

DEPARTMENT OF REVENUE & STATE LOTTERY  
FY 2021-22 JOINT BUDGET COMMITTEE HEARING AGENDA

**Friday, January 8, 2021**

**9:00 am – 11:00 am**

**11:15 am – 11:45 am (State Lottery)**

**9:00-9:15      INTRODUCTIONS AND OPENING COMMENTS**

Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

**9:15-9:30      COMMON QUESTIONS**

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Lorri Dugan, Chief Financial Officer

Topics:

- Implementation of FY 2020-21 HLD Decrease: Page 1, Question 1 in the packet
- COVID-19 Changes: Page 2, Question 2 in the packet

**9:30-10:00      TAXATION DIVISION**

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Brendon Reese, Sr. Director, Taxation Division
- Lorri Dugan, Chief Financial Officer

Topics:

- GenTax: Page 3, Question 4 in the packet
- Sales and Use Tax Simplification: Page 3-7, Questions 5a-5e in the packet, Slides 10-13
- Other Tax Changes: Page 7-9, Questions 6-7 in the packet, Slides 15-17

**10:00-10:15      SPECIALIZED BUSINESS GROUP**

Topics:

- R-06 Savings and Reductions: Page 9, Question 8 in the packet

**10:15-11:00      DIVISION OF MOTOR VEHICLES**

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Mike Dixon, Sr. Director, Division of Motor Vehicles
- Lorri Dugan, Chief Financial Officer

Topics:

- Trends and projections: Page 11-16, 19-21, Questions 9-13, 19-20 in the packet
- R-08 DMV Digital Transformation: Page 16-19 Questions 14-18 in the packet, Slides 18-25

**11:00-11:15 Break**

**11:15-11:45 STATE LOTTERY DIVISION**

Main Presenters:

- Mark Ferrandino, Chief Executive Officer/Executive Director
- Heidi Humphreys, Chief Operating Officer/Deputy Executive Director

Supporting Presenters:

- Tom Seaver, Sr. Director, Lottery Division
- Lorri Dugan, Chief Financial Officer

Topics:

- Overview and demographics: Page 21-22, Questions 21-23 in the packet, Slides 31-42
- Scratch ticket contract changes: Page 22, Question 24 in the packet, Slide 47
- Monitor games: Page 23, Questions 25-26 in the packet, Slides 43-46
- Other questions: Page 24-25, Questions 27-30 in the packet

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COMMON QUESTIONS FOR DISCUSSION AT DEPARTMENT HEARINGS

- 1 Please describe the Department's actions to implement the Health, Life, and Dental decrease in lieu of a 5.0 percent General Fund salary base reduction. Please include dollar and percentage share data on planned "allocations" of the decrease to all divisions and programs within the Department. Please describe the use of vacancy savings, delayed hiring, and the implementation of one-time or ongoing operating savings. Please describe the urgency of the Department's need to engage in a furlough in FY 2020-21 due to the inability to achieve savings in other ways.

The Department of Revenue (DOR) has utilized vacancy savings and postponed filling open, vacant positions across several divisions at the end of FY 2019-20 and in the beginning of FY 2020-21 to accommodate the 5% Health, Life, and Dental reduction. While DOR, as a larger agency, may have been able to accommodate the 5% reduction through vacancy savings and delayed hiring, it is understood that many smaller agencies could not and therefore furlough days were the least permanent, statewide solution in lieu of those other agencies potentially needing to lay off existing employees. The statewide furlough option allowed DOR to minimize customer service impacts and hire Coloradans to fill needed positions much quicker than would have been possible without the furlough.

The total \$2.1M General Fund reduction is allocated out to the division based on an FTE allocation as seen below:

**5% Personal Service Reduction Allocation**

<u>Division</u>	<u>GF</u>	
EDO	\$ 494,287	23.7%
Tax - Admin	\$ 17,251	0.8%
Tax - TAC	\$ 778,569	37.3%
Tax - TPS	\$ 533,767	25.6%
Tax - Conferee	\$ 49,555	2.4%
DMV - Admin	\$ 18,542	0.9%
DMV - Driver Services	\$ 154,646	7.4%
DMV - Vehicle Services	\$ 33,384	1.6%
SBG - Admin	\$ 303	0.0%
SBG - LED	\$ 7,440	0.4%
<b>Total PS Reduction</b>	<b>\$ 2,087,744</b>	

- 2 Please describe how the changes implemented in response to the COVID-19 pandemic have changed the nature of the Department's work. Please address programmatic, budgetary, and office space impacts.

The Department of Revenue (DOR) has embraced the new remote workforce environment and has incorporated this philosophy as part of the "reimagining government" initiative. In response to COVID-19, DOR was forced to initiate a remote working environment for the vast majority of employees. As part of the Department's forward thinking, DOR has vacated the Annex building entirely and will continue to plan for a shared office space at the Pierce location while primarily working remotely going forward. DOR has instituted this strategy in the Strategic Plan as one of the Department's Wildly Important Goals (WIGs) for FY 2020-21 and beyond and will maintain a 70% remote workforce on a permanent basis.

DOR has also embraced "Digital Transformation" and is transitioning many customer services as well as internal processes across all Divisions to be done digitally or virtually. This transformation will enable more DOR customers to access resources and complete transactions across all DOR business Divisions virtually.

## EXECUTIVE DIRECTOR'S OFFICE

3. *[Sen. Rankin]* Please describe the components of the cost reduction in the Payments to OIT appropriation and how it relates to the shift of IT system responsibility from OIT to the Department. What administrative and management responsibilities will be shifted from OIT to the Department? Does the Department have the staff resources to manage these responsibilities?

DOR's reduction in Payments to OIT is not reflective of a large shift of responsibilities from OIT to the Department. DOR and OIT have undertaken a joint and concerted effort to focus on cost reductions across all IT services. For example, the department was able to realize savings on contractual costs paid to vendors by aggressively negotiating rates and deferring annual increases. OIT's preparation for the transition to real-time billing has resulted in a dramatic increase in the amount of data that OIT has been able to provide to departments on utilization and services. As a result, DOR has been able to more accurately estimate the FY 2021-22 utilization and costs. Additionally, the appropriation moving forward will be much more reflective of a true one year cost for OIT services because the base appropriation will no longer be skewed by very large swings, up or down, related to prior year true-up amounts. Some of the reduction for FY 2021-22 is reflective of large true-up adjustments for prior years where utilization was overestimated.

## TAXATION DIVISION

## *GEN TAX*

4. [*Sen. Moreno*] In recent years we've been hearing about and attempting to address data reporting limitations and complications in the GenTax system. Please provide an update on the Department's efforts to improve data reporting from the GenTax system. What are the ongoing limitations in data reporting that need to be addressed?

DOR's reporting limitations continue to be a balance between the ease of filing for a taxpayer and the desire for itemized data. The GenTax system is designed to administer and process the approximately 12 million returns filed by Colorado residents and businesses. All tax returns—and therefore the GenTax system—are designed to ensure that the proper amount of tax is reported and paid in a manner that is the easiest for the taxpayer to comply. DOR's goal is to make voluntary compliance, in a very complex structure, as simple and understandable as possible. DOR makes administrative decisions, such as aggregation of certain deductions and credits, to increase the likelihood of an accurate tax return filed by an individual or business. It would be untenable to design a tax return that separately lists all available deductions and credits and would further complicate the return resulting in less accurate returns which would negate the value of any unaudited data. One of the prior challenges to reporting, when new legislation was introduced, was the decision of whether to “map” the fields on the return and subsequently “map” the data to a database table. For the past several years, all legislative changes have been both return mapped and database mapped to allow future reporting.

## *SALES AND USE TAX SIMPLIFICATION*

5. [*Sen. Moreno/Rep. Rankin/Rep. McCluskie*] Please provide a general project development history and update on the SUTS system implementation and address the following issues:

- a. How have the business community and small businesses in particular, responded to the SUTS system rollout?

For the November period, due on December 20, DOR registered more than 1,600 businesses in SUTS; however, only forty-five businesses filed for the November period. The low rate of filing does not reflect negatively on the system. Businesses may require expensive updates to their point of sale systems and filing software to leverage the simplified filing that SUTS provides. Businesses with sales into multiple jurisdictions are most likely to see immediate benefits by using the system. While small businesses will see benefit in using the system, the simplification in filing, registration, and identifying correct tax rates will more immediately benefit those businesses who sell into multiple self-collecting home-rule jurisdictions.

- b. What percent of home rule cities have opted into the system? Please provide data on adoption of the system by local governments and home rule cities.

As of December 10, 2020, 42 of 71, or 59 percent of, self-collecting, home-rule jurisdictions are either actively participating in the system or have signed agreements with DOR to fully participate in the system soon. Please note that most local governments with a sales tax rely on DOR to administer the tax. These jurisdictions are actively participating in the system without the need to agree to it.

Actively Participating	Signed Agreement, Full Participation Soon
Avon	Arvada
Black Hawk	Denver
Brighton	Greenwood Village
Canon City	Lamar
Carbondale	Littleton
Colorado Springs	Parker
Cortez	Steamboat
Craig	Windsor
Dacono	Breckenridge
Durango	
Englewood	
Evans	
Federal Heights	
Fort Collins	
Glendale	
Glenwood Springs	
Golden	
Gunnison	
Lone Tree	
Lafayette	
Longmont	
Loveland	
Montrose	
Mountain Village	
Mt Crested Butte	

Pueblo	
Ridgway	
Rifle	
Sheridan	
Silverthorne	
Snowmass Village	
Vail	
Winter Park	

- c. How does H.B. 20B-1004 (Qualified Retailer Retain Sales Tax for Assistance) relate to the SUTS system? Please describe how H.B. 20B-1004 will be implemented.

DOR will direct eligible businesses to deduct the appropriate sales tax via supplemental instructions on the sales tax return. DOR will communicate with affected businesses through a letter campaign, on our website, through social media, and other channels such as the Colorado Society of Certified Public Accountants. Through the use of supplemental instructions, DOR avoids the need to program either SUTS or GenTax to administer HB 20B-1004. Businesses will simply file their returns for the affected periods, and they will deduct the necessary amounts on an existing field on the returns. Due to the timing of the change (e.g., during year-end programming and a version upgrade in GenTax) and the quick turnaround required, it was not feasible to make system changes to accommodate the tax relief.

- d. What is the Department's perspective on or explanation for why the SUTS project was developed and completed at such a significant savings relative to the appropriation and anticipated cost in the fiscal note?

The results of the RFI process that was conducted pursuant to HB18-1022 were used to inform a potential range of cost that may be needed to develop the SUTS system. The Department received four responses to the RFI that ranged in cost from \$1.25 million to \$18.75 million with ongoing annual costs between \$5 million and \$8 million for the lower estimate and indeterminate ongoing annual costs for the higher estimate. (As noted in the published [fiscal note](#) for SB19-006.) These estimates varied both in price, and in vendor willingness and ability to deliver the full scope of product desired by the Sales and Use Tax Simplification Task Force. Since the purpose of an RFI is to do market research at a broad level with no promise of a contract awarded at the end of the process, responses can be limited as potential vendors must invest sometimes significant time and resources in structuring and providing responses and information,



and requirements are broad. Once the invitation to negotiate process was initiated with a budget appropriated under SB19-006, offerors were more willing and able to refine and improve requirements and discuss their capabilities, and the vendor was selected that provided the most advantageous outcome to the state.

Based on the information obtained for the RFI, the legislature appropriated \$18,750,000 to design the requested system. SUTS was developed using \$7,808,423 of the available appropriation and the remaining \$10,941,577 of the appropriation was returned to the State. The ongoing cost to support SUTS is \$2,218,566 annually as identified in the R-02 Decision Item for FY 2021-22 and thereafter.

- e. What is the anticipated timeline for complete rollout of the SUTS system, including a shift to destination-sourcing without exception?

DOR is encouraging those retail businesses already required to use destination sourcing (i.e., in excess of \$100,000 in retail sales) to register and use the system with a media push focused on the first quarter of 2021. DOR is using that time period to test and verify system adoption and the ability to handle the volume of filings expected. SUTS is available now and businesses are actively remitting sales tax without any issues. The quantity of businesses that are both registering and remitting sales tax is increasing daily. We anticipate SUTS will reach the necessary volume by April 1, 2021 to consider the critical milestone of volume verification successful. This will trigger the notification provisions of HB19-1240 and all retailers will then be required to use destination sourcing effective July 1, 2021.

As a point of reference, the Colorado Sales and Use Tax was completed and put in production well under nine months from the time the procurement was available for the vendor community. Projects of this magnitude generally take two years to complete but Colorado took a different approach that folds under the Governor's Vision of "Reimagine IT", fits well into the spirit if the deep skillset of the Colorado Technology Community, and was used as a "proof of concept" for launching the Business Innovation Group.

Some comments from the business community and Executive Council:

- "Since its inception in 2017, the Sales and Use Tax Simplification Task Force, in collaboration with the Joint Technology Committee, has been working towards the day when Colorado would have a centralized sales tax collection system between state and local governments; that day is here and the SUTS system has surpassed our expectations. CDOR/OIT created a stakeholder consortium of local jurisdictions and businesses to successfully build technology to meet the needs of a 21st century state government." - State Senator Jack Tate, General Assembly, Joint Technology Committee representative.

- “We appreciate the work that DOR has put into making this goal a reality. We appreciate the work of lawmakers and opportunity to participate in the conversation and take an active role in the selection process.” - Dave Davia, Vice President and CEO of the Colorado Association of Mechanical and Plumbing Contractors (CAMPC), Chairman and representative from Simplify Colorado Sales Tax Coalition.
- “I am truly amazed by the level of cooperation and focus on delivering a solution that not only simplifies sales and use tax filings in Colorado but also meets the needs of government and businesses. The SUTS team was truly impressive in the way they mobilized resources quickly to deliver a sales and use tax filing system that provides significant benefit to all users.” - Ezequiel Vasquez, Revenue Manager, City of Arvada, representative from Colorado Municipal League.
- “The Executive Council gave us a chance to see all sides of sales and use tax, the good and the bad. The feedback and collaboration from all sides of sales and use tax gave us a chance to create a system that works for all parties involved with sales and use tax.” - Ray Baca, Sales and Use Tax Analyst, El Paso County, representative from Colorado Counties, Inc.
- “The development of the Sales and Use Tax System has been a well-organized and thought-out process. The opportunity for all stakeholders, including the businesses of Colorado, to be deeply involved in this process has been extremely beneficial and has allowed for a well-considered product set up for success. The Department has listened and considered the thoughts and concerns of all involved in the process.” - Ashley Granger, CPA, Manager, State and Local Tax, Rubin Brown, representative from Colorado Chamber of Commerce.

#### *OTHER TAX CHANGES*

6. *[Sen. Moreno]* Colorado uses federal taxable income as the starting point. There have been discussions about changing this to instead use adjusted gross income. Provide a detailed accounting of the challenges that the Department would have in implementing such a change, and the resources that would be needed to effectuate that type of change.

Since 1987, Colorado’s income tax provisions have been structured to levy a tax against a taxpayer’s federal taxable income (FTI), with certain additions, subtractions/deductions, and credits applied. By structuring the income tax in this way, the state has been able to leverage the significant investments that the federal government has made in tax compliance and income validation and verification to result in more lean administration at the state level. Closely conforming to federal definitions of income means that the state has not needed to invest heavily in resources for tax administration that would be necessary to evaluate and verify a more complex definition of income.

A move to a definition of income that begins at federal adjusted gross income (AGI) rather than FTI would result in trade-offs for the state. If the state chose to tax AGI rather than FTI, the

General Assembly would be required to act by legislation in order to maintain conformity with changes made to Internal Revenue Code (IRC) that impact adjustments to income made after the calculation of AGI. Currently, the General Assembly must act by legislation in order to diverge from conformity with those IRC changes (by way of creating state specific additions to or subtractions from FTI).

In both cases, actions by the general assembly to “decouple” from the IRC result in an increased gap between the way the federal government measures income and the way the state measures income. The broader this gap, the less the Department can rely on validation and enforcement mechanisms that are developed and used by the IRS. Particularly for individuals, the Department is highly reliant on the ability to match amounts on the state return with amounts reported on the federal return. The state uses IRS data to check for errors, omissions, and non-filers, and requests supplemental information from taxpayers when mismatches are found. Nonconformity with the IRC may prevent some of this matching because the Department would be unable to differentiate between errors, omissions, and differences in law on a systematic basis.

Similarly, the state leverages IRS audits of individuals and corporations to validate federal taxable income and other lines of the return that are based on amounts reported federally. The IRS reports adjustments to the state, and the Department monitors the account for amended returns. The Discovery and Field Audit sections can then focus on uniquely state-level issues such as combined reporting, apportionment, and state-specific credits. Up-front processing checks by Taxpayer Services can also focus on state-specific issues reducing processing time.

Decoupling from the deductions claimed to get from AGI to FTI may be politically challenging. According to the Department’s 2016 statistics of income, approximately 35% of returns filed claimed itemized deductions at the federal level in lieu of the standard deduction. The largest itemized deductions were for home mortgage interest, state income taxes,<sup>1</sup> charitable contributions, real estate taxes, miscellaneous deductions,<sup>2</sup> and medical expenses, respectively. To the extent these deductions are undesirable, state statute can require all or part of these deductions to be added back to FTI.

