000 and 3.0 FTE in FY 2023-24 and future years. A portion of these costs will be for print-on-demand license plate services provided by Colorado Correctional Industries in the Department of Corrections (DOC). Initial costs will be paid from the Electronic Transaction Fund. Ongoing costs will be paid from the various cash funds in the DOR. Costs are summarized in Table 4 and discussed below.

Table 4
Expenditures Under HB 21-1254

Cost Components	FY 2021-22	FY 2022-23	FY 2023-24
Department of Revenue			
Personal Services	-	\$438,605	\$179,995
Operating Expenses	-	\$10,125	\$4,050
Capital Outlay Costs	-	\$49,600	-
Contract Services	-	\$70,262	-
Computer Programming and Maintenance	-	\$705,600	\$70,000
Print-on-Demand License Plate Services	-	\$394,153	\$82,153
Centrally Appropriated Costs	-	\$114,685	\$46,286
Total	-	\$1,783,030	\$382,483
Total FTE	-	7.5 FTE	3.0 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue—staff and contractor costs. In FY 2022-23, the DOR will require 7.5 FTE to oversee the initial round of third-party vendor contracting; maintain customer support; provide training, testing and auditing; and manage, reconcile and distribute payments related to the system. The DOR will also require a contractor to assist with project management duties in the first year at a cost of \$70,262. Once the electronic system for third-party registration and titling is operational, the DOR will require 3.0 FTE ongoing to support daily customer interactions, enter new third-party providers into the system, and perform regular system upgrades and enhancements. Personal services, operating, and capital outlay expenses for these staff are shown in Table 4 above.

- **Computer programming and maintenance.** The DOR is expected to have costs of \$705,600 to develop the electronic system for third-party registration and titling of motor vehicles. This system will need to interact with the DOR's existing systems and forms, including the Colorado Driver License, Record, Identification and Vehicle Enterprise Solution (DRIVES) system. To make changes and connections with the DRIVES system, the DOR will use its existing vendor to create the required interfaces, allow for electronic signatures, and collect transaction fees from third-party providers. Ongoing maintenance cost for the system is estimated at \$70,000 per year starting in FY 2023-24.
- **Print-on-demand license plate services.** Use of third-party providers for vehicle titling and registration will increase the use of and costs for print-on-demand license plate services, which are provided by Colorado Correctional Industries in the DOC. In FY 2022-23, the DOC will have costs of at least \$394,153, including \$312,000 for equipment and programming to increase capacity for print-on-demand services, and \$82,153 for postage costs for mailing license plates, which are assumed to be an ongoing cost in future years. These costs will be paid using funding reappropriated from the DOR.

- **Training and rulemaking.** The bill requires DOR to create new rules concerning late fees and calculating dates and amounts for past due tax and fees. DOR will also provide training related to the new electronic vehicle transaction system once it is developed, and update their rules, forms, manuals and websites. This work can be accomplished within existing appropriations.

School finance. The bill increases specific ownership tax collections, which will decrease the state share of school finance. The state share is paid for by General Fund, State Education Fund, and State Public School Fund. The actual state share is set annually by the General Assembly through the budget stabilization factor and will be adjusted for this impact.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$114,685 in FY 2022-23 and \$46,286 in FY 2023-24.

TABOR refunds. The bill increases state revenue subject to TABOR by \$24.3 million in FY 2021-22 and by \$49.4 million in FY 2022-23. For FY 2022-23, the March 2021 LCS forecast projects revenue to fall short of the TABOR limit by \$28.6 million, or 0.2 percent of the limit. Therefore, the revenue increase in the bill is expected to cause state revenue to exceed the TABOR limit by \$20.8 million in FY 2022-23, requiring an equivalent obligation for refunds to taxpayers to be paid in FY 2023-24. Refunds are paid from General Fund revenue collected in the prior fiscal year, and, under current law, are first issued via the property tax exemption for seniors and veterans with a disability.

