



Legislative Council Staff
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Fiscal Note

Drafting Number: LLS 24-0125 Date: March 12, 2024
Prime Sponsors: Rep. Sirota; Boesenecker Bill Status: House Business Affairs & Labor
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Bill Topic: FIREARMS DEALER REQUIREMENTS & PERMIT

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

The bill requires firearms dealers to obtain a state permit. Starting in FY 2024-25, the bill increases state revenue and expenditures on an ongoing basis.

Appropriation Summary: For FY 2024-25, the bill requires an appropriation of \$752,633 to the Department of Revenue.

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

Table 1
State Fiscal Impacts Under HB 24-1353

Table with 5 columns: Category, Sub-category, Budget Year FY 2024-25, Out Year FY 2025-26, Out Year FY 2026-27. Rows include Revenue (Cash Funds, Total Revenue), Expenditures (General Fund, Cash Funds, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and Other Budget Impacts (TABOR Refund, General Fund Reserve).

## **Summary of Legislation**

The bill requires firearms dealers in the state to obtain a permit from the Department of Revenue (DOR) starting July 1, 2025. Operating without a permit is an unclassified felony punishable by a fine of up to \$250,000. The bill establishes a permitting process, other requirements for dealers, and other duties for the DOR, as discussed below.

**Permits.** Dealers must apply to the DOR and hold a valid federal firearm license (FFL) to be eligible for a permit. Additionally, a dealer must not have had an adverse licensing action taken for good cause by the federal government or any state within three years of application, or have been convicted for a violation of any state or federal law concerning the possession or sale of firearms.

Permits are valid for three years and dealers who submit an initial application with sufficient information before May 2, 2025, may continue to engage in business until the DOR acts upon the application. Permits may be renewed at any time in the 90-day period before expiration and dealers may continue to engage in business until the DOR acts upon a renewal application.

Certain dealer violations are subject to a warning for a first offense, with subsequent offenses authorizing the DOR to revoke a permit. Other dealer actions require the DOR to revoke a permit. Permit revocations are subject to the Administrative Procedures Act and judicial review, and a dealer that has their permit revoked can apply for a new permit no sooner than three years after revocation, with an exception for revocation solely for not having a valid FFL.

**Other dealer requirements.** In addition to obtaining a permit, dealers must ensure employees complete a background check and required training. Firearms must be secured on premises to prevent unsupervised access. Sale of firearms must occur during posted business hours, except during a gun show. Dealers are required to report firearm thefts by employees and unlawful purchase attempts by employees or other persons to an appropriate law enforcement agency.

**Department of Revenue.** The DOR must promulgate rules necessary for implementing the bill, and initial rules must be effective by February 1, 2025. The DOR must act on initial applications and renewal applications within certain time frames.

The bill sets the fee for permits issued on or before June 30, 2026, at \$400, which is credited to the newly created and continuously appropriated Firearm Dealer Permit Cash Fund. For permits issued after this date, the DOR may annually adjust the fee based on costs for administering the permit program, but only once per year and not by more than \$25.

Subject to available appropriations, the DOR is authorized to conduct annual on-site inspections of a random selection of permittees, as well as periodic unannounced inspections during business hours. If the DOR revokes a permit, it must notify the federal government.

The DOR must develop or approve a training course for dealers and dealer employees that covers certain material relating to state and federal laws, and best practices for retail sale of firearms. Finally, the DOR must review criminal background checks to ensure employees are authorized to work in accordance with the bill.

## **Comparable Crime Analysis**

Legislative Council Staff is required to include certain information in the fiscal note for any bill that creates a new crime, changes the classification of an existing crime, or creates a new factual basis for an existing crime. The following section outlines crimes that are comparable to the offense in this bill and discusses assumptions on future rates of criminal convictions resulting from the bill.

**Prior conviction data and assumptions.** This bill creates the new offense of dealing firearms without a permit, an unclassified felony. To form an estimate on the prevalence of this new crime, the fiscal note analyzed the existing offense of a firearm dealer failing to keep required records as a comparable crime. From FY 2020-21 to FY 2022-23, one person has been sentenced and convicted for this existing offense; therefore, the fiscal note assumes that there will be minimal or no additional case filings or convictions for the new offense under the bill. Because the bill is not expected to have a tangible impact on criminal justice-related expenditures or revenue at the state or local levels since, these potential impacts are not discussed further in this fiscal note. Visit [leg.colorado.gov/fiscalnotes](http://leg.colorado.gov/fiscalnotes) for more information about criminal justice costs in fiscal notes.

## **Assumptions**

Based on available [data](#) from the federal Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), this fiscal note assumes that 2,187 FFLs will require and apply for a permit under the bill. Given the wide variety in the number of employees per FFL, this fiscal note also assumes that, on average, there are between 4 and 5 employees per FFL, or about 9,000 employees total.