Another consequence of decoupling is that the state must develop the law, and its analysis of the law, independent of federal statutes, rules, guidance publications, and court cases. The Department must promulgate more rules and independently develop and publish guidance, procedures, and instructions. Taxpayers and practitioners must also develop and maintain separate expertise that is unique to Colorado, which increases the costs and risks of living and doing business in the state. When the IRC changes, but the state’s law does not, case law must be developed by the state litigating in state courts rather than the IRS litigating in federal courts.

Even maintaining perfect parity with the Internal Revenue Code through state legislation will increase the Department’s caseload. The Department will be required to add staff to closely monitor federal legal developments, and develop additional expertise in the relevant provisions of federal law. Additional rules, forms, instructions, and guidance publications will be necessary.

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<sup>1</sup> Colorado requires state income taxes to be added back to federal taxable income, which is consistent with the treatment of this deduction by most states.

<sup>2</sup> The Tax Cuts and Jobs Act suspended these deductions for tax years 2018 through 2025.

System checks of amounts claimed on state returns against the corresponding federal line items will need to be developed. Additional staff will be necessary to investigate discrepancies with the taxpayer and resolve disputes in the Tax Conferee Section. Increased litigation will require additional legal services spending.

7. *[Rep. Ransom]* When the federal tax law changed, state revenues increased. Please describe the relationship between the federal adjusted gross income and the resulting effects of the TCJA on individual taxpayers and State revenues.

Adjusted gross income (AGI) is a line that is higher up on the individual income tax return than federal taxable income (FTI). Prior to the Tax Cuts and Jobs Act (TCJA), there were generally two major adjustments to go from AGI to FTI: personal exemptions and the standard or itemized deductions. As the committee may recall, personal exemptions were a flat amount (\$4,050 for tax year 2017) that could be deducted for the taxpayer, his or her spouse, and each dependent. The standard deduction is also a fixed deduction that can be taken in lieu of computing and claiming a variety of itemized deductions. Taxpayers normally take the standard deduction or itemized based upon which will result in the lowest tax liability.

For tax years 2018 through 2025, the TCJA set the personal exemption to \$0. The act doubled the standard deduction and reduced or suspended certain itemized deductions. Finally, the TCJA created a new deduction for “qualified business income” generally equal to 20% of a taxpayer’s income from certain pass-through entities.

At the federal level, these changes broadened the base overall, increasing federal taxable income. That, in turn, increased Colorado’s starting point. Federally, these changes were coupled with increases in the child tax credit and decreases in the federal income tax rates. Because these two changes apply after the calculation of federal taxable income, they did not impact Colorado. Colorado has a child tax credit in statute that is a percentage of the federal credit (section 39-22-129). The Colorado credit was contingent upon Congress passing the “Marketplace Fairness Act of 2013” or similar legislation. That act never passed, and is not likely to pass given the Supreme Court’s decision in *South Dakota v. Wayfair*.

## SPECIALIZED BUSINESS GROUP (ENFORCEMENT) REDUCTIONS

8. *[Rep. Ransom]* Please elaborate on the R6 request whether it means the Liquor Enforcement Division and Marijuana Enforcement Division will be doing less enforcement? If not, how else will the workload be decreased?

## MED

The ongoing reduction of \$757,000 in spending authority will decrease the MED’s resources that could result in licensing and other delays along with a reduced level of outreach and education for the licensees. For example, where the MED generally engages in a wide range of intervention strategies (between outreach, education, risk-based investigations, targeted inspections, underage

sales investigations, and complaint-based investigations, among others), a \$757K reduction in spending authority is expected to require a higher reliance on “reactive” strategies, such as complaint-based investigations, in lieu of “proactive/preventative” strategies. Licensing timelines are subject to statutory deadlines which will become more challenging to meet with this reduction. This delay may particularly affect outdoor cultivation licensees, which may process employee license applications on a seasonal basis.

The General Assembly took actions that:

- Reduced the FY 2020-21 appropriations to DOR by \$10.4 million in total funds and;
- Refinanced \$750K of General Fund appropriation to DMV cash fund spending authority and;
- Established an annual ongoing transfer from DOR’s marijuana operating fund, the Marijuana Cash Fund (MCF), to the Colorado Department of Public Health and Environment (CDPHE) for the operation of their Laboratory Testing Reference Library and;
- Swept \$1.6 million from DOR’s marijuana operating fund (MCF) to the General Fund.

Both the ongoing annual transfer to CDPHE and the one-time cash fund sweep have accelerated the timeline that the MCF will drop to a negative fund balance. DOR has been operating at a net loss in the MCF for several years which has been one part of the long-term financial plan to manage the previously high fund balance. Fees have been kept artificially low for several years to allow for the fund balance to be utilized for operations. Application and renewal fees were reduced by on average 22 percent in 2016.

Another aspect of the right-sizing plan included several large outlays from the cash fund over the past few years including a one-time transfer of \$10 million to the Colorado Department of Agriculture for a testing laboratory, transfers of \$902 K over two years to the Colorado Bureau of Investigations (CBI) to combat gray and black-market activity, and the new annual transfer mentioned above to CDPHE of \$1.3 million.

The last part of the long-term financial plan was to restore fees to the appropriate level in FY 2020-21 to balance revenue with expenses for a solvent ongoing operational program. The original timeline, prior to COVID, had been to present the proposed fee adjustments during the summer of 2020 following a fee study that was conducted by a third party vendor with the support of the Marijuana Enforcement Division (MED). Revised fees would then have been effective January 1, 2021 after completing stakeholder engagement and rule-making. Based on the analysis, MED envisioned proposing fee increases in the 65 - 75 percent range. However, due to COVID, the stakeholder engagement process was put on hold to evaluate the impact of the pandemic on the industry before new fee levels were enacted. As of the writing of this response, there has been no final determination made. Future fee increases will be needed to

reverse the present course that illustrates that the Marijuana Cash Fund will have a negative fund balance during FY 2021-22.

## LED

The Liquor Enforcement Division will see a significant reduction in the ability to respond to enforcement priorities with an additional impact to our licensing section which will affect customer service needs. These vacancies are currently being held open from directives in the previous year in conjunction with a poor cash situation in the LED cash fund which has been exacerbated by the inability for the Division to adjust fees during the pandemic.

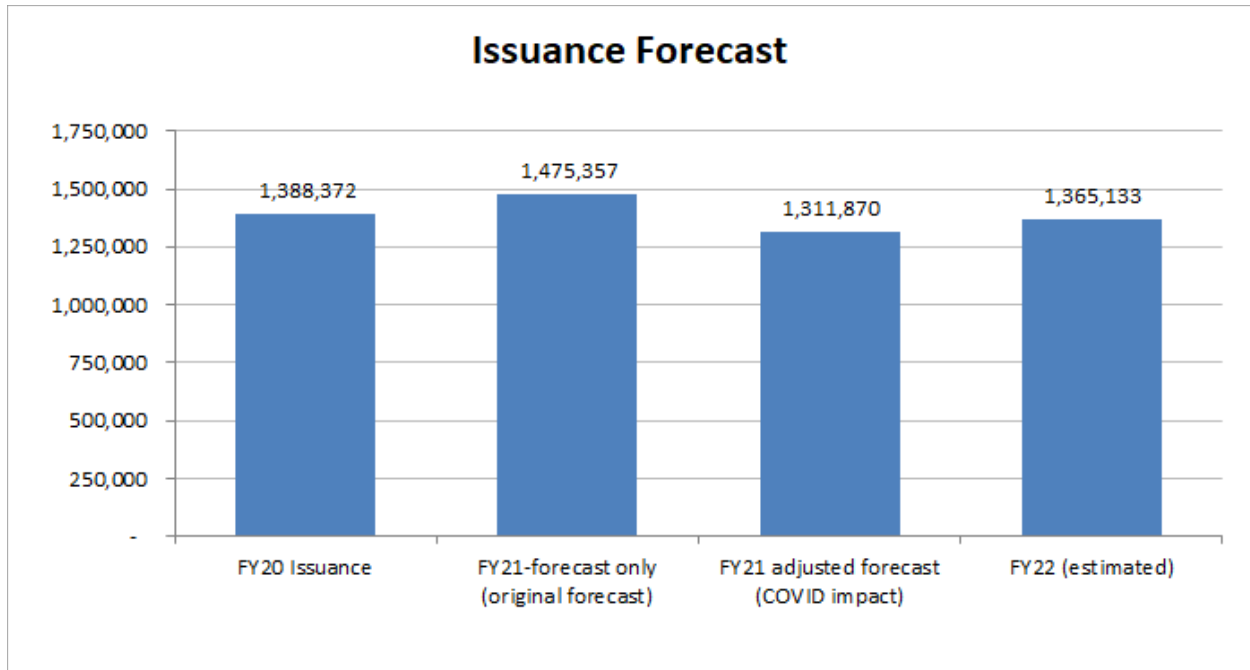
To date, the Division has been unable to implement HB20-1001 which resulted in a loss of appropriation dollars and 19.4 FTE during FY 2020-21.

## DIVISION OF MOTOR VEHICLES

### *TRENDS AND DEMOGRAPHICS*

9. *[Sen. Moreno]* Can you provide a forecast of annual document issuance, taking COVID-19 disruptions into account?

Forecasts of DL/ID issuances are based on historical data using a simple average of monthly data. FY 2021-22 issuance is expected to be lower due to reduced throughput in offices due to public health orders of capacity limitations and online adoption declining once offices reopened. DMV is working to expand appointment throughput (TPH). Previous to COVID, office TPH was averaging 120k customers per month. With appointment only and office capacity barriers with public health orders, issuance is averaging 105k customers per month, which creates a backlog due to lack of allowable service capacity. While online renewals are available anytime, online renewals are stabilizing at a lower level than when offices were closed in March and April. The department is actively working to get leading indicators of expiring issuances to take action to notify customers and get ahead of the backlog.



10. [Rep. Herod] Please discuss the demographic trends driving DMV demand, and comment on to what extent ride-sharing and transit development factor into the projections. Is any related data available from other states?

Recent information from the Colorado Department of Local Affairs (DOLA) suggests no major population changes for the foreseeable future. This situation suggests revenue streams from DL/ID issuance will not be adversely impacted by population. While there have been numerous articles in recent years reporting a trend of the Millennials and Gen Z generations having less interest in obtaining a driver's license than prior generations, DOR has not experienced a drastic shift in issuance over the past 8 yrs.

DMV data from 2012 to 2019 indicates the numbers of driver's licenses issued to 16 to 21 year olds has increased with population growth.. Please notice in the chart below that the number of card holders continues to increase rather than decrease.

AGE GROUPS	2012	2013	2014	2015	2016	2017	2018	2019
16 Years	18,105	18,042	18,443	19,390	20,140	18,228	20,076	20,187
17 Years	34,078	34,112	34,660	35,198	36,252	35,942	36,205	36,710
18 Years	45,342	45,410	45,763	46,561	47,366	48,233	49,006	48,727



19 Years	51,209	51,597	51,912	52,729	52,902	55,019	55,448	56,756
20 Years	55,082	54,797	55,366	55,978	56,461	57,883	58,734	60,060
21 Years	52,679	53,428	53,662	54,824	54,644	57,920	57,856	58,908

The DMV has reached out to the American Association of Motor Vehicle Administrators (AAMVA) to request a national survey of demographic trends regarding younger drivers. The survey went out on December 18, 2020 and as of January 5th, 2021, 11 jurisdictions responded. 10 of the 11 jurisdictions indicated no change in trends with respect to licensure rates among minors. Georgia responded with a decrease of approximately 13k minor licenses from 2018 to 2020.

Colorado Demographic Data (Population by age and year, State Demographer's Website)								
AGE	2012	2013	2014	2015	2016	2017	2018	2019
16	66,254	66,629	67,560	69,644	72,109	72,716	72,898	74,341
17	66,876	66,750	67,108	68,400	70,270	72,316	73,304	73,339
18	72,112	71,893	71,765	72,532	73,614	75,522	77,423	78,235
19	76,091	75,694	75,517	75,926	76,520	77,777	79,331	81,018
20	74,511	77,885	77,538	77,775	78,103	78,305	79,866	81,202
21	73,265	75,125	78,457	78,540	78,710	78,747	79,140	80,504
DMV Issuace Data (# of DL's issued)								
16	18,105	18,042	18,443	19,390	20,140	18,228	20,076	20,187
17	34,078	34,112	34,660	35,198	36,252	35,942	36,205	36,710
18	45,342	45,410	45,763	46,561	47,366	48,233	49,006	48,727
19	51,209	51,597	51,912	52,729	52,902	55,019	55,448	56,756
20	55,082	54,797	55,366	55,978	56,461	57,883	58,734	60,060
21	52,679	53,428	53,662	54,824	54,644	57,920	57,856	58,908
% with a DL by age and year (DMV Data/Demographic Data)								
16	27%	27%	27%	28%	28%	25%	28%	27%
17	51%	51%	52%	51%	52%	50%	49%	50%
18	63%	63%	64%	64%	64%	64%	63%	62%
19	67%	68%	69%	69%	69%	71%	70%	70%
20	74%	70%	71%	72%	72%	74%	74%	74%
21	72%	71%	68%	70%	69%	74%	73%	73%

11. [Rep. Herod] In response to the data from the August 17<sup>th</sup> Denver Post article: Has the Department analyzed internet access issues with the data that indicates the percent of people who could do business online but choose to do so in person instead? In addition, discuss the challenges some individuals may face trying to conduct business online (e.g., literacy, comfort with technology, language barriers, etc.).

The Department is unable to determine the number of residents with internet access issues. We are able to determine who is eligible to renew their DL/ID online. The chart below contains data from FY 19 to the present. DL/ID renewals account for 61.6% of all issuances this year. 211,049 or 72.3% of those eligible to use the online renewal service.



FY	Total Issuances	Number of renewals completed	Renewal % of all issuances	Estimated eligible for online renewal	Actual online renewals
FY19	1,445,943	831,865	57.50%	696,402	205,051
FY 20	1,388,372	849,150	61.20%	734,807	353,412
FY 21 - To Date	551,130	339,369	61.60%	291,752	211,049

When customers arrive in our office, they are informed of our online services, but since they have taken the time to travel to obtain the service they generally choose to complete the transaction in person. From these encounters, we sometimes learn from residents that they do not have internet access. While we cannot determine the total number of residents who do not have internet access, we know they exist and we provide in person services to meet their needs.

The DMV works with numerous advocacy groups to address their community issues. We provide customers numerous accommodations to assist them in completing their transactions with the DMV. These accommodations vary from servicing customers outside of regular business hours, finding ways to provide service when medical conditions are challenging, and providing customers information on advocacy groups that can help provide resources to obtain documents needed to apply for a license or ID. The recent upgrade of the DMV webpage will assist in making improvements to information online.

*SERVICE IMPACTS AND REQUEST ITEMS*

12. [Sen. Moreno] Provide an update on the backlog of customers waiting for appointments for services that cannot be completed online. Can vehicle titles be transferred online?

Driver services, provided primarily by the State from 36 offices, with support from 13 counties in 20 offices, require appointments to comply with Public Health order guidelines to prevent the spread of COVID-19. Availability of appointments range from being able to schedule an appointment immediately to scheduling 8 weeks out. The DMV has been assisting residents who walk up without an appointment by assisting them in making an appointment and are often able to be seen the same day due to appointment cancellations. The backlog of transactions that should have occurred when offices fully closed down from mid-March to the first week of May was cleared by September 2020. However, since offices reopened, the DMV has identified a throughput issue using appointment-only services in order to comply with public health orders. The DMV is exploring ways to alleviate this throughput issue. Statewide, there is an estimated backlog of 1,271,217 vehicle transactions. Increased use of self-service kiosks and MyDMV online services are assisting in reducing the backlog.

Customer and employee feedback has been very positive regarding the use of appointments and the DMV is planning to maximize using the appointment model when the COVID-19 situation subsides.

Vehicle Services are offered exclusively from the Counties who serve as authorized agents of the DOR for titling and registration transactions. There are 105 County MV offices across the State. Each county independently determines the level of customer support that they offer and provide and inform their residents. The DMV assists in making information available to the public by tracking the current status of county offices on its website. As of December 16 there was one county MV office closed, 18 only operating via appointments only, 4 partially open, and 2 partially open but not allowing people within their facilities.

The availability of vehicle services greatly varies by county. Some counties are accepting applications via drop off sites, mail-in or other means. Residents within a County must contact their County to determine how that County can best service them. Status of each County can be obtained at <https://www.colorado.gov/pacific/dmv/closures-and-delays> or at each Counties individual website. It is difficult to predict how long this situation will continue, but latest reports suggest all offices will reopen by the end of January.

Another COVID-19 impact adversely impacting some residents is the backlog of 33,060 or 23.2% of annual print-on-demand, or specialty, license plates. This situation is due to the closure of the Department of Corrections Colorado Correctional Industries (CCi) program which was closed from October 14 to December 8. CCi has resumed limited operations and is working on the backlog that was created during their shut down.

One way that we are exploring reducing in-office visits is through changes in technology. Currently, vehicle titles cannot be transferred online. The electronic transfer of titles is one of the services being evaluated as part of the DMV's Wildly Important Goal (WIG) this year. In partnership with OIT, work is being done to assess the ability to leverage the myColorado app to allow the transfer of a Colorado to Colorado title electronically to a website format. It is too early to assess whether this portion of the project will be successful for this Colorado only solution. The DMV is part of a work group through AAVA that is exploring ways that titles can be transferred electronically from state to state. There is no current timeframe on when a national solution may be available.

