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Fiscal Note

Drafting Number: LLS 23-0703
Prime Sponsors: Rep. Woodrow
Sen. Rodriguez

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Bill Status: House Business Affairs & Labor
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Bill Topic: CONSUMER LEGAL FUNDING TRANSACTIONS

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill requires companies offering consumer legal funding to register with the Attorney General. The bill will increase state revenue and expenditures on an ongoing basis.

Appropriation Summary: For FY 2023-24, the bill requires an appropriation of \$94,141 to multiple state agencies.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 23-1162

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue	Cash Funds	\$46,500	-
	Total Revenue	\$46,500	-
Expenditures	General Fund	\$73,991	\$21,671
	Cash Funds	\$20,150	\$20,150
	Centrally Appropriated	\$16,897	\$8,326
	Total Expenditures	\$111,038	\$50,147
	Total FTE	0.8 FTE	0.4 FTE
Transfers		-	-
Other Budget Impacts	General Fund Reserve	\$11,099	\$3,251
	TABOR Refund	\$46,500	-

Summary of Legislation

Consumer legal funding (CLF) is an agreement between a person with a pending legal claim and a company that offers the person cash assistance in exchange for a percentage of the settlement or award. If the person loses their lawsuit and does not receive a settlement, the person does not have to pay back the company.

Effective February 1, 2024, the bill requires companies that offer CLF to register with the Attorney General's office and pay a \$1,500 registration fee. Of this fee, \$200 goes to the Identify Theft and Financial Fraud Cash Fund and the remainder goes to a new Consumer Legal Funding Cash Fund which is used to partially offset administration costs for the Attorney General's office.

The bill requires certain disclosures in CLF agreements, limits the funding fee amount in the CLF contract, and sets rules and prohibitions for companies, which the Attorney General is granted authority to enforce the provisions of the Act.

Background and Assumptions

Currently there are four companies registered with the Department of Law as supervised lenders within the Uniform Consumer Credit Code regulatory program. A review of trade association lists suggests that a total of 31 companies may register with the Attorney General's office to offer CLF to consumers.

State Revenue

Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. This fiscal note assumes that 31 companies will register with the Attorney General's office in FY 2023-24. As outlined in the bill, each registration will generate \$1,500 in revenue, with the \$200 surcharge going to the Identity Theft and Financial Fraud Cash Fund in the Department of Public Safety and the remaining fee going to the new Consumer Legal Funding Cash Fund in the Department of Law. Revenue to the state cash funds are shown in Table 2 below. Revenues in the CLF Cash Fund will be used to reduce the General Fund appropriations described in the State Expenditures section.

Table 2
Cash Fund Revenue Under HB 23-1162

Fee	Fee Split	Registrants	Total
CLF Cash Fund	\$1,300	31	\$40,300
Identity Theft CF	\$200	31	\$6,200
FY 2023-24 Total			\$46,500

State Expenditures

The bill increases state expenditures in the Departments of Law and Public Safety by \$111,038 in FY 2023-24 and \$50,147 in FY 2024-25, paid first from the CLF Cash Fund and the remainder paid from the General Fund and various cash funds. Expenditures are shown in Table 2 and detailed below.

**Table 3
Expenditures Under HB 23-1162**

	FY 2023-24	FY 2024-25
Department of Law		
Personal Services	\$86,256	\$41,821
Operating Expenses	\$1,215	-
Capital Outlay Costs	\$6,670	-
Centrally Appropriated Costs ¹	\$16,897	\$8,326
FTE – Personal Services	0.8 FTE	0.4 FTE
Total	\$111,038	\$50,147
Total FTE	0.8 FTE	0.4 FTE

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

Department of Law. This fiscal note assumes that the Attorney General’s office will receive 27 new applications in FY 2023-24, with each application requiring roughly 40 hours of review and 4 new applications from entities already licensed requiring 20 hours of review. Application review will be completed by a Financial Credit Examiner, who will also spend approximately 300 hours responding to industry questions, 300 hours to complete rulemaking and 200 hours to review appeals for any denied applications. In 2024-25, this Financial Credit Examiner will provide approximately 600 hours of ongoing advice and guidance to CLF providers and their consumers. Costs are prorated for the General Fund Paydate shift in the first year and operating expenses and capital outlay expenses are included in the first year only. Revenue from the CLF Cash Fund is assumed to be spent over the two-year application cycle.

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 shown in Table 2.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts shown in Table 1, decreasing the amount of General Fund available for other purposes.

TABOR refunds. The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. Because TABOR refunds are paid from the General Fund, increased cash fund revenue will reduce the amount of General Fund available to spend or save.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2023-24, the bill requires a total appropriation of \$94,141 including:

- \$73,991 from the General Fund to the Department of Law and 0.8 FTE; and
- \$20,150 from the Consumer Legal Funding to the Department of Law

State and Local Government Contacts

Information Technology
Personnel

Judicial
Regulatory Agencies

Law