The fiscal note also assumes that funding will be made available for annual inspections. Because inspections are subject to available appropriations under the bill, funding for inspectors and associated equipment could be less than shown. Funding is at the discretion of the General Assembly.

## **State Revenue**

The bill increases state cash fund revenue by about \$1.2 million to the Firearm Dealer Permit Cash Fund in the DOR in FY 2025-26 and by about \$356,000 per year to the Colorado Bureau of Investigation (CBI) Identification Unit Cash Fund in the Department of Public Safety (CDPS). Fee revenue is from permit fees paid by dealers, and background check fees on dealer employees required by the bill. These impacts are shown in Table 2 and discussed in more detail below.

**Table 2**  
**Fee Impact on Firearm Dealers and Employees**

<b>Fiscal Year</b>	<b>Type of Fee</b>	<b>Proposed Fee</b>	<b>Number Affected</b>	<b>Total Fee Impact</b>
<b>FY 2025-26</b>	Dealer—Permit Fee	\$400.00	2,187	\$874,800
	Employee—CBI Background Check	\$39.50	9,000	\$355,500
<b>FY 2025-26 Total</b>				<b>\$1,230,000</b>
<b>FY 2026-27</b>	Employee—CBI Background Check	\$39.50	9,000	\$355,500
	<b>FY 2026-27 Total</b>			

**Fee impact on firearm dealers.** Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. The bill sets the fee for firearm dealer permits—which are valid for three years and to be issued before June 30, 2026—at \$400, and allows the DOR to annually increase the fee by no more than \$25. Since the population of FFLs is assumed to remain constant and permits are valid for three years, this fiscal note does not estimate an exact fee or revenue impact beyond FY 2025-26; however, both fees and revenue are assumed to increase starting in FY 2028-29, when renewals are required.

**Fee impact on dealer employees.** The bill requires employees of firearm dealers to submit a background check as part of employment starting July 1, 2025, and to annually submit a background check each year thereafter. Based on assumed number of FFL employees, this bill increases state cash fund revenue from fingerprint-based criminal history background checks to the CBI Identification Unit Cash Fund in the CDPS by \$355,500 per year starting in FY 2025-26. The current fee for background checks is \$39.50, which includes \$11.25 for a Federal Bureau of Investigation (FBI) fingerprint-based check, which is passed on to that federal agency. The federal portion of this fee is excluded from the state TABOR limit, meaning \$254,250 of this total is subject to TABOR.

**State Expenditures**

The bill increases state expenditures in the DOR and the CDPS by about \$890,000 in FY 2024-25, by \$3.4 million in FY 2025-26, and by \$3.3 million in FY 2026-27 and ongoing. Expenditures are paid from a combination of General Fund and cash funds, are shown in Table 3, and described below—see Technical Note.

**Table 3**  
**Expenditures Under HB 24-1353**

	FY 2024-25	FY 2025-26	FY 2026-27
<b>Department of Revenue (GF and CF)</b>			
Personal Services	\$601,175	\$2,171,851	\$2,171,851
Operating Expenses	\$9,088	\$33,280	\$33,280
Capital Outlay Costs	\$53,360	\$106,720	-
Legal Services	\$64,010	\$38,406	\$38,406
Vehicles	-	\$99,540	\$99,540
Inspector Equipment	-	\$77,550	-
Licensing System	\$20,000	\$30,000	\$30,000
Dealer and Employee Training Program	\$5,000	\$2,000	\$2,000
Centrally Appropriated Costs <sup>1</sup>	\$138,865	\$565,743	\$565,743
FTE – Personal Services	7.1 FTE	26.0 FTE	26.0 FTE
FTE – Legal Services	0.3 FTE	0.2 FTE	0.2 FTE
<b>DOR Subtotal</b>	<b>\$891,498</b>	<b>\$3,125,090</b>	<b>\$2,940,820</b>
<i>General Fund</i>	<i>\$752,633</i>	<i>\$2,267,747</i>	<i>\$2,083,477</i>
<i>Cash Fund</i>	<i>-</i>	<i>\$291,600</i>	<i>\$291,600</i>
<i>Centrally Appropriated</i>	<i>\$138,865</i>	<i>\$565,743</i>	<i>\$565,743</i>
<b>Department of Public Safety (CF)</b>			
Personal Services	-	\$95,680	\$95,680
Operating Expenses	-	\$2,048	\$2,048
Capital Outlay Costs	-	\$13,340	-
FBI Pass-through	-	\$101,250	\$101,250
Processing Costs	-	\$84,440	\$82,440
Centrally Appropriated Costs <sup>1</sup>	-	\$30,179	\$30,179
FTE – Personal Services	-	1.6 FTE	1.6 FTE
<b>CDPS Subtotal</b>	<b>-</b>	<b>\$326,936</b>	<b>\$311,596</b>
<b>Total</b>	<b>\$891,498</b>	<b>\$3,452,026</b>	<b>\$3,252,416</b>
<b>Total FTE</b>	<b>7.4 FTE</b>	<b>27.8 FTE</b>	<b>27.8 FTE</b>

<sup>1</sup> Centrally appropriated costs are not included in the bill's appropriation.