13. *[Sen. Hansen]* Discuss anticipated impacts to physical locations (taking the pandemic and request items into account), in terms of number and costs? What savings can we expect, and how soon will these changes be reflected in the DMV's amount of physical space occupied?

We have not yet determined a timeline for the reduction of current offices due to current online services adoption levels, unknown customer willingness to use virtual services, and yet to be

determined ability of technology to meet requirements for issuance of all DMV services. Our digital transformation concept will require a customer focused technological service to be fully in place prior to the closure of any of our brick and mortar offices. We are committed to sustaining a high level of customer service, ease of access to all services, and providing solutions for all Coloradoans, not just tech savvy ones.

The current year lease cost for the DMV's Driver License Offices (DLOs) is \$ 2,072,369. Lease expenses vary greatly by office across the State. The current distribution of the 36 DLOs across the State complemented with the 20 county offices offers access to driver services to the vast majority of residents between 30 and 45 minutes. While we do not anticipate any reduction in office space in FY 2021-22, we did make reductions in space in FY 2019-20.

Last year due to efforts to reduce expenses, the DMV did not move forward with legislative authorized driver license office expansions for Boulder, Parker, Longmont, and Sterling. The DMV retained its current location for these offices, saving \$1,883,762 in expenditures in lease and office upgrade costs.

In addition, the DMV has given up office space at its headquarters at the 1881 Pierce Street location as part of the DOR effort to reduce its footprint. The DMV has been able to give up space due to assigning 32 percent of its workforce to telework. The Pierce Street location now hosts the Tax Division and the Executive Director's Office.

14. *[Rep. Herod]* Discuss the back-end components of the call center portion of R8. Is the vendor Colorado-based?

In June, 2015, the Department replaced an antiquated vendor-based system known as Contact Center with Century Link's call center platform. The Century Link solution brought the department's call center technology back in line with industry standards. However, since the move to CenturyLink, additional web-based technologies have taken the forefront in the industry which provide more cost effective service with increased capabilities and ease of use. The Amazon Connect virtual call center platform, with chat-bot capabilities is now being recommended by the Governor's Office of Information Technology as the next most logical and cost-effective solution to provide the best government services possible to Coloradans. Amazon is based out of Seattle, Washington. OIT has a current enterprise agreement with Amazon that will assist the DMV utilize the platform under the enterprise agreement.

The DMV's Call Center Upgrade plan will move CenturyLink call center technologies from on-site hardware, which includes servers and usage of dedicated physical phone lines, to a web-based Voice-Over-Internet-Protocol (VOIP) solution using Amazon Connect. All DMV call center employees will continue to work remotely using the new Amazon Connect solution. The estimated \$580,000 associated with this request will cover professional Amazon Consultant Services needed to map current systems, design and implement the Amazon Connect solution;

and engineer chat-bot logic and functionality by the end of FY 2021-22. The department's existing call center costs will be shifted from CenturyLink to the Amazon Connect solution's future ongoing costs.

15. *[Sen. Rankin]* A lot of this goes through MyColorado.gov and the recent change to online driver's licenses. What is the longer term plan? How quickly does the Department expect to reach its goal of 85 percent adoption of online services? What would be the cost savings resulting from investments in DRIVES and the proposed digital transformation?

DMV's Digital Transformation plan is a multi-year effort that will build upon existing technology investments to move from an office to an online centric program. DRIVES (MyDMV online services), myColorado, and self-service kiosks were significant investments that provide the ability to expand electronically provided services. The DMV's Wildly Important Goal (WIG) for this fiscal year is to achieve 100 percent of services available online or virtually by June 30, 2021 from a baseline of 43 percent (40 of 94) to better serve all Coloradoans through the utilization of technology. Accomplishment of this challenging goal will set the conditions for offering the maximum number of online and virtual services from which to begin evaluation of the timing for transitioning to an online centric program in the future.

The DMV goal is to achieve 85 percent of eligible Coloradans renew their driver license or ID by June 30, 2021. This is a stretch goal from the prior year objective of 55 percent. The DMV is using existing appropriation and relying on its website, media messages, and sharing information in offices to inform the public and achieve this goal. Our current fiscal year to date (FYTD) renewal results through November 2020 is at 72 percent. The R-08 DMV Digital Transformation decision item contains a request to fund a comprehensive Online Marketing campaign in FY 2021-22. A multimedia campaign is expected to increase public awareness of DMV online and virtual services which will expand its usage.

Cost savings from technology investments are often not directly measured such as cost avoidance by replacing obsolete IT systems that prevent having to address catastrophic failures or offering previously unavailable online service offerings that residents who take advantage of save money by not having to travel to an office. Prior investment in the DRIVES system and requested investment in the R-08 DMV Digital Transformation decision item make possible the opportunity to accelerate the DMV's efforts to offer additional online, virtual, and alternate services.

Work this year is focused on expanding online services from DRIVES, self-service kiosks, and myColorado app. This work is possible because prior investments in technology are able to be upgraded while the legacy systems were unable to be modified.

The R-08 decision item provides an opportunity for investments that would have likely taken years to obtain general fund appropriation assistance to fund such as HB18-1299 (3rd Party Title & Registration Services) which was passed with an appropriation that required a gift, grant, or donation to implement; or establishing a mobile unit program which has been much discussed but was unable to be established with existing appropriations; or provide funding for a comprehensive state-wide online services marketing campaign that has never been possible due to limited operational appropriations.

In addition, the decision item offers the opportunity to leverage new technologies for its call centers and later used by other division call centers in the Department. Further, it will cover programming costs in DRIVES to expand services on self-service kiosks which is a program that has considerable support and interest from the County Clerks.

16. *[Sen. Moreno]* Some of these services may be within the capacity of existing vendors the Department contracts with. For each service, specify whether the Department plans to provide the service in-house rather than through a vendor, and provide cost differentials.

Fifty-four of the State's current services have been identified and are planned to be brought online in-house through myDMV. Some of those services will also be provided in-house through the myColorado mobile app. Existing operating and development resources are being utilized to accomplish this initiative.

A subset of services will also be available via kiosks provided by a current vendor. Kiosk transactions are at no cost to the state, vendor costs and support are covered by a transaction convenience fee.

Expanding the service offerings listed on the R-08 decision item will allow the DMV to offer these online services on the Kiosks platform using current vendor contracts to accomplish this work. This will allow Coloradans access to online services where they may not have access to a computer or other technology.

17. *[Sen. Rankin]* The Department provided mobile driver's licenses services in the past but discontinued the program. Please talk about what was provided previously and why the service ended. How much would it cost to restore the mobile services to their previous level? The request states the Department already has five units but does not have funds to operationalize them. Please clarify whether the Department already owns vehicles that were previously used to provide the service.

The Department has only experimented with mobile driver's license office technology and conducted pilots. The DLO-in-a-box technology has never functioned as expected. In January 2021, the DMV will obtain replacement devices that will allow WiFi access and allow remote operations. Due to insufficient appropriation, the DMV has been unable to make the capital

purchases necessary to obtain vehicles necessary to make the DLO-in-a-box devices portable. Further, until transitioning to appointment only services and ceasing State drive tests in May, the DMV did not have adequate FTE to establish a mobile unit program without adversely impacting existing DLO operations across the State. The DMV has supported Rio Blanco County in a manner that is similar to the mobile unit concept, but the DLO-in-a-box used in this case required connection to the DOR network via ethernet cable, and therefore was not truly “mobile”.

18. *[Rep. McCluskie]* Explain how you arrived at the number and types of vehicles requested. What services would be available through the mobile units (e.g., could a 16 year old be tested and receive their first driver’s license)?

The request for 7 SUV’s and 3 RV’s was based on establishing a mobile unit program to support the five regions DMV’s Drivers License Section is organized and to have a fleet that best supports the geographic disbursement of these regions. SUV’s have been proposed to meet travel needs during the winter months in Colorado weather. The RV’s would support the Front Range and NE Colorado, Southeast Colorado, and the Western Slope. The DMV is conducting further analysis to determine the best and most cost effective number of vehicles to purchase.

All services provided in a current driver license office can be provided through the mobile unit set up. Each mobile unit team using the DLO-in-a-box (SUV) device is expected to be able to process up to 25 customers a day. The RV units are expected to be able to process up to 85 customers a day. An example of the deployment of this program would be to schedule a mobile work unit to be at a specific remote location twice per month, such as the municipal building in Rangely, Colorado. Another example would allow an organization to request a mobile unit for a specific date and location – e.g., assisted living home, sporting event, or high school.

19. *[Rep. Ransom]* Does every adult in the state have either a drivers’ license or an ID card? It seems that one must have an ID to access medical care. Provide any available data on the proportion of Colorado adults with licenses or state identification documents.

The Department only can confirm numbers of individuals who have been issued drivers’ licenses and ID cards. Our ability to estimate the number of adults who do not have a DL or ID card is limited. DMV data on the percentage of DL/ID cards in force compared to 2010 population data from DOLA offers a rough means to estimate numbers who do not have DL/ID cards. There are 4,865,268 credentials in force and the population of Colorado in 2019 from DOLA was 5,763,976. Using credentials in force and population of Colorado by the percentage in the 70+ years age group category, there are an estimated 185,060 adults over 70 year of age without DL/ID cards.

Age Group	Percentage of DL/ID cards in Force	Breakout of Population from 2019 (DOLA)
16 Years	0.47%	1.60%
17 Years	0.88%	1.58%
18 Years	1.17%	1.67%
19 Years	1.33%	1.74%
20 Years	1.41%	1.75%
21 Years	1.38%	1.73%
22 Years	1.51%	1.72%
23 Years	1.63%	1.71%
24 Years	1.75%	1.74%
25-29 Years	9.63%	9.51%
30-34 Years	9.78%	9.38%
35-39 Years	9.02%	8.72%
40-44 Years	8.57%	8.07%
45-49 Years	8.58%	8.01%
50-54 Years	8.82%	7.50%
55-59 Years	9.01%	7.97%
60-64 Years	8.13%	7.41%
65-69 Years	6.59%	6.27%
70+ Years	10.33%	11.93%

Based on serving customers, the DMV is aware that underserved communities and populations exist, and we are taking steps to ensure these Coloradans have easy access to licensing services they need. DMV regularly works in conjunction with stakeholders such as Colorado Legal Services and CDHS to find ways to help get identification cards and licenses to all Coloradans.

20. *[Rep. Ransom]* Are there not-for-profit entities that provide financial assistance for individuals who need an ID but cannot afford it (e.g., seniors and low income individuals)? *[Senator Moreno]* Discuss the role that the “necessary documents” program administered by CDPHE plays in relation to the above questions.

The Department receives vouchers from 4 non-profit programs which provide assistance for individuals who cannot afford a driver license or identification card. These entities pre-pay into



accounts, then issue vouchers redeemable for credentials, with the relevant fees being deducted from the accounts.

The Necessary Documents program administered through CDPHE supports nonprofits that issue vouchers so that the DMV can serve individuals that do not have resources to pay for an ID or driver license. The necessary document program is scheduled to be repealed on September 1, 2021.

The following non-profit programs provide vouchers to individuals for obtaining a free ID cards:

- Grand Valley Catholic Outreach
  - FY 2018-19: 1 (\$28.00)
  - FY 2019-20: 3 (\$39.80)
- Metro Caring
  - FY 2018-19: 7,980 (\$119,000.30)
  - FY 2019-20: 6,032 (\$88,634.62)
  - FY 2020-21 (through Nov.): 1,379 (\$22,379.39)
- Urban Peak - Colorado Springs
  - FY 2018-19: 108 (\$1,443.30)
  - FY 2019-20: 79 (\$1,015.34)
  - FY 2020-21 (through Nov.): 11 (\$172.60)
- Urban Peak - Denver
  - FY 2018-19: 71 (\$918.00)
  - FY 2019-20: 78 (\$1089.10)
  - FY 2020-21 (through Nov.): 8 (\$137.09)

CDPHE also receives vouchers for birth certificates. Birth certificates are one of the key primary documents necessary to prove someone's name and citizenship.

## STATE LOTTERY DIVISION

### OVERVIEW AND DEMOGRAPHICS

21. *[Sen. Hansen]* Please describe what variables cause the ratio of distributions to total sales to vary from year to year.

The drop in the ratio of distributions to total sales in FY 2019-20 was primarily due to the increase of Scratch sales as a percentage of total sales. Scratch games have a much higher prize payout, averaging 67 percent, while Jackpot games average 50 percent. Prior to FY 2019-20, proceeds distributions had run pretty consistently at 24 percent of sales, with Scratch sales being consistently  $\frac{2}{3}$  of total sales; in FY 2019-20, Scratch sales jumped to  $\frac{3}{4}$  of total sales, as Jackpot



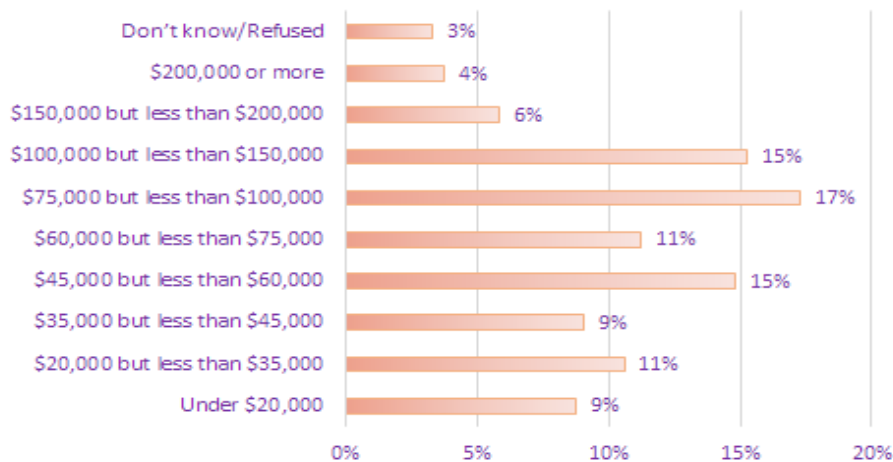
sales dropped due to a dearth of large jackpots. However, it is important to note that higher overall dollar sales for Scratch generate higher dollar transfers to beneficiaries. So, the percentage can go down and total dollars go up even with this shift in demand.

22. [Rep. Ransom] Discuss the basis for your estimate of the \$14.50 per capita increase that would result from R1.

Sales increases are estimated based on industry experience with the introduction of broadcast games and upgrades to the Scratch game program. The total sales increase in FY 2021-22 expected from the DI would be \$84.7M, which, when divided by the Colorado population, translates to \$14.50 per capita.

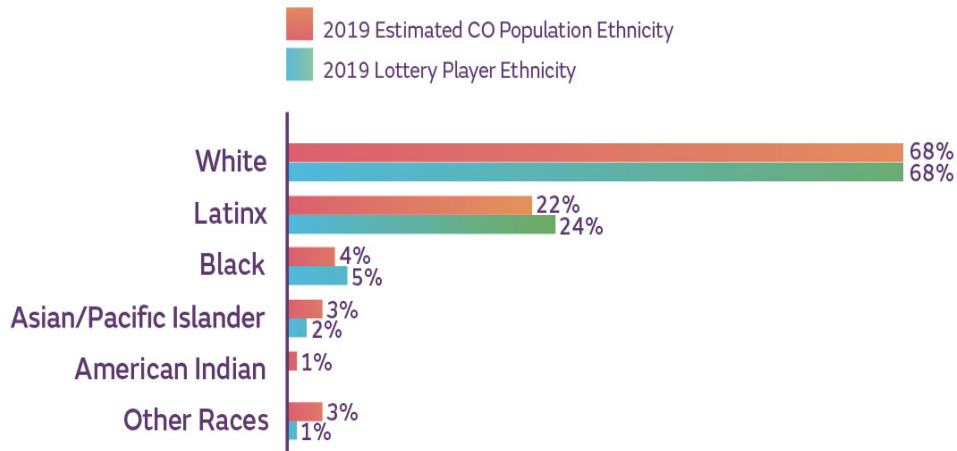
23. [Sen. Rankin] Provide more data on the demographics of lottery players, by game type if available. This could be viewed as a regressive tax to fund bike trails - does GOCO really need more funding?