Local Government

Local revenue. The bill will increase local government revenue from back specific ownership tax and vehicle registration late fees by a statewide total of \$26.9 million in FY 2021-22 (half-year impact) and \$54.6 million in FY 2022-23. It will also increase distributions of HUTF revenue from the state to local governments. Local revenue impacts are summarized in Table 5 and discussed below. Detailed information on specific ownership tax and late fees are shown in Appendix A.

- **Specific ownership tax.** Specific ownership tax is distributed to cities, counties, special districts, and school districts in proportion to property taxes levied by those entities. On average, Colorado residents pay \$725 per year per vehicle in specific ownership taxes. Thus, each month that a person fails to register their vehicle and pay the tax will result, on average, in about \$60 of back-due tax. This additional revenue will increase the local share of total program funding for school finance.
- **Late fees.** For each late fee that is charged to vehicle registrants, counties retain \$10, and the rest goes to the state and is credited to HUTF. As described in Table 3 in the State Revenue section, revenue to the HUTF will also increase distributions to cities and counties.

Table 5
Local Revenue Under HB 21-1254

	FY 2021-22	FY 2022-23
Back Specific Ownership Taxes	\$26,880,179	\$54,629,340
Late Fees	\$2,487,870	\$5,056,350
Total Revenue	\$29,368,049	\$59,685,690

Local expenditures. Upon implementation of the electronic transactions system, workload in county clerks offices is expected to decrease as a result of some customers obtaining title and registration services through third-party providers. In addition, revenue retained by county clerks from the sales tax vendor fee may decrease as a result of third-party providers collecting and remitting sales tax on a portion of transactions. For informational purposes, the current vendor fee is 3.33 percent.

Technical Note

The introduced bill provides for collection of only those back vehicle registration fees imposed under one article of state law; however, this fiscal note estimates the impact of collecting past-due revenue from all state vehicle registration fees. If only some back fees are collected, then the bill will increase state and local government revenue by a lesser amount than estimated, and could require greater administrative or IT costs to collect some fees and not others. The fiscal note will be revised as more information becomes available, or if the bill is amended.

Effective Date

The bill takes effect on January 1, 2022, assuming no referendum petition is filed.

State and Local Government Contacts

Counties

Municipalities

Treasury

County Clerks

Revenue

Information Technology

Transportation

Appendix A

This appendix provides additional detail on the fee and tax impacts of the bill. Past-due fees and tax amounts were calculated using late registration data from FY 2018-19. This year is used because delays in vehicle registrations due to the COVID-19 pandemic, which resulted in county closures and reductions in operations, have overinflated instances of late registrations in FY 2019-20. Late registration has been adjusted to account for annual growth (1.62 percent based on a ten-year average) in vehicles in the state.

**Table A1
 Estimated Back Taxes and Fees on
 New CO Residents Registering Vehicle Late**

	Months After 90 Days	Late Vehicle Registrations	Back Specific Ownership Tax	Back Fees	Total Revenue
FY 2021-22 (half-year)	1	3,264	\$789,192	\$630,735	\$1,419,927
	2	934	\$282,286	\$225,608	\$507,894
	3	338	\$122,586	\$97,973	\$220,559
	4	138	\$58,391	\$46,667	\$105,059
	5	70	\$33,850	\$27,054	\$60,904
	6	41	\$22,305	\$17,826	\$40,131
	7	34	\$20,552	\$16,425	\$36,977
	8	18	\$11,968	\$9,565	\$21,534
	9	13	\$9,430	\$7,536	\$16,966
	10	12	\$9,430	\$7,536	\$16,966
	11	7	\$5,924	\$4,734	\$10,658
	12	5	\$4,534	\$3,623	\$8,157
	13 to 24 ¹	12	\$15,595	\$12,464	\$28,059
		FY 2021-22 Total	\$1,386,042	\$1,107,748	\$2,493,790
FY 2022-23	1	6,634	\$1,604,013	\$1,281,954	\$2,885,967
	2	1,898	\$573,639	\$458,462	\$1,032,101
	3	687	\$249,161	\$199,134	\$448,295
	4	280	\$118,475	\$94,688	\$213,163
	5	142	\$68,667	\$54,880	\$123,548
	6	83	\$45,154	\$36,088	\$81,241
	7	69	\$41,708	\$33,334	\$75,042
	8	37	\$24,602	\$19,662	\$44,264
	9	26	\$18,859	\$15,073	\$33,932
	10	24	\$18,859	\$15,073	\$33,932
	11	14	\$11,848	\$9,469	\$21,316
	12	10	\$9,067	\$7,247	\$16,314
	13 to 24 ¹	24	\$31,190	\$24,928	\$56,118
		FY 2022-23 Total	\$2,815,243	\$2,249,990	\$5,065,233

¹ Calculated as 18.5 months after the grace period.

