

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2013-14 STAFF BUDGET BRIEFING
DEPARTMENT OF REVENUE**

**JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision**

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DEPARTMENT OF REVENUE

Department Overview

The Department of Revenue regulates, enforces and administers the state's tax laws, issues and maintains records related to driver's licenses, vehicle emission testing stations, registration and titling of motor vehicles, limited stakes gaming, liquor and tobacco retailers, horse racing and pari-mutuel betting, the automobile sales industry, and medical marijuana retailers, growing facilities, and manufacturing facilities. In addition, the Department operates the State Lottery, including state and multi-state games. The Department is divided into seven divisions/business groups, four of which provide services to the citizens of the State, while the other three provide support for the four service providers.

The *Executive Director's Office* provides overall leadership and administration for the Department, including the Executive Director, a citizens' advocate, the central budget office, accounting and financial services, internal audit, human resources administration, and the Office of Research and Analysis. The *Central Department Operations Division* receives, sorts, processes and manages tax documents, checks, and other documents for the Department. The *Information Technology Division* is responsible for the maintenance and support of the Department's information technology systems that are not maintained and supported by the Governor's Office of Information Technology.

The *Taxation Business Group*:

- Is responsible for the collection, administration, and enforcement of individual and corporate income taxes, sales and use taxes, gasoline and special fuel taxes, and severance taxes, as well as all other taxes collected by the state.
- Provides assistance and information to taxpayers about compliance with Colorado's tax laws.
- Attempts to resolve taxpayer disputes before they reach the court system.
- Administers the cigarette tax rebate and the Amendment 35 distribution of cigarette taxes to the cities and counties.
- Administers the Old Age Heat and Fuel and Property Tax Rebate Program,
- Administers the Commercial Vehicle Enterprise Sales Tax Refund.

The *Division of Motor Vehicles*;

- Licenses drivers, maintains records of licensed drivers, and applies administrative sanctions against drivers who violate traffic laws, including for drunk driving and for excessive points on their licenses.
- Oversees the vehicle emissions testing stations (including mobile testing stations).
- Registers and titles motor vehicles.
- Administers the motor vehicle insurance identification database to prevent the registration of vehicles that are not insured.
- Assists first-time drunk-driving offenders in obtaining ignition interlock devices.

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The Enforcement Business Group:

- Regulates and enforces laws related to the limited stakes gaming industry in three historic mining towns.
- Enforces laws regarding liquor and tobacco retailers, including laws against selling those products to minors, and licenses retailers and special events where alcohol is served.
- Regulates horse racing (dog racing is currently inactive) and pari-mutuel betting (including off-track betting).
- Regulates retailers and sales agents in the motor vehicle sales industry.
- Regulates medical marijuana dispensaries, cultivation, and manufacturing facilities.
- Conducts hearings regarding driver's license suspensions and other issues that affect the licensing rights of citizens.

The State Lottery Division:

Operates the State Lottery, which sells scratch ticket games and on-line ticket games such as Lotto and the multi-state lotto games, PowerBall and Mega Millions. The net proceeds of the Lottery benefit the following State funds:

- Conservation Trust Fund
- Colorado Division of Parks and Outdoors Recreation
- Great Outdoors Colorado
- Public schools capital construction fund

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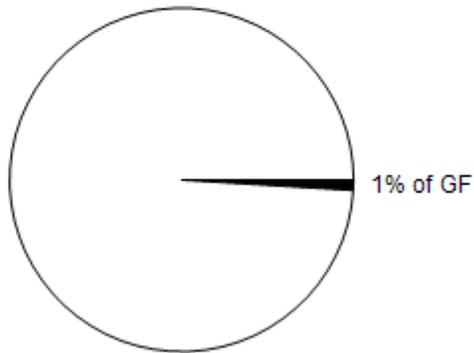
Department Budget: Recent Appropriations

| Funding Source | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 * |
|------------------------|----------------------|----------------------|----------------------|----------------------|
| General Fund | \$70,830,479 | \$72,744,786 | \$73,668,142 | \$77,071,878 |
| Cash Funds | 654,279,061 | 220,685,036 | 211,751,066 | 215,461,589 |
| Reappropriated Funds | 1,421,461 | 1,328,287 | 1,456,105 | 1,312,248 |
| Federal Funds | <u>815,619</u> | <u>723,701</u> | <u>824,388</u> | <u>824,388</u> |
| Total Funds | \$727,346,620 | \$295,481,810 | \$287,699,701 | \$294,670,103 |
| Full Time Equiv. Staff | 1,521.5 | 1,372.3 | 1,250.3 | 1,238.8 |

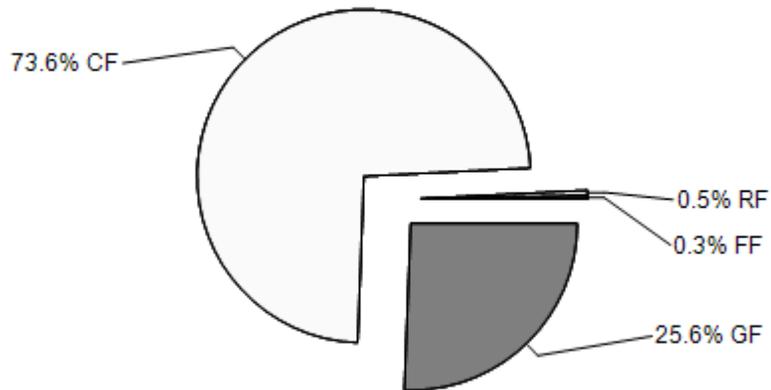
*Requested appropriation.

Department Budget: Graphic Overview

Department's Share of Statewide General Fund

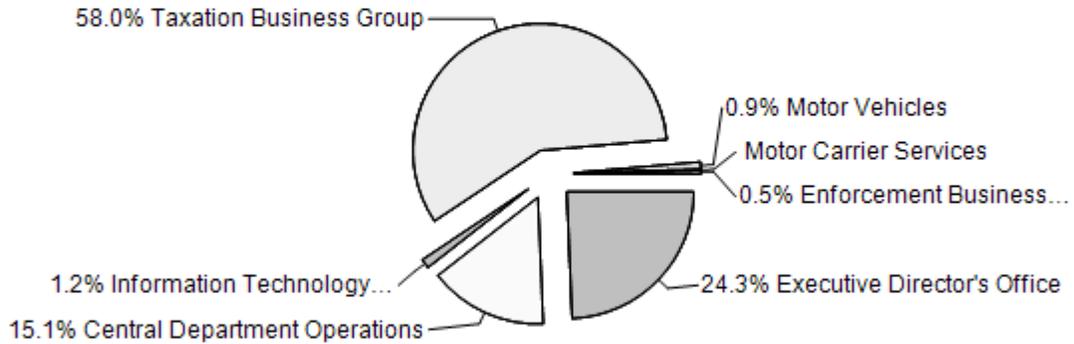


Department Funding Sources