The Lottery does not have demographic data by game type. Lottery demographics are updated annually based on a quarterly tracking study. The study includes approximately 600 online surveys per quarter, which are quota balanced for age, gender and race/ethnicity to represent the state of Colorado. A more specific breakdown of the Lottery's player demographic by household income is as follows:

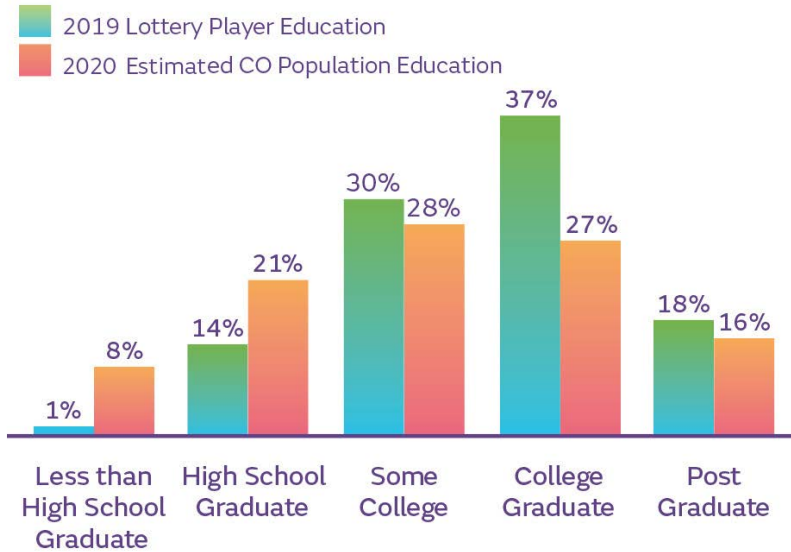


Here is some additional demographic information:

## ETHNICITY COMPARISON

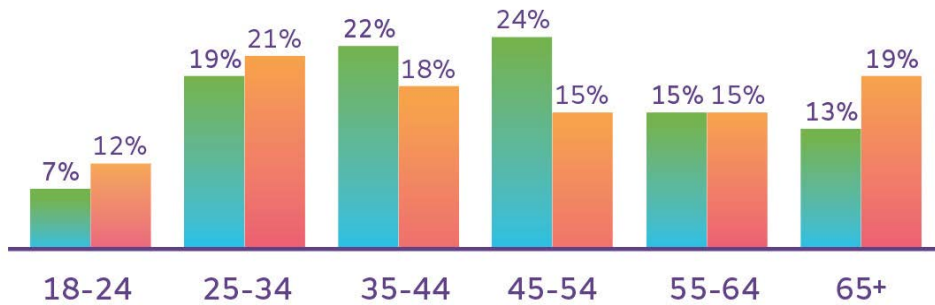


## EDUCATIONAL COMPARISON



# AGE GROUPS COMPARISON

■ 2019 Lottery Player Age Groups  
■ 2020 Lottery Legal Purchase Age Estimated CO Population Age Groups



CPW has estimated that 92 percent of Coloradans recreate in the outdoors at least once every 2 weeks. This, coupled with the rapid population growth Colorado has experienced, has put tremendous strain on our outdoor spaces. CPW has already begun seeing capacity exceed that of our current resources and plans to dramatically increase the supply of public lands. The additional revenue CPW could receive from the Lottery would be critical in helping achieve this goal.

## SCRATCH TICKET CONTRACT CHANGES

24. *[Rep. Ransom]* Elaborate on the fixed costs for the current contract with Scientific Games. Approximately what percentage of sales would be paid to the vendor under the new contract? Would the Lottery still have the same incentive to market under this arrangement? Did the Department consider a fixed price plus percentage contract?

Currently, Scratch tickets are purchased from Scientific Games (SG) on a fixed, cost per thousand basis. The current agreement is a contract to print scratch tickets. Additional services that would include printing scratch tickets, as well as other services and enhanced technology for retailers, are available via contract extension and would be paid for as a percentage of sales. The Lottery prefers an incentive based contract for all of the services it receives from the scratch ticket vendor, as it ensures that the Lottery’s expenses track with its sales. I.e., if sales go up, the Lottery spends more, but if sales suddenly go down, like they did in March & April of 2020, the Lottery is not obligated to pay fixed costs, regardless of need (scratch tickets are ordered up to 6 months in advance of the printing schedule). The spending authority request is based on a standard initial proposal received from the vendor of 2.2% of scratch sales. Through the negotiation process, including negotiations about the scope of the contract, the Lottery believes it can lower this percentage. However, negotiations cannot commence until the necessary spending authority has been authorized. These contract changes would have no impact on the Lottery’s

incentive to market its products, as marketing will remain an essential tool for supporting all lottery products.

#### MONITOR GAMES

25. *[Sen. Moreno and Rep. Ransom]* I *[Moreno]* understand that the courts have classified Keno as a slot machine, which constitutes limited gaming. Would an expansion to monitor games require voter approval? Is it constitutional to expand these monitor games as proposed?

The Colorado Lottery has offered KENO in the past from 1991 to 1998, and KENO is no different from any other in-state draw game (e.g. Lotto+, Cash 3, Pick 5) that the Colorado Lottery offers today. In response to this question, the Colorado Lottery sought a written legal opinion from its Assistant Attorney General which clarifies that the Colorado Lottery is constitutionally authorized to offer KENO. In short, the Lottery is a state-run lottery which is an exception to the general prohibition on lotteries pursuant to Colorado's Constitution. This is a separate and distinct exception from the "limited gaming" exception from which the casinos derive their constitutional authority. The "limited gaming" exception is more limited and does not apply to state run lotteries. Therefore, a vote of the people is not required each time the Lottery wants to offer a new product. Rather, the Lottery must seek approval from the Lottery Commission when it seeks to offer a new game.

The Lottery proposes offering Keno as "free standing", which means that winning numbers are drawn at a central location every 4 minutes and broadcast to monitors at retail locations. By contrast, "mechanical Keno" describes a game played on a gaming device like a slot machine, which creates a specific result, and is completely different from free standing Keno.

26. *[Sen. Moreno]* In other states, the Keno games are offered by kiosk. Is this the long-term plan? How would the Lottery monitor underage gambling? *[Sen. Hansen]* Why Keno rather than an incremental expansion of kiosks?

Most Lottery Keno retailers will have a large screen to broadcast results of the KENO drawings, and a standard Lottery terminal to process transactions which will be operated by retailer employees, who would be responsible for enforcing age restrictions in the same way as existing retailers (such as a convenience or grocery store). If self-service kiosks are employed in Colorado, they will be configured with age-control software which requires a potential player to insert their driver's license into the machine for age verification before they are allowed to play. They will also be placed within plain sight of the retailer's employees. The self-service kiosks will operate the same way lottery vending machines currently operate at existing retailers.

Adding broadcast games, like KENO, will not only significantly increase proceeds to beneficiaries, but it will also provide a post-pandemic economic stimulus to Colorado small business owners, particularly bars and restaurants, through Lottery sales commissions and bonuses which will be approximately 6.7% of broadcast game sales. The Lottery's current vending machines are mostly located in grocery stores and other retail locations that have remained open through the pandemic. In addition, broadcast games reach new and different players – expanding the already broad base of lottery players in Colorado which is important for

ensuring that the Lottery expands responsibly, consistent with its commitment to responsible gaming best practices.

#### OTHER QUESTIONS

27. *[Sen. Rankin]* Are gambling losses deductible? If so, what would be the revenue impact of increased gambling losses?

Gambling losses are only deductible if you itemize and are limited to the extent you have gambling income and cannot be used to offset other types of income. The deduction is aggregated with "other itemized deductions" on line 16 of Schedule A of the federal return. Since the process starts with Federal taxable income, the deduction is already taken at the federal level and passes through to Colorado. The Lottery does not have a way of knowing the impact of these deductions on overall state income tax revenue. The IRS website has more information regarding the deduction which can be found here: <https://www.irs.gov/taxtopics/tc419#:~:text=You%20may%20deduct%20gambling%20losses,you%20reported%20on%20your%20return>

28. *[Rep. McCluskie]* Describe what actions are required to reach Level 4 Responsible Gaming Certification and what resources will be required.

Certification by the World Lottery Association (WLA) requires that an applicant demonstrate a commitment to responsible gaming based on global standards in 10 program areas; research, employee training, retailer training, game design, remote gaming, marketing and advertising, player education, treatment referral, stakeholder engagement, and reporting and measurement. Level 4 certification requires fully developed programs in each of these areas with demonstrable metrics for continuous improvement. Level 4 lotteries must also have their applications verified by an external auditor prior to submitting to the WLA. The Lottery does not require funding beyond our existing budget to meet these standards.

More information can be found here: <https://www.world-lotteries.org/services/responsible-gaming/framework>

29. *[Sen. Moreno]* I have heard concerns about outsourcing by the Lottery and the resulting impact on state employees. Provide a history of services that have been outsourced, and any state employees or state positions that were impacted. Do you anticipate any further job losses as a result of contracting with Scientific Games?

No Lottery jobs have been impacted by outsourcing. There will be no outsourcing or displacement of state workers resulting from the contract extension with Scientific Games. Additional services provided by Scientific Games will compliment and supplement work that is currently done by Lottery staff.

30. *[Question came through the staff analyst]* Provide clarification on the difference between keno offered by the Lottery versus keno games at casinos? Additionally, can you clarify whether keno is currently offered in Colorado's limited gaming towns or if it will potentially be offered as a result of Amendment 77?

There is an important distinction between the Keno that the Lottery is proposing to offer versus the type of Keno that is currently offered on machines in some casinos in Colorado. The Lottery is proposing to offer what is referred to in the industry as “freestanding” Keno which is not the same as “mechanized Keno.” Free standing Keno is displayed on monitors that are not played or operated by the players. The monitors simply broadcast the results from a central drawing that occurs at Lottery headquarters in Pueblo, just like the Lottery’s other in-state draw games. Therefore, the winning numbers from each freestanding Keno drawing are the same for all tickets sold at retailers across Colorado. Mechanized Keno, on the other hand, is played on a machine that is like a slot machine and is actually operated by the player. Like slot machines, the winning results are generated only for the player who is playing that specific slot machine.

At this time, no casino is selling freestanding Keno in Colorado that we are aware of. However, it is our understanding that some casinos offer mechanized Keno. Since passage of Amendment 77, Blackhawk has passed a town ordinance that would allow their casinos to sell “freestanding” Keno, and it is expected that one or more casinos in Blackhawk may begin selling free standing Keno by May of 2021. We are unaware of any other cities that have passed ordinances regarding Keno. There is nothing that would prohibit casinos from offering freestanding Keno as a Lottery retailer, thereby benefiting from the same bonuses and commissions that other Keno retailers will receive. The Lottery already has casinos that are licensed retailers and sell other Lottery products -- Keno would be no different. This might be particularly attractive to smaller casinos who do not want to invest in the overhead/equipment it would require to offer Keno on their own.

# Colorado Department of Revenue

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FY 2021-22 Joint Budget Committee Hearing

January 8, 2021



# Agenda

- I. Department Overview
- II. Legislative Initiatives
- III. Decision Items and Briefing Inquiries
  - A. Taxation
  - B. DMV
  - C. Lottery





## OUR VISION

To empower businesses and individuals through quality customer service, innovation, and collaboration.

## OUR MISSION

To become a trusted partner to every Coloradan, to help them navigate the complexities of government so they can thrive.

## OUR MOTTO

Always Help!

# Goals

## Department of Revenue WIGS

### **Culture of Empowerment: Virtual DOR Services**

Digitally transform the Department of Revenue to 95% of services being available virtually by June 30, 2021.

### **Fiscal Stewardship: Digital Transformation**

Drive transformational improvements of business processes, systems and policies to increase effectiveness and create a long-lasting culture of innovation.

## Executive Director Goals

Convert at least 90% of EDO procedures to virtual processes by June 30, 2021.

Achieve over 70% of a primarily remote workforce by June 30, 2021.

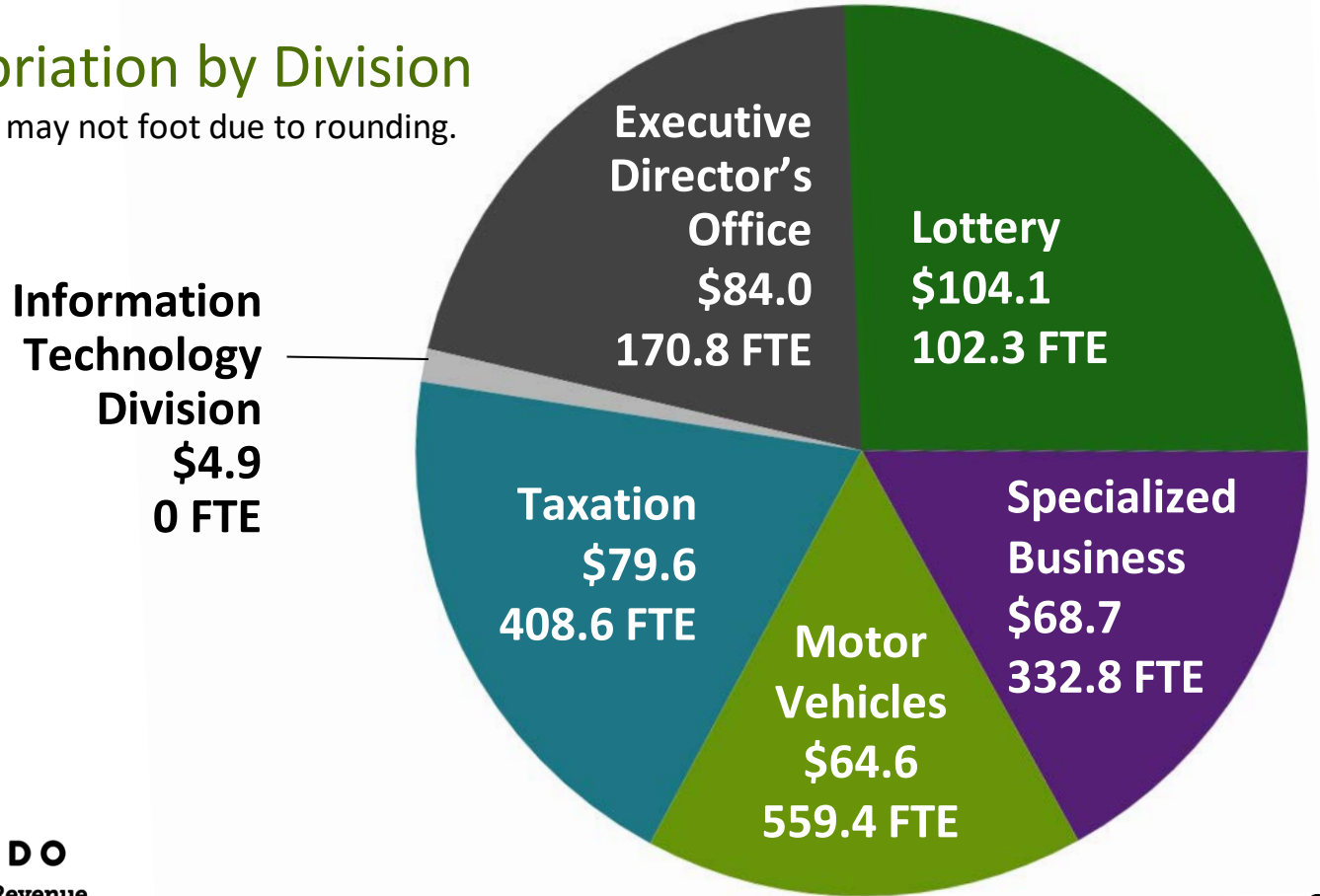
# Structure



# FY 2020-21

## Long Bill Appropriation by Division

Amounts in millions. Totals may not foot due to rounding.

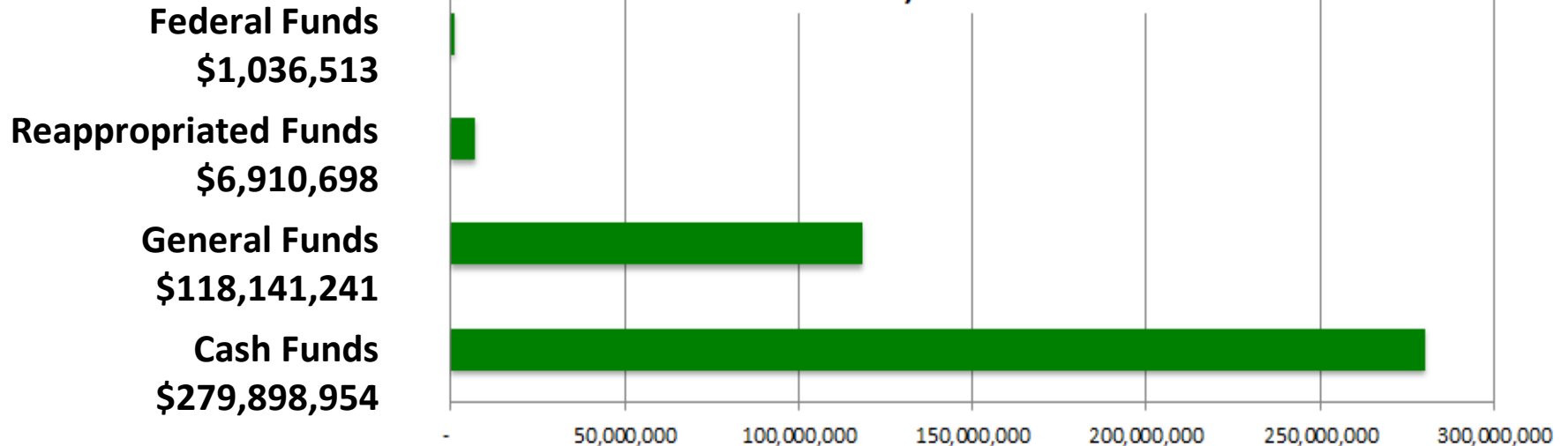


# FY 2020-21

## Long Bill Appropriation by Fund Type

Total Funds: \$405,987,406

1,573.9 FTE



# DOR Legislative Agenda

1

## **TAX:**

Streamline fuel excise tax to first point of transfer

3

## **DMV:**

Allow people 65 and older to renew their driver's license online

2

## **TAX & DMV:**

P.O.S.T. Board certification for motor vehicle criminal investigators and criminal tax enforcement special agents

4

## **SBG/MED:**

Reinstate ability for cannabis businesses to co-locate recreational and medicinal sales



# Decision Items/Reductions and Briefing Inquiries

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Taxation Division  
Division of Motor Vehicles



# R-02

## Sales and Use Tax Simplification System Support & Maintenance

### SIMPLIFY THE SALES TAX FILING PROCESS

A properly maintained SUTS system creates significant efficiencies for taxpayers by reducing their tax calculation and filing workload.