**Department of Revenue.** Expenditures in the DOR will increase to create, implement, administer, and enforce the permitting program under the bill, as described below.

- **Staff.** A total of 26.0 FTE is required for the full administration of the permit program, which will begin in FY 2024-25, as a division within the DOR. 6.0 FTE will manage division operations, including a director, administrative assistant, accountant, budget analyst, policy advisor, and legal assistant. 8.0 FTE will process and review permit applications, ensure administrative compliance, and manage employee background check requirements. 12.0 FTE will administer the inspection of dealers and ensure compliance, which will be partially funded by the Firearm Dealer Permit Cash Fund. Division staff are based on a start date of July 1, 2024, permit application staff are prorated for an April 1, 2025, start date, and the remaining staff are prorated for a July 1, 2025, start date. Staffing resources include standard operating and capital outlay costs.
- **Legal services.** The DOR requires 500 hours of legal services in FY 2024-25 to conduct rulemaking and provide legal counsel during the creation of the permit program. In out years, DOR requires 300 hours of legal services for permit revocation hearings and general counsel. Legal services are provided by the Department of Law at a rate of \$128.02 per hour.
- **Vehicles.** The DOR requires \$92,430 starting in FY 2025-26 for a total of 14 vehicles; 1 each for 10 inspectors, 1 for an inspector supervisor, and 1 vehicle per 2 compliance investigators. Each vehicle has estimated annual lease and operating costs of \$4,360 and \$2,750, respectively. These costs are reappropriated to the Department of Personnel and Administration.
- **Inspector equipment.** The DOR requires \$77,550 for FY 2025-26 only to equip inspectors, who will be POST-certified peace officers similar to other regulatory programs operated by the DOR.
- **Licensing system.** The DOR requires \$20,000 in FY 2024-25 to update the DOR's licensing software to account for the new permit program. In out years, \$30,000 per year is required to maintain the licensing system.
- **Dealer and employee training program.** The DOR requires \$5,000 in FY 2024-25 to create and host online a training program that dealers and employees must complete as required by the bill. In out years, \$2,000 is required to maintain and update this training program.

**Department of Public Safety.** The bill increases overall expenditures from the CBI Identification Unit Cash Fund in the CDPS amounts shown in Table 3 and described below.

- **Staff.** The CDPS requires 1.1 FTE Fingerprint Examiner II and 0.5 FTE Data Specialist to process an estimated 9,000 fingerprint background applications from firearm dealer employees. A Fingerprint Examiner II can process 8,250 requests per year, and a Data Specialist 16,500.
- **FBI pass-through.** The CDPS passes \$11.25 of every application on to the federal government. With 9,000 applications, this equates to \$101,250 for FY 2025-26 and beyond.

- **Processing costs.** There are the following costs associated with each background check application: \$6.10 dedicated to equipment maintenance; \$1.55 for print digitization; \$0.88 to access the Colorado Crime Information Center for information pertinent to the background check; and \$0.63 printing and postage costs. One-time training costs of \$2,000 for FTE is included in FY 2024-25.

**Judicial Department.** Starting in FY 2025-26, the trial courts in the Judicial Department may experience an increase in workload to adjudicate civil cases or appeals challenging permit actions. The fiscal note assumes that any increase will be minimal, and no change in appropriations is required.

**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, supplemental employee retirement payments, and leased space are shown in Table 3.

## Other Budget Impacts

**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 2023 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2025-26. 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.

**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.

## Technical Note

Because the bill sets the firearm dealer permit fee at \$400, the DOR does not have the ability to adjust the fee to cover its administrative costs for the program.

## Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature, except for certain sections concerning the requirements on dealers and employees, which take effect July 1, 2025.

## **State Appropriations**

For FY 2024-25, the bill requires a General Fund appropriation of \$752,633 to the Department of Revenue, and 7.1 FTE. Of this amount, \$64,010 is reappropriated to the Department of Law, with an additional 0.3 FTE.

## **Departmental Difference**

The DOR estimates that the bill requires ten additional FTE to conduct inspections, which equates to about \$1.1 million in General Fund appropriations in FY 2025-26 and beyond. This is based on an assumption that two inspectors are required for each inspection due to inspections involving interacting with potentially dangerous individuals and environments, and that the presence of two inspectors would increase accuracy, efficiency, credibility, and accountability.

This fiscal note assumes that since refusing to allow an inspector to conduct an inspection results in an automatic revocation of a permit, and since permits are required to engage in business, that most permittees will fully cooperate with inspections and keep records and premises in a condition to allow for efficient inspection.

## **State and Local Government Contacts**

Corrections	District Attorneys	Information Technology
Judicial	Law	Personnel
Public Safety	Revenue	

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The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).