Table A2
Estimated Back Taxes and Fees Following Expiration of
Temporary Registration after New Vehicle Purchase (FY 2021-22)

	Months Late	Late Vehicle Registrations	Back Specific Ownership Tax	Back Fees	Total Revenue
FY 2021-22 <i>(half-year)</i>	1	166,139	\$10,042,549	\$8,026,175	\$18,068,724
	2	47,557	\$5,749,324	\$4,594,957	\$10,344,282
	3	17,209	\$3,120,680	\$2,494,100	\$5,614,780
	4	7,026	\$1,698,793	\$1,357,704	\$3,056,497
	5	3,564	\$1,077,160	\$860,884	\$1,938,044
	6	2,106	\$763,804	\$610,445	\$1,374,249
	7	1,731	\$732,432	\$585,372	\$1,317,805
	8	932	\$450,690	\$360,199	\$810,890
	9	666	\$362,317	\$289,570	\$651,887
	10	602	\$363,889	\$290,826	\$654,715
	11	375	\$249,343	\$199,279	\$448,621
	12	254	\$184,241	\$147,249	\$331,490
		13 to 24 ¹	625	\$698,915	\$558,584
		FY 2021-22 Total	\$25,494,137	\$20,375,346	\$45,869,484
FY 2022-23	1	337,661	\$20,410,482	\$16,312,403	\$36,722,885
	2	96,655	\$11,684,945	\$9,338,806	\$21,023,751
	3	34,976	\$6,342,548	\$5,069,072	\$11,411,620
	4	14,280	\$3,452,714	\$2,759,467	\$6,212,181
	5	7,243	\$2,189,076	\$1,749,547	\$3,938,623
	6	4,280	\$1,552,270	\$1,240,601	\$2,792,871
	7	3,518	\$1,488,560	\$1,189,682	\$2,678,242
	8	1,894	\$915,888	\$731,993	\$1,647,881
	9	1,354	\$736,603	\$588,706	\$1,325,309
	10	1,224	\$739,867	\$591,314	\$1,331,182
	11	762	\$506,664	\$404,934	\$911,598
	12	516	\$374,286	\$299,136	\$673,421
		13 to 24 ¹	1,270	\$1,420,194	\$1,135,043
		FY 2022-23 Total	\$51,814,097	\$41,410,704	\$93,224,801

¹ Calculated as 18.5 months after the grace period.

**Table A3
 Estimated Late Fees after
 Expiration of Temporary Registration**

	Months Late	Late Vehicles Registrations	HUTF Revenue	County Revenue	Total Revenue
FY 2021-22 (half-year)	1	166,139	\$2,492,085	\$1,661,390	\$4,153,475
	2	47,557	\$1,902,280	\$475,570	\$2,377,850
	3	17,209	\$1,118,585	\$172,090	\$1,290,675
	4 to 24	17,882	\$1,609,380	\$178,820	\$1,788,200
	FY 2021-22 Total			\$7,122,330	\$2,487,870
FY 2022-23	1	337,661	\$5,064,915	\$3,376,610	\$8,441,525
	2	96,655	\$3,866,200	\$966,550	\$4,832,750
	3	34,976	\$2,273,440	\$349,760	\$2,623,200
	4 to 24	36,343	\$3,270,870	\$363,430	\$3,634,300
	FY 2022-23 Total			\$14,475,425	\$5,056,350

¹ Late fees are calculated at \$25 per month, with the first \$10 retained by counties and the remainder to the HUTF.