**FY 2021-22**



General Fund  
\$2.2 M



5.0 FTE

**FY 2022-23**  
and Thereafter



General Fund  
\$2.2 M

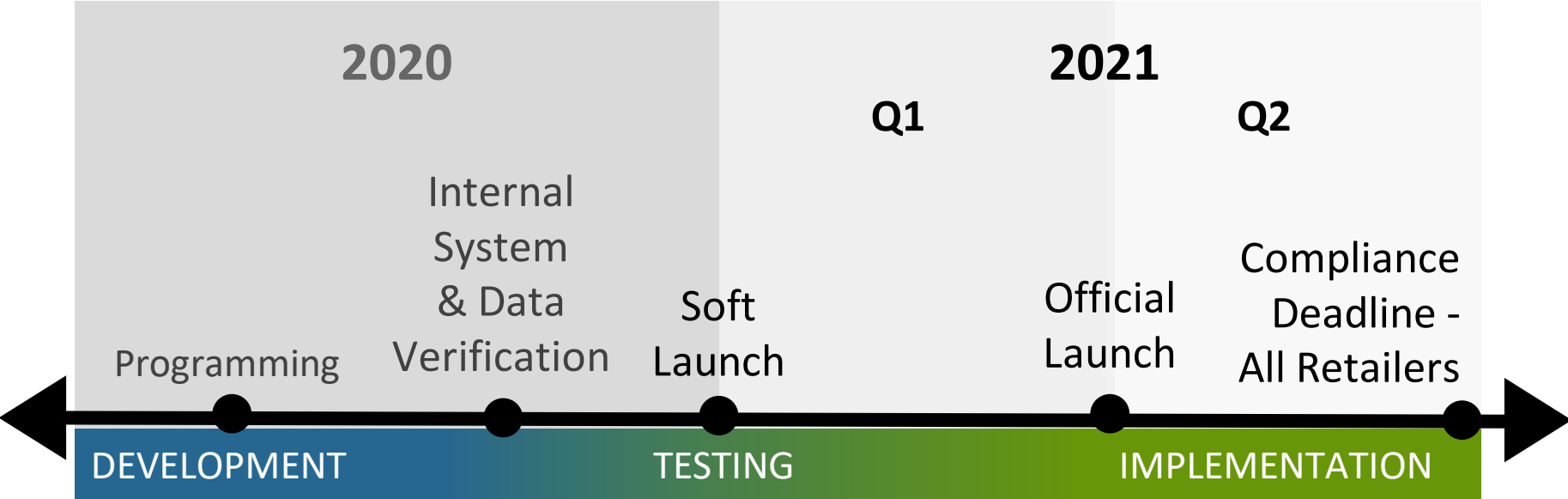


5.0 FTE





# Sales and Use Tax Simplification Timeline



# SUTS Communications Outreach

- Active enrollment of businesses with more than \$100,000 in retail sales began in November.
- Updated [tax.colorado.gov](https://tax.colorado.gov) platform for clearer and more timely content updates.
- Utilize social media, website announcements, press releases
- Additional communications efforts to targeted stakeholder groups are forthcoming.
- For more information about SUTS, visit <https://tax.colorado.gov/SUTS-info>

# SUTS Adoption

SUTS Outreach is making progress:

- July 2020
  - 118 businesses were registered in SUTS
  - 18 home-rule jurisdictions participating
- December 2020
  - More than 1700 businesses were registered in SUTS
  - 44/70 home-rule jurisdictions participating

Consideration of Transitioning Colorado Income Tax Model

# **ADJUSTED GROSS INCOME VS. FEDERAL TAXABLE INCOME**



**COLORADO**  
Department of Revenue

# Differences between AGI and FTI

<p><b>Adjusted Gross Income (AGI)</b></p> <p>Gross income with a few specific deductions</p>	<p><b>Deduct:</b></p> <p>Personal exemptions and standard or itemized deductions</p>	<p><b>Federal Taxable Income (FTI)</b></p> <p>Current starting point</p>
--	--	--



# Pros and Cons of Decoupling

## Pros

- Control over whether to adopt federal changes to certain deductions
- Flexibility to tailor deductions and exemptions to Colorado
- Uniformity with other states

## Cons

- Additional complexity
- Increased administrative costs for taxpayers and state
- Decreased ability to rely on federal audits and data and increased manual, state-level review



# Budget Impacts of Changing

- New forms, instructions, and programming
- Additional error checking and data matching (if possible)
- Increased taxpayer touchpoints:
  - Increase in call center traffic
  - Billing and collections (more chances for errors)
  - Protests and litigation
- State-specific rules, guidance, and legal expertise



# R-08





## DMV Digital Transformation

### Background

### Office to Online-Centric Operations

#### Decision Item Request

1. Increase Services on Kiosks
2. Call Center Technology Upgrade
3. 3<sup>rd</sup>-Party Title and Registration Services
4. Online Service Marketing Campaign
5. Mobile DLO Program

FY 2021-22		FY 2022-23 and Thereafter	
	General Fund \$5.0 M		General Fund \$ -
	0.0 FTE		0.0 FTE



# Background

- COVID 19 - Colorado was prepared with 40 Online Services and 30 Kiosks in 13 counties
- Department Cost Reduction Effort & Cash Fund Sustainability
- Working to expand online / kiosks services this year
- Over 65 DL Renewals legislative request
- DMV Digital Transformation

# Office to Online-Centric Operations

## From Brick and Mortar

- DMV strategy has been focused on improving customer experience in offices
- Online services, kiosks, and myColo app provided alternate service offering while reducing demand in offices



## To Digital Convenience

- New strategy is to make online and virtual services the main focus with offices and mobile units becoming secondary services
- DMV WIG to increase number of online services this FY is first step

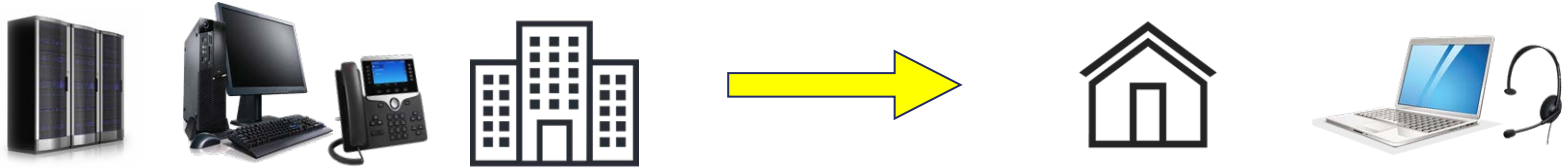


# R-08 Item 1 - Increase Services on Kiosks

- Successful County Pilot concluded
  - 49 kiosks in 13 counties
  - 50% increase in transactions FY 21
- State-managed contract
- 6 Additional Services June 30
  - Request a duplicate title
  - Request a duplicate registration card
  - Replace tabs
  - Add/change a vehicle address
  - Check a title status
  - Renew a DL/ID
- Increase number of kiosks across State in FY 22
- 15 more services on kiosks added (R-08) \$900K



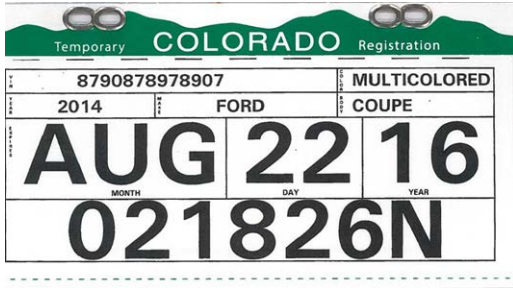
# R-08 Item 2 - Call Center Technology Upgrade



- 1.125 M calls received annually with 370 K (32.8%) unanswered
- DMV call centers transitioned to teleworking
- Current tech limitations in remote recording and monitoring
- \$580K to implement Artificial Intelligence for 24/7 access and reduced wait times
  - Facility-based to cloud-based solution supports teleworking
  - Provide recording and improved monitoring tools
  - Simplify management of call center software



# R-08 Item 3 - Third-Party Title & Registration Services



- HB18-1299 Electronic Filing Motor Vehicle Title & Registration relied on gifts, grants, and donations
- Authorized electronic titling as well as 3<sup>rd</sup>-party vendors to provide vehicle dealers' customers one-stop service
- An increasing number of states have been adding 3<sup>rd</sup>-party services
- Colorado County Clerks support the law
  - Relieves 10.5% or 1.6 million transactions from county workload
  - Eliminate frustration for many vehicle owners in completing T&R actions after purchase
- \$1.7 million programming and implementation costs to establish 3<sup>rd</sup>-party vendor services

# R-08 Item 4 - Online Service Marketing Campaign

Prior online marketing campaigns were limited and regional.



"Dude, it works on my phone!"

Renew your **Driver's License** on your mobile device today.

**Guy VROOM**

Save Time. Renew Online!  
[www.Colorado.gov/vroom](http://www.Colorado.gov/vroom)

Please say **YES** to the **GIFT OF LIFE**



**You're Always First in Line!**

**You're Always First In Line!**  
at [Colorado.gov/DMV](http://Colorado.gov/DMV)

Renew your driver license • Renew your vehicle registration • Make an appointment



**SAVE TIME, VISIT US ONLINE**

**Skip the Trip!**

Next time #SkipTheTripCO with  
[myDMV.COLORADO.GOV](http://myDMV.COLORADO.GOV)

Enjoy Colorado's great outdoors  
and skip the line at the DMV.

- Past efforts positive result, but not enough
  - \$50 K to \$114 K operational funds
  - Website and Social Media
- Until COVID, online renewals remained relatively flat over the previous three FYs
- Last FY, there was an increase of 147 K, or nearly 72% year-over-year
- Request of \$331,227 will be used to hire an advertising agency to:
  - create a unified messaging strategy;
  - assist with content and media buys; and
  - increase awareness and greater adoption of new virtual and other service options statewide for FY 2021-22.

# R-08 Item 5 - Mobile DLO Program



- No program established due to lack of available FTE, funding, and technology
- Conducted pilots connecting via Ethernet
- Technology upgrade will allow WiFi use
- \$1.6 M to create mobile unit program by purchasing necessary vehicles
- FTE & operating available from appropriation due to appointment-only operations and not conducting drive tests
- Expect to support rural areas, nursing homes, special events, to serve residents without internet access



# R-03:R-07

## FY 2021-22 Budget Reductions

		FTE	Total Funds FY 2021-22 and Thereafter
R-03	IT Management Reorganization & Streamlining		-\$703 K
R-04	Reductions from Virtual Government - Hearings	-5.0	-\$803 K
R-05	DMV Reductions	-16.1	-\$6.8 M
R-06	Specialized Business Group Reductions		-\$1.2 M
R-07	Taxation Business Group		-\$421 K
<b>Total Reductions</b>		<b>-21.1</b>	<b>-\$10 M</b>









# NP-02

## DOR Printing and Mail Migration to Integrated Document Solutions (IDS)

- Consolidation per audit recommendation
- Small first-year budgetary increase generates ongoing Statewide savings of \$1.6 M (per DPA R-02)
- Avoid costs of rebuilding DOR print shop after the Annex is vacated

FY 2021-22	FY 2022-23 and Thereafter
 General Fund \$347 K	 General Fund \$2.2 M
 -5.5 FTE	 0.0 FTE

# Questions?

# Break Before Lottery Division Discussion

# Decision Items and Briefing Inquiries

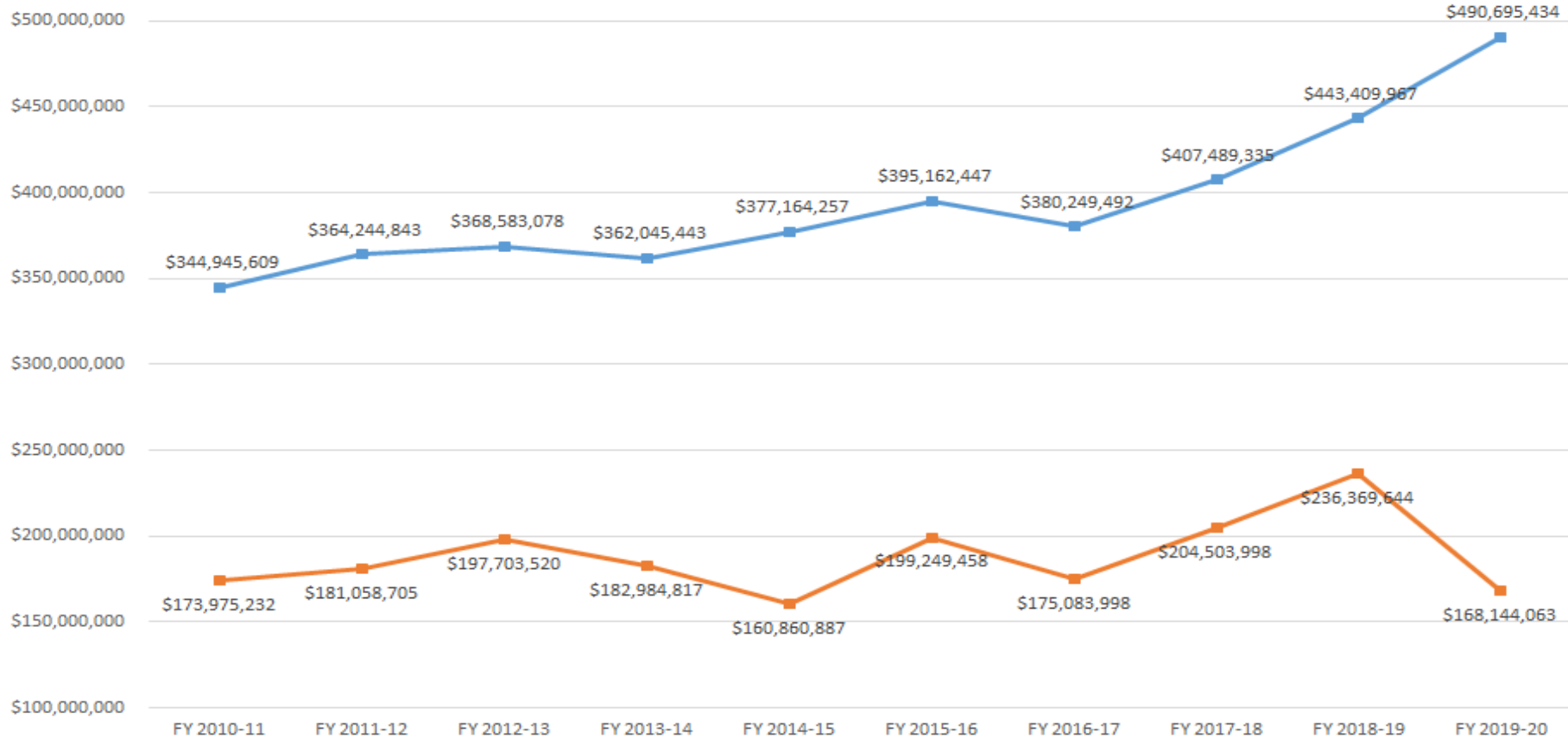
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Lottery Division





## Colorado Lottery Sales History

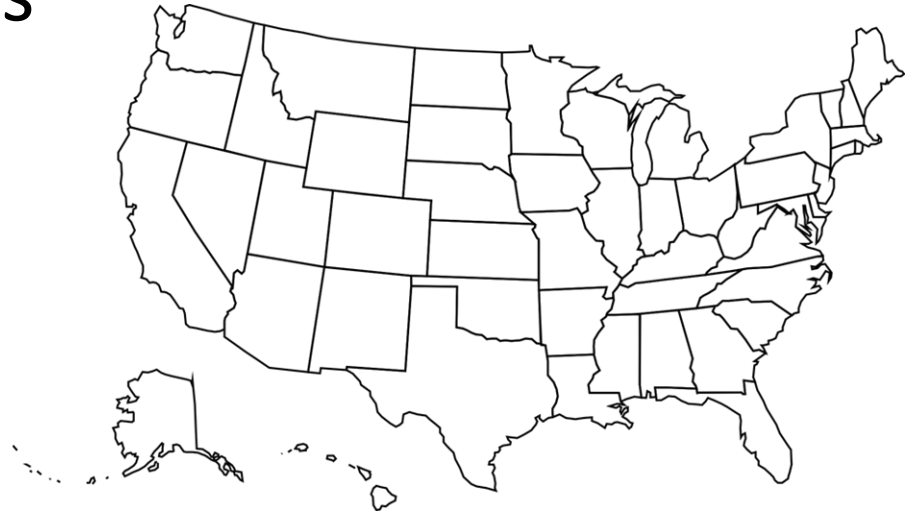


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Department of Revenue

Scratch Jackpot

# End of FY 2016-17

Colorado ranked 35<sup>th</sup>  
out of 47 U.S. lotteries  
in per capita sales.



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Department of Revenue

# End of FY 2018-19

Colorado ranked 32<sup>nd</sup>  
and closing in on  
Arizona.



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Department of Revenue





Reaching \$1 billion  
would rank  
Colorado 27<sup>th</sup>,  
but 3<sup>rd</sup> west  
of Mississippi.



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Department of Revenue

# Who Plays the Lottery?

## LOTTERY PLAYER HOUSEHOLD INCOME

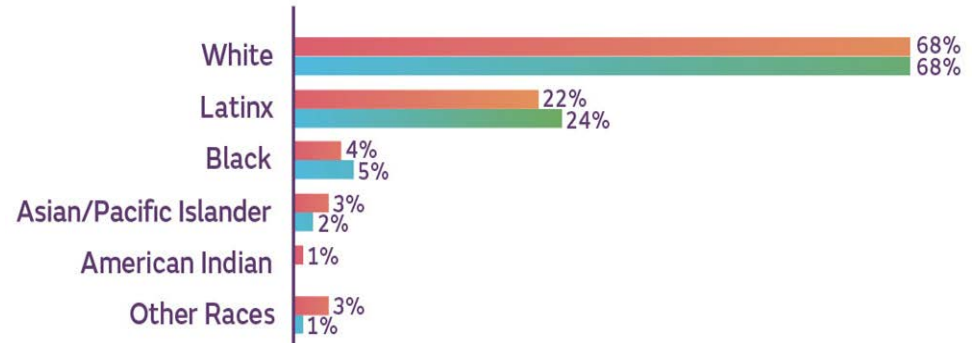
\$60,000+ (Over half of Lottery players had an average household income of greater than \$60,000)

\$75,000+ (Over 40% of Lottery players had an average household income greater than \$75,000)

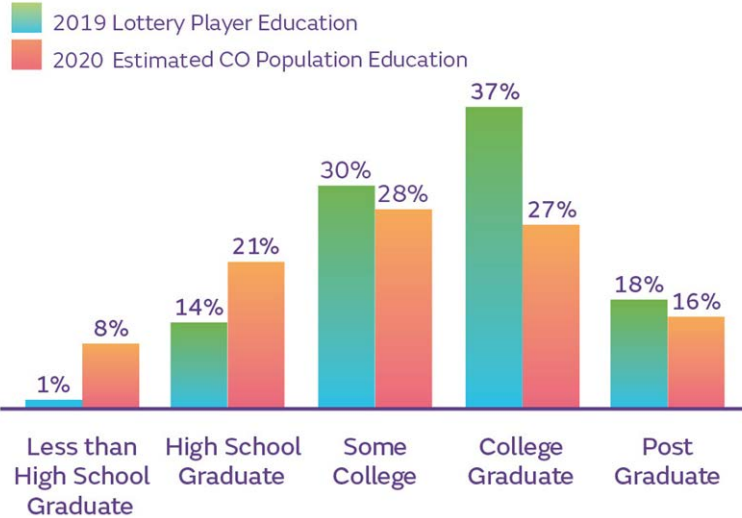


## ETHNICITY COMPARISON

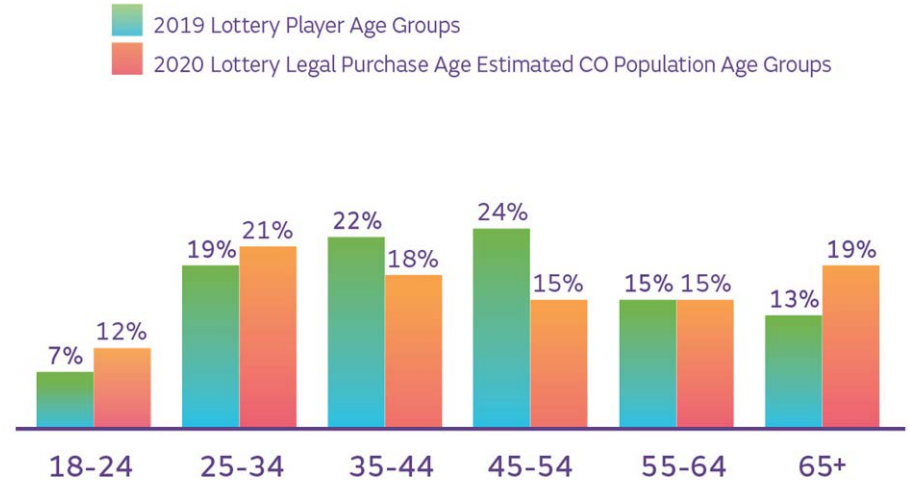
2019 Estimated CO Population Ethnicity  
2019 Lottery Player Ethnicity



## EDUCATIONAL COMPARISON



## AGE GROUPS COMPARISON



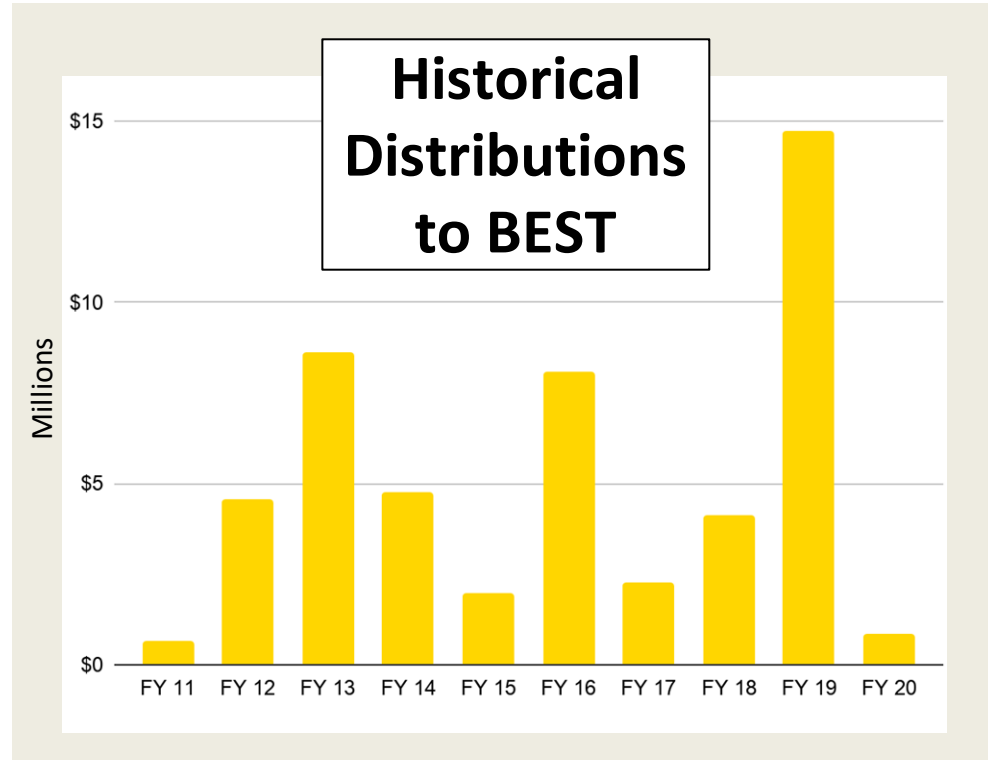
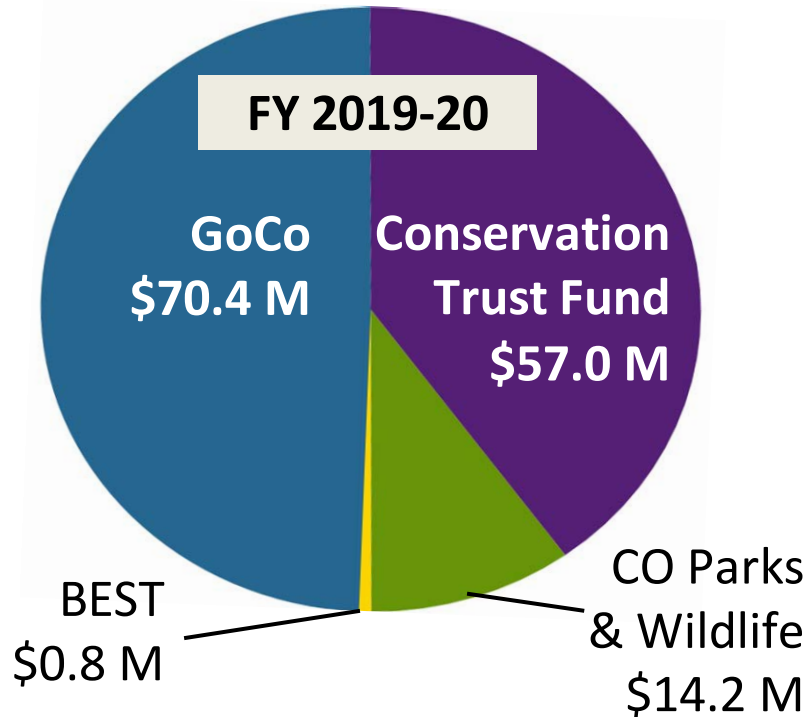
# Responsibility is Core to What We Do

- WLA Level 3 Responsible Gaming (RG) Certification
- WLA Responsible Gaming Program Elements: research, employee training, retailer training, game design, remote gaming, marketing and advertising, player education, treatment referral, stakeholder engagement, and reporting and measurement.
- The Colorado Lottery is a longtime partner with the Problem Gambling Coalition of Colorado.

# Where Does the Money Go?



# Proceeds Distributions to Beneficiaries



# The Lottery is Dedicated to Conservation and Outdoor Recreation

- 92% of Coloradans recreate in the outdoors at least once every few weeks.
- Over \$17 million in Lottery funds were instrumental in making Fishers Peak State Park a reality.

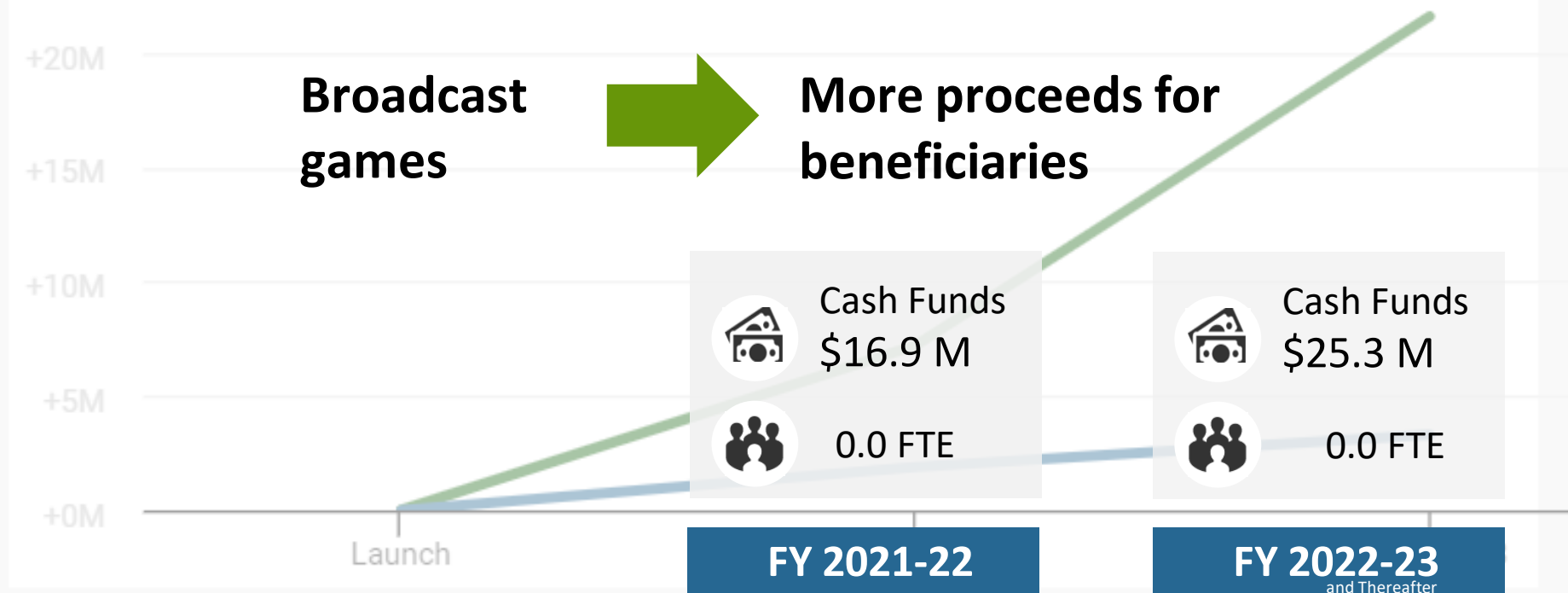
# The Constitution Authorizes a State-Supervised Lottery Without Limitation

- The Lottery is a "state-supervised lottery" authorized pursuant to Colo. Const. art. XVIII, § 2.
- The Constitution gives the legislature broad authority to establish a state-supervised lottery with no limit on game types or location.
- As such, no constitutional amendment is required to authorize new games, including Keno.
- Limited Gaming is authorized pursuant to Colo. Const. art. XVIII, § 9 and does not apply to a state-supervised lottery.
- “Any provision of this constitution to the contrary notwithstanding, the general assembly may establish a state-supervised lottery.” *See* Colo. Const. art. XVIII, § 2(7).
- The Lottery Commission’s power to approve new games through rulemaking is broad. § 44-40-109(2)(a), C.R.S.



# R-01

## Lottery Reimagined For Beneficiaries



# What is a Broadcast Game?

Broadcast games are drawing games that are “broadcast” to a monitor at retail locations - this monitor is NOT a gambling device, i.e. the device is not interactive. It is not “played” or engaged in any way by players.

Keno is the most popular broadcast game.

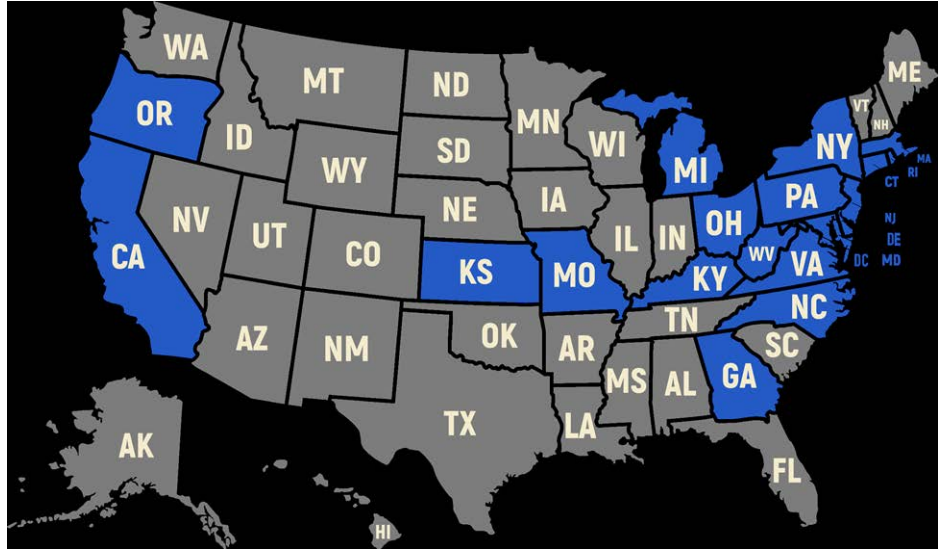


# Why Offer Broadcast Games?

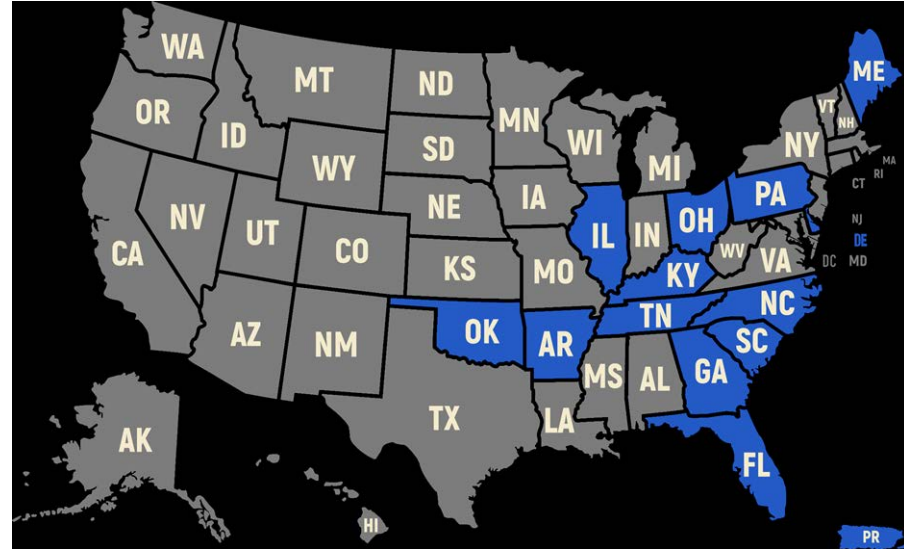
- Currently, 19 other state lotteries offer broadcast games.
- A more diverse selection of games is an industry-recognized responsible gaming best practice.
- Post-pandemic economic relief for local governments, and bars & restaurants (2-year projections):
  - \$26.7 million in additional proceeds for beneficiaries
  - \$6.2 million in commissions/bonuses for broadcast game retailers



## US LOTTERIES WITH KENO



## US LOTTERIES WITH VARIABLE PRICE CONTRACTS



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# Why Switch to an Incentive-Based Scratch Ticket Contract?

- Provides additional services and technology not included in the fixed cost contract that will supplement existing state Lottery jobs, but not replace them.
- Pegs vendor costs to changing market conditions, like the pandemic, and incentivizes the vendor to increase sales revenue.
- In FY 2020-21, lotteries utilizing this type of agreement grew scratch ticket sales by an average of 20%, compared to an average of 9% for those that do not.
- Contract negotiations will follow the State's Procurement Code.

# Questions?

**Briefing Questions - Verbal and Written:**

1. Please describe the Department's actions to implement the Health, Life, and Dental decrease in lieu of a 5.0% General Fund salary base reduction. Please include dollar and percentage share data on planned "allocations" of the decrease to all divisions and programs within the Department. Please describe the use of vacancy savings, delayed hiring, and the implementation of one-time or ongoing operating savings. Please describe the urgency of the Department's need to engage in a furlough in FY 2020-21 due to the inability to achieve savings in other ways.

The Department of Revenue (DOR) has utilized vacancy savings and postponed filling open, vacant positions across several divisions at the end of FY 2019-20 and in the beginning of FY 2020-21 to accommodate the 5% Health, Life, and Dental reduction. While DOR, as a larger agency, would have been able to accommodate the 5% reduction through vacancy savings and delayed hiring, it is understood that many smaller agencies could not and therefore furlough days were the least permanent, statewide solution in lieu of those other agencies needing to lay off existing employees. The statewide furlough option allowed DOR to minimize customer service impacts and hire Coloradans to fill needed positions much quicker than would have been possible without the furlough.

The total \$2.1M General Fund reduction is allocated out to the division based on an FTE allocation as seen below:

**5% Personal Service Reduction Allocation**

<u>Division</u>	<u>GF</u>	
EDO	\$ 494,287	23.7%
Tax - Admin	\$ 17,251	0.8%
Tax - TAC	\$ 778,569	37.3%
Tax - TPS	\$ 533,767	25.6%
Tax - Conferee	\$ 49,555	2.4%
DMV - Admin	\$ 18,542	0.9%
DMV - Driver Services	\$ 154,646	7.4%
DMV - Vehicle Services	\$ 33,384	1.6%
SBG - Admin	\$ 303	0.0%
SBG - LED	\$ 7,440	0.4%
<b>Total PS Reduction</b>	<b>\$ 2,087,744</b>	

2. Please describe how the changes implemented in response to the COVID-19 pandemic have changed the nature of the Department's work, both programmatically and in terms of office space.

The Department of Revenue (DOR) has embraced the new remote workforce environment and has incorporated this philosophy as part of the "reimagining government" initiative. In response to COVID-19, DOR was forced to initiate a remote working environment for the majority of employees. As part of the Department's forward thinking, DOR has vacated the Annex building entirely and will continue to plan for a shared office space at the Pierce location while primarily working remotely going forward. DOR has instituted this strategy in the Strategic Plan as one of the Department's Wildly Important Goals (WIGs) for FY 2020-21 and beyond of maintaining a 70% remote workforce on a permanent basis.

DOR has also embraced the "Digital Transformation" and is transitioning many customer services across all Divisions to be done digitally or virtually.

### **Division of Motor Vehicles**

[Submitted by Senator Moreno]

3. Given the fairly large request to continue to digitalize DMV services, what steps are your agency taking to ensure the privacy of individuals utilizing these services?

Just as is in place for the currently existing online services, new online services protect the privacy of individuals by requiring customers to provide information known only to them before being allowed to complete transactions or receive information from the system. Examples include full name, last four digits of their social security number, date of birth, and driver license number. The DMV is exploring additional security measures it can implement as part of its digital plan. Two factor authentication and secure individual user accounts are examples of additional measures being explored. OIT also protects all state systems with state-of-the-art security monitoring tools.

4. How large is the current backlog of appointments, and moving forward, what are you doing to serve the backlog of those who cannot obtain documents online?



(Reference: State-operated DMV locations were closed to in-person services for six to eight weeks beginning March 18th, 2020. Services that experienced the largest backlog in appointments as a result were those that cannot be completed online, including: initial issuance of driver's licenses, identification cards, and instruction permits, instruction permit holders who need to take the written test, instruction permit holders who are ready to upgrade to a driver's license, Colorado Road and Community Safety Act users, and Coloradans seeking a state-issued driver license or ID card for the first time, including those transferring a credential from another state or country.)

The DMV has 37 State offices to service Coloradans seeking driver licenses and IDs. Our rural offices can service customers within two weeks of an appointment. Our medium to large offices appointments are averaging five to 8 weeks out to set an appointment. Offices have managers work with critical, at risk, and special circumstances customers to expedite those customers, often being seen that day due to customers that do not keep their appointments.

The average monthly throughput overall, prior to appointment-only was approximately 122k a month (with spikes in summer and lulls in winter). With the current appointment-only and social distancing requirements in offices, the total monthly throughput is approximately 114k per month. Some of the in office backlog has been recouped with higher, but not optimal, online adoption. This creates a reduction of average throughput of approximately 8k per month. In the 9 months of reduced throughput and non-optimal online adoption, there is an estimated 72k of in office backlog. Further adoption of online renewal would help to reduce this throughput reduction and thereby reduce our backlog. The DMV takes every opportunity to advise customers of its online options through press releases, social media, and its website.

5. Is the DMV communicating the changes they are making and the shift to online services in all of the languages that the public health orders are being translated in too?

The DMV communicates its changes to service through digital distribution platforms such as our website and social media channels, which both leverage existing technology to translate content into languages commonly found in Colorado. For instance, our website has the ability to display in over 55 languages.

6. What training do DMV employees receive in order to ensure that the S.B. 13-251 (The Colorado Road and Community Safety Act) driver's license program is implemented fairly and accurately in every DMV that offers this license?

The DMV's Training team has put together training on SB 13-251 processes, policies, rules, and procedures to ensure that all state employees issuing these documents receive uniformed

training. The Driver License section also has an SB 251 Working Group made up of DMV employees and community stakeholders that meet monthly to address any issues that arise across the state and to ensure there is consistency in all of the state offices participating in this program.

7. Do the Department and Department employees have a standard operating procedure to protect data of individuals from being shared inappropriately with third parties and federal agencies?

The department has implemented, in accordance with Executive Branch Guidance on Data Management and Privacy, several policies and trainings relating to the privacy and protection of an individual's data from being shared inappropriately with any person or agency - including third parties and federal agencies. Every employee is required to participate in Driver Privacy Protection Act and Acceptable Use Policy training upon hire and annually thereafter. These trainings detail the appropriate use of systems and when information can be released legally to requestors. In addition, authorized third party government agency users must sign and adhere to an End User License Agreement before performing individual record searches for authorized business purposes. Finally, the department has implemented an internal vetting process for all federal agencies requesting personally identifiable information from the DMV. This process captures the requestor, the information requested, and the permissible use declared by the federal agency. If the federal agency does not have an appropriate permissible use defined by law (C.R.S. 42-1-206 and C.R.S. 24-72-204(7)), the request for information is denied.

8. Please provide an update on the work of the S.B. 13-251 working group, including details of who is on the working group, the objectives of the group, how this group is working in partnership with the community partners, and how the working group is meeting during the public health crisis.

Members of the SB-251 working group include a variety of subject matter experts from Driver License offices throughout the state. Current members of this group include Driver License Operations Manager, Driver License Regional Managers, Driver License Office Managers, Driver License Call Center Manager, the Driver License Communications Specialist and community stakeholders from the IDrive Coalition.

The group's objective is to streamline the issuance process for Coloradans needing Colorado Roads and Community Safety Act services through open dialogue with community organizations, chiefly the IDrive Coalition, as well as the experiences from front line DMV team members that have daily interactions when serving those needing this program.

The group meets collectively with stakeholder groups, typically after normal business hours, on a quarterly basis to discuss current issues and trends in the CO-RCSA program. These meetings are beneficial for both sides as the IDrive Coalition provides a window into their respective communities.

Over the past year, we streamlined our identification requirement forms thanks in large part to our open dialogue as well as standing up a process to help nonprofit community groups to help schedule appointments and to ensure applicants arrive with the correct documents to begin the issuance process.

9. There continues to be discrepancies in what documentation is being accepted in different DMV offices to meet the requirements of the S.B. 13-251 program. Does the DMV have a standard list of documents that is made publicly available in Spanish and English for both minors and adults to obtain their drivers licenses? If not, why not?

Yes, the standard list of documents that are accepted for the CO-RSCA program are available online, and in offices. The list is available in both English and Spanish.

10. How is the DMV communicating changes or disruption in services to the broader community and the Spanish language community to assist with obtaining drivers licenses under S.B. 13-251?

The DMV works with the IDrive Coalition partners to leverage their extensive community connections to get the word out to the Coloradans they interact with. When we have a change to SB-251 services, such as adding a new location for services, or adjusting DMV services that are not necessarily SB-251 related, we engage local and state news outlets, including Spanish-language news outlets, as well as posting updates to our website and social media channels. Press Releases are also sent to our primary point of contact with the IDrive Coalition. We've also created several Spanish-language handouts and flyers, which are shared with our IDrive Coalition partners as well as customers at our offices.

11. Please provide an updated report showing individuals served through CRCSA since August 1, 2014 and in the last fiscal year (Example attached below).

**Table 1 (08/01/2014 – 06/30/2020)**

Available Appts.	Individuals Served *	Did not keep Appt.	Documents Issued	DL Issued	Permit Issued	ID Issued	Renewals	No Document Issued
223,557	127,086	71,241	113,761	85,240	18,845	7,709	36,555	17,456

**Table 2 (7/01/2019 – 6/30/2020)**

Available Appts.	Individuals Served *	Did not keep Appt.	Documents Issued	DL Issued	Permit Issued	ID Issued	Renewals	No Document Issued
66,220	20,126	13,499	24,594	12,562	6,967	1,020	9,921 (online 4,045)	423

\*Individuals Served includes individuals who were served for the first time and received a document as well as individuals who were renewing or did not receive a document during their appointment.



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The Colorado Road and Community Safety Act (CRCSA), authorizes the issuance of a Colorado driver license, instruction permit or identification card to qualified individuals who either cannot demonstrate lawful presence in the United States or can demonstrate temporary lawful presence in the United States. This program was implemented by the Colorado Department of Revenue’s Division of Motor Vehicles on August 1, 2014.

The program is offered by appointment only at the Aurora, Westgate, Colorado Springs and Grand Junction Driver License Offices. There are 186 potential customers with appointments each business day: 93 at Westgate and 31 each at Aurora, Colorado Springs and Grand Junction.

**Requested information**

The Department has served 106,957 individuals through appointments who are unable to demonstrate lawful presence in the United States from the start of the program on August 1, 2014 through June 30, 2019. See Table 1 below:

**Table 1 (08/01/2014 - 06/30/2019)**

Available Appts.	Individuals Served	Did not keep Appt.	Documents Issued	DL Issued	Permit Issued	ID Issued	Renewals	No Document Issued
157,357	106,957	57,742	89,167	72,678	11,878	6,689	22,589	17,030

From July 1, 2018 through June 30, 2019, the Department served 23,758 individuals through appointments who are unable to demonstrate lawful presence in the United States. See Table 2 below:

**Table 2 (7/01/2018 - 6/30/2019)**

Available Appts.	Individuals Served	Did not keep Appt.	Documents Issued	DL Issued	Permit Issued	ID Issued	Renewals	No Document Issued
46,176	23,758	21,699	24,084	12,231	4,123	818	13,069	2,973

“Individuals served through appointments” includes individuals who were served for the first time and received a document as well as individuals who were renewing or did not receive a document during their appointment.

## **Common Questions - Written:**

1. Provide a list of any legislation **with a fiscal impact** that the Department has: (a) not implemented, or (b) partially implemented, or (c) missed statutory deadlines. Explain why the Department has not implemented, or has only partially implemented, or has missed deadlines for the legislation on this list. Please explain any problems the Department is having implementing any legislation and any suggestions you have to modify legislation.

**SB19-006 (partially implemented)** required the Colorado Department of Revenue and the Governor's Office of Information Technology to provide and implement a single portal sales tax administration software solution for retailers to more easily comply with destination sourcing. The system will include a geographical information system (GIS) for retailers to secure the correct tax rates and sales and use tax administration software (SUTS) that will allow retailers to register, file, and remit taxes for all state and local taxing jurisdictions.

**Rationale** - The General Assembly's intent is for all local taxing jurisdictions to opt in to using this system; therefore, comprehensive collaboration with taxing authorities, the business community, and the legislature has commenced, thereby ensuring stakeholders are involved in building the system.

**HB20-1001 Tobacco Retail Licensing (not implemented)** authorized the Colorado Department of Revenue to regulate the sale of nicotine products in accordance with the provisions of the bill and to adopt rules concerning the enforcement of those provisions.

**Rationale** - The Division was unable to establish new fees due to COVID-19 relief measure directives, unable to hire 17.4 FTE, and unable to receive appropriations for this 2019/20 fiscal year and 20/21 fiscal year.

**SB19-224 Sunset Regulated Marijuana (partially implemented)** concerning the continuation of the regulated marijuana programs, and, in connection therewith, implementing the recommendations contained in the 2018 sunset report by the department of regulatory agencies and making an appropriation.

**Rationale** - Due to COVID-19 relief directives, the Division was unable to establish new fees and complete a review to established fee reduction or fee waivers for Social Equity Licensees, or for accelerator licenses. The Division is developing forms and a Disproportionate Impacted Area map, all of which are expected to be implemented by the statutory deadline.

**HB18-1042 Private Interstate Commercial Vehicle Registration (partially implemented)**

creates the expedited registration program. The program authorizes the Department of Revenue to promulgate rules authorizing private providers to register interstate commercial vehicles.

**Rationale** - DRIVES programming completed as well as manufacture of start-up inventory for the private partner. Private partner has not expressed interest in entering into contract with DMV to complete these transactions.

**HB18-1299 Electronic Filing Title Registration Motor Vehicle (not implemented)** creates a framework for the Department of Revenue to establish electronic processing for issuing certificates of title, filing or releasing liens, or registering vehicles and special mobile machinery.

**Rationale** – this act was subject to the Department receiving a gift, grant, or donation which we have not received.

**SB19-054 Military Vehicle Motor Vehicle Regulation (not implemented)** defines surplus military vehicles as off-highway vehicles for the purposes of titling these vehicles and of using these vehicles on and off road.

**Rationale** – required extensive research and programming through DMV’s DRIVES system. Outlook for completion is January, 2021 with process currently in end user acceptance testing.

**SB19-167 Honor Colorado Professional Firefighters (not implemented)** creates a Colorado professional fire fighters license plate. To be issued the plate, a qualified applicant must pay 2 one-time \$25 fees and make a donation to a nonprofit organization selected by the department of revenue.

**Rationale** – there were no qualifying non-profits that met the criteria for outlined in the legislation.

**SB20-035 Kiosk Program Provider Vehicle and Identity Services (not implemented)** changes and makes permanent a kiosk pilot program that authorizes private providers to offer services on behalf of the Department of Revenue.

**Rationale** – currently working to finalize a master contract draft. DRIVES programming can begin once the contract is in place. Programming is scheduled to be completed by 6/30/21.

**SB20-056 Surplus Military Vehicles Highway Use if Firefighting (not implemented)** clarifies that for the issuance of vehicle titles and for the registration of recreational off-highway vehicles, a surplus military vehicle is not an "off-highway vehicle" if it is owned or leased by a

municipality, county, or fire protection district for the purpose of assisting with firefighting efforts, including mitigating the risk of wildfires.

**Rationale** – DRIVES programming is currently in user acceptance testing. Anticipate implantation by January 2021.

2. Does the Department have any HIGH PRIORITY OUTSTANDING recommendations as identified in the "Annual Report: Status of Outstanding Audit Recommendations" **with a fiscal impact** that was published by the State Auditor's Office and dated June 30, 2019 (link below)? What is the Department doing to resolve the HIGH PRIORITY OUTSTANDING recommendations? Please indicate where in the Department's budget request actions taken towards resolving HIGH PRIORITY OUTSTANDING recommendations can be found.

The 2020 report will be published on December 7, 2020 and can be found at this link: <http://leg.colorado.gov/content/audits> . JBC staff will send out an updated link once the report is published.

The 2020 report shows that DOR has implemented 61 out of the 61 OSA audit recommendations. No outstanding audit recommendations exist as of June 30, 2020.

3. Is the Department spending money on public awareness campaigns? If so, please describe these campaigns, the goal of the messaging, the cost of the campaign, and distinguish between paid media and earned media. Further, please describe any metrics regarding effectiveness and whether the Department is working with other state or federal departments to coordinate the campaign? Please provide an update to your response from last year, including any changes to existing campaigns and/or the addition or discontinuation of campaigns.

### **Division of Motor Vehicles**

The DMV is currently highlighting online services as part of its effort to safeguard the health of customers and office staff as well as to increase awareness and adoption of online services. Over the course of FY 19-20, the DMV had a handful of small advertising campaigns on the Department of Revenue's social media channels. These include our REAL ID, Pop Up Driver License Office in Meeker and Iconic Colorado campaigns.



The DMV spent \$99.99 from Oct. 21-31, 2019, to spread awareness that the vast majority (~98%) of Coloradans already had REAL IDs and that the DMV acted proactively to address the issue. This ad-buy reached over 18,600 Coloradans in 10 days and helped amplify the messaging from the DMV's joint press conferences with the TSA at Denver International Airport and at the Colorado Springs Airport as well as unpaid social media posts, earned media and website updates.

The DMV participated in another paid ad campaign through the Denver Nuggets. Originally, for \$7,500, the DMV has placed a full-page color advertisement about REAL ID in 20 game programs (the remaining "Above the Rim" programs for the 2019-2020 season, available in both in print and online; normally a \$30,000 value). However with COVID-19, the advertisements were sent to Coloradans by mail. The NBA had been participating in a REAL ID campaign in their franchises nationwide and is consistent with our messaging regarding Colorado residents being fully prepared with regard to REAL ID compliance.

The DMV also spent \$25 to inform Rio Blanco County residents of the Pop-Up Driver License Office that was establishing monthly DMV services to an underserved area. The campaign lasted five days and reached over 2,950 Coloradans in Rio Blanco County and surrounding areas. This was part of the DMV's overall awareness effort that featured a social media video package and posts, press release and earned media.

Additionally, the DMV launched the Iconic Colorado contest to solicit designs for the State's new driver licenses' and identification cards' look. The DMV spent \$133.33 from Sept. 11 - 27, 2020, to increase awareness and participation. The 16-day campaign reached 17,531 Coloradans in areas with large artist communities or areas with schools that have strong art programs. This ad buy was part of a concerted effort that included video and social media posts, press releases, a landing page and website updates as well as earned media throughout the State.

Moreover, the DMV will continue to highlight online services through promotion of #SkipTheTripCO. This will become especially important as the DMV expands its online offerings. To date, the vast majority of marketing has been organic, grassroots efforts. For example the new Colorado Driver Handbook launched in August, and it was the first driver handbook designed specifically for online use, was the first to have an online practice quiz (taken over 3,800 times since late August) and was the first handbook and quiz to be on the myColorado app. And for that grassroots effort, we had a staff-produced video, social media posts, a press release and earned media. We plan to continue with this strategy and will focus on maximizing targeted campaigns to maximize the State's return on investment. We believe this will help us continue to expand online service adoption as we grow the number of services available to Coloradans.

## Lottery Division

The Colorado Lottery is committed to growing sales to fund conservation, the creation and maintenance of local and regional parks, hundreds of miles of biking and hiking trails, preserve millions of acres of open space, fund our parks and wildlife, and educate residents and visitors about our precious natural resources. Colorado is growing, and Lottery proceeds are critical to funding our partners who do this important work. However, the Lottery is committed to growing revenue responsibly and has spent money to educate the public on responsible gaming awareness, education and resources in FY 20 as follows:

- The Lottery provides a \$10,000 sponsorship annually to the Problem Gaming Coalition of Colorado (PGCC). The goal is to raise awareness statewide, advocate treatment, promote research and education and to provide resources for problem gaming habits. The sponsorship is used for:
  - PGCC supports and promotes a scholarship contest for high school students interested in going into the field of therapy/counseling for addictions, like gambling. The PGCC promotes the contest and decides on a winner in February every year. (Earned)
  - The PGCC participates in the Addictive Disorders, Behavioral Health and Mental Health Symposium by sponsoring a booth every year. (Paid)
  - On the back of all Lottery products the toll-free 24 Hour Problem Gambling Helpline is provided. The PGCC contracts with Rocky Mountain Crisis Partners to provide this service. (Paid)
  - March is Problem Gambling Awareness Month. In FY20, the Lottery spent \$20,000 for paid Problem Gambling social media posting. (Paid) We also do organic social posts, a press release, and an email blast. (Earned)
  - We updated a problem gambling brochure to be distributed at all retailers and all Lottery offices. (Paid)
  - We continued to support the "Tickets Aren't For Kids" NASPL Responsible Gambling holiday campaign with \$5,000 in media and social posts. (Paid)

4. Please identify how many rules you have promulgated in the past year (FY 2019-20). With respect to these rules, have you done any cost-benefit analyses pursuant to Section 24-4-103 (2.5), C.R.S., regulatory analyses pursuant to Section 24-4-103 (4.5),

C.R.S., or any other similar analysis? Have you conducted a cost-benefit analysis of the Department's rules as a whole? If so, please provide an overview of each analysis.

The Department works with several boards and commissions that promulgate rules; for ease of use for the consumer, those rules are included in the Department's reporting on rules related activity. Per statute, the Department annually submits a Regulatory Agenda (preview of planned upcoming rules related activity) and a Regulatory Agenda Report (review of actual rules related activity from the current calendar year). These items cover calendar years and can be found on the Department's website under "Statutorily Required Reports".

2020 DOR Regulatory Agenda Report:

- 81 new rules
- 171 amended rules\*
- 6 repealed rules
- 15 reviewed rules\*\*

2019 DOR Regulatory Agenda Report:

- 2 New Rules
- 15 Amended Rules\*
- 1 Repealed Rule
- 15 Reviewed Rules\*\*

*\*When sub-parts of rules are created or repealed, or rules are re-codified, they are included in the "amended" count.*

*\*\*Some rules are both reviewed and then amended or repealed.*

The Department has not conducted a cost-benefit analysis of the Department's rules as a whole however the Department is committed to the statutorily-required mandatory review of rules per the schedule set by the Colorado Department of Regulatory Agencies (DORA). Currently, the Department reviews 100 percent of rules every ten years. The results of the mandatory review of rules can be found in the Regulatory Agenda Reports and the current Rule Review Schedule can be found on the Department's website under "Rulemaking Information". In CY2020, no cost-benefit analysis or regulatory analysis were requested or performed.

5. What are the major cost drivers impacting the Department? Is there a difference between the price inflation the Department is experiencing compared to the general CPI? Please describe any specific cost escalations.

**Executive Director’s Office (EDO):**

Leased Space continues to be a concern ensuring there are adequate funds for the various leases. Total lease/move costs continue to be tracked and monitored.

**Taxation Business group (Tax):**

GenTax is a primary cost driver and is contracted to increase by 3% per year. The other main cost drivers within the Taxation Business group are:

- a. Population growth / tax complexity issues which requires more staff to address questions
- b. Upgrading phone infrastructure to allow for more calls in queue (SIP Trunks)
- c. Upgrading the phone systems (MIPC)
- d. Revamping Revenue Online - Customer Service team will be Tier 1 support for questions (additional calls and additional staff)

The main drivers for the Taxation Business Group caseload are population growth and increased complexity of the tax code.

The Tax Business Group caseload is affected by increases in Colorado’s population that require the Colorado Department of Revenue to process more tax returns each year with the same number of resources. The data below illustrates the continued growth of Colorado’s income tax population (7.9% over the last four years) and the resulting increased growth of the Taxation Business Group’s caseload.

<u>Fiscal Year</u>	<u>Income Tax Returns</u>	<u>Percent Growth Rate</u>
2015-16	3,141,116	
2016-17	3,182,916	1.3%
2017-18	3,288,909	3.3%
2018-19	3,390,110	3.1%

Population growth results both from demographic changes and from other changes in the filing population due to economic and policy factors. For example, in June 2018 the Supreme Court decision in *South Dakota v. Wayfair* overturned 26 years of jurisprudence and resulted in a significant increase in caseload for our Tax Business Group division that administers sales taxes. The decision added out-of-state retailers to our filing population that were not previously required to file sales tax returns in Colorado. The data below illustrates the increase in filings (246.2% over a four year period) driven by the enforcement of destination sourcing for sales tax collection and the addition of out-of-state retailers by the *Wayfair* decision.

<u>Fiscal Year</u>	<u>Sales Tax Returns</u>	<u>Percent Growth Rate</u>
2015-16	2,426,431	
2016-17	2,601,321	7.2%
2017-18	2,836,331	9.0%
2018-19	8,836,194	211.5%

As the filing population increases, the demands on the Taxation Business Group’s resources increase. Those resources not only include processing and auditing returns but also educating taxpayers about the changes and how to comply with those changes.

The complexity of the Colorado tax code is also a major driver of the Taxation Business Group’s caseload. Complexity can occur in a number of ways including new exemptions, deductions, credits, changes in conformity to the Internal Revenue Code, and the creation of new taxing jurisdictions. These changes generally increase the caseload for tax processing, call center, audit, fraud analysis and rulemaking.

These changes also impact taxpayers. For example, the addition of a new taxing district adds additional complexity for taxpayers to separately account for and collect the new tax. Taxpayers who claim credits, subtractions, and exemptions in error must repay the tax and can face penalty and interest charges. In the case of sales taxes, retailers may be required to pay the tax and may be unable to recover an erroneous exemption from their customers after the fact.

The Taxation Business Group has been able to operate relatively leanly due in large part to Colorado’s close conformity to the Internal Revenue Code. Changes in Colorado’s conformity occur through new addbacks, new subtractions, or other changes such as diverting from federal taxable income as Colorado’s starting point. Particularly for individuals, the Department is highly reliant on the ability to match amounts on the state return with amounts reported on the federal return. The state uses IRS data to check for errors, omissions, and non-filers, and requests supplemental information from taxpayers when mismatches are found. Nonconformity with the IRC may prevent some of this matching because the Department would be unable to differentiate between errors, omissions, and differences in law on a systematic basis.

Similarly, the state leverages IRS audits of individuals and corporations to validate federal taxable income and other lines of the return that are based on amounts reported federally. The IRS reports adjustments to the state, and the Department monitors the account for amended returns. The Discovery and Field Audit sections can then focus on uniquely state-level issues such as combined reporting, apportionment, and state-specific credits. Up-front processing checks by Taxpayer Services can also focus on state-specific issues reducing processing time.

Finally, as federal conformity decreases, the state must increasingly develop the law, and its analysis of the law, independently. The Department must promulgate more rules and independently develop and publish guidance, procedures, and instructions. Taxpayers and practitioners must also develop and maintain separate expertise that is unique to Colorado, which increases the costs and risks of doing business in the state. When the IRC changes, but the state's law does not, case law must be developed by the state litigating in state courts rather than the IRS litigating in federal courts. As time passes, relevant resources become more difficult for the Department and taxpayers to access.

### **Division of Motor Vehicles (DMV):**

The development, implementation and use of technology is a cost driver that is affecting how services are delivered. Resources to support and implement technology continue to be challenging as often there is a misconception that technology provides for less need of human resources. The management and support of these new systems require new skill sets and expertise.

As more innovative ways to offer services to customers are available, the Colorado Department of Revenue is seeing a shift to human and technological resources which are needed to support the new technology.

The DMV is finding that more online services are being used by certain younger demographics of the population who are seeking more easily accessible services. However, there is a segment of the population that still prefers to conduct business in offices; therefore, resources are split between these two offerings. Many times the resources to support online offerings require a different skill set and the DMV has to change how they identify potential new employees.

### **Specialized Business Group (SBG):**

The majority of the cost drivers are in Personal Services. Adding more Full Time Equivalent (FTE) resources to the Marijuana Enforcement Division (MED) with new budget requests and legislation are the major cost drivers. In addition, SBG will have cost drivers related to Information Technology cost for analytical software and licensing software upgrades.

In the Liquor Enforcement Division (LED) the budget is so closely tied to the fluctuations in new license applications (as opposed to renewals), this unpredictable market landscape has resulted in making the already difficult task of predicting business license numbers even more challenging and creates uncertainty in LED's operating budget.

With the increased media and social attention on tobacco and nicotine product use, especially as it is related to teens and young adults, there is the need for increased education and enforcement operations as the state is being more closely scrutinized in their efforts to curtail underage use of products causing a public safety hazard. While the state does not currently have a licensing scheme in place for tobacco retailers, increased scrutiny at the federal level and high-profile market lawsuits regarding (particularly) vaping products have led to reluctance to rely heavily on tobacco sales as a source of income for smaller shops. The LED predicts that compliance checks and inspections of tobacco and nicotine retailers will increase due to vaping paraphernalia being readily used by minors that have increased across the nation causing a public safety risk.

For the Auto Industry Division (AID), the division has seen an increase in the number of licenses. In 2011 the AID had 17,652 active licenses. In 2018, the AID had 21,811 active licenses or a 23.6 percent increase. However, spending at the division is not tied to active licenses, but to the appropriations set in the long bill.

In the Marijuana Enforcement Division (MED), there has been an increase in the number of complaints submitted to the MED regarding possible contamination of marijuana and the adulteration of test samples sent by marijuana businesses to testing labs. There has also been an increase in requests for assistance from out of state law enforcement agencies reporting the interdiction of marijuana purchased at Colorado marijuana businesses.

There has been a decrease in the number of marijuana sales to underage patrons, which is believed to be associated with increased site visits by MED staff and proactive engagement activities.

### **Lottery Division:**

The primary cost drivers for the Lottery are in 3 categories:

(NOTE: the cost drivers described below are designed and intended to increase sales, in a cost efficient way, thus generating additional distributions to the Lottery's beneficiaries.

1. Game expansion - This is two-fold:
  - a. Scratch: adding the number of scratch games offered at any one time (as well as the overall total number of games offered per year) increases costs of retailer commissions, ticket printing, distribution (ordering, packing, shipping), and marketing.
  - b. New products: adding a Keno game, or monitor games, or Cash 4 (all things being looked at) will increase costs – equipment, service contracts, retailer commissions, administration / accounting, IT, distribution, and marketing.



2. Retailer Expansion

- a. For Colorado to be at the national average for retailers per capita, we need to add 700 retailers, an increase of 23% from its current base. This will drive staff costs, as well as travel expenses.
- b. Increasing the number of retailers also drives the cost of displays and other marketing materials, as well as retailer commissions.

3. Distribution Methods – this is being driven by improvements in technology, as well as the desire to provide more convenience to players.

- a. Being able to offer sales at multiple check-out lanes will drive display and other retail costs, as well as marketing and sales staff cost increases.
- b. Additional distribution method changes (on-line, combination vending machines, etc.) will drive the cost of new equipment, as well as administrative / accounting functions.
- c. These additions/changes will also drive vendor (back office) and IT support costs.

6. How is the Department's caseload changing and how does it impact the Department's budget? Are there specific population changes, demographic changes, or service needs (e.g. aging population) that are different from general population growth?

No. See question 5 for cost driver information that includes population changes.

7. In some cases, the roles and duties of existing FTE may have changed over time. Please list any positions that have been created in the Department since FY 2018-19 that were not the result of legislation or a decision item.

N/A

For all FY 2021-22 budget requests that include an increase in FTE:

R-02: Sales and Use Tax Simplification System Support & Maintenance

- a. Specify whether existing staff will be trained to assume these roles or these duties, and if not, why;

There is no existing staff that can fulfill the necessary duties being requested through this Decision Item for 5.0 FTE.



**b. Specify why additional FTE are necessary; and**

5.0 FTE are necessary to support this brand new State system. The request includes 1.0 product owner who will be responsible for the maintenance and day-to-day support of the new system and 4.0 FTE who will provide support to taxpayers and troubleshoot calls and inquiries from the customers.

**c. Describe the evaluation process you used to determine the number of FTE requested.**

The number of support FTE for SUTS was determined by a combination of the minimum quantity that is required in the vendor contracts and the minimum number of FTE required to maintain the operational state of the program. In short, the State is required to maintain the Tier One support and provide product support.

**8. Please describe any programmatic impacts resulting from cash fund transfers impacting the department as part of the FY 2019-20 and FY 2020-21 balancing process.**

The General Assembly took actions that:

- Reduced the FY 2020-21 appropriations to DOR by \$10.4 million in total funds and;
- Refinanced \$750K of General Fund appropriation to DMV cash fund spending authority and;
- Established an annual ongoing transfer from DOR's marijuana operating fund, the Marijuana Cash Fund (MCF), to the Colorado Department of Public Health and Environment (CDPHE) for the operation of their Laboratory Testing Reference Library and;
- Swept \$1.6 million from DOR's marijuana operating fund (MCF) to the General Fund.

Both the ongoing annual transfer to CDPHE and the one-time cash fund sweep have accelerated the timeline that the MCF will drop to a negative fund balance. DOR has been operating at a net loss in the MCF for several years which has been one part of the long-term financial plan to manage the previously high fund balance. Fees have been kept artificially low for several years to allow for the fund balance to be utilized for operations. Application and renewal fees were reduced by on average 22 percent in 2016.

Another aspect of the right-sizing plan included several large outlays from the cash fund over the past few years including a one-time transfer of \$10 million to the Colorado Department of Agriculture for a testing laboratory, transfers of \$902 K over two years to the Colorado Bureau of Investigations (CBI) to combat gray and black-market activity, and the new annual transfer mentioned above to CDPHE of \$1.3 million.

The last part of the long-term financial plan was to restore fees to the appropriate level in FY 2020-21 to balance revenue with expenses for a solvent ongoing operational program. The original timeline, prior to COVID, had been to present the proposed fee adjustments during the summer of 2020 following a fee study that was conducted by a third party vendor with the support of the Marijuana Enforcement Division (MED). Revised fees would then have been effective January 1, 2021 after completing stakeholder engagement and rule-making. Based on the analysis, MED envisioned proposing fee increases in the 65 - 75 percent range. However, due to COVID, the stakeholder engagement process was put on hold to evaluate the impact of the pandemic on the industry before new fee levels were enacted. As of the writing of this response, there has been no final determination made. Future fee increases will be needed to reverse the present course that illustrates that the Marijuana Cash Fund will have a negative fund balance during FY 2021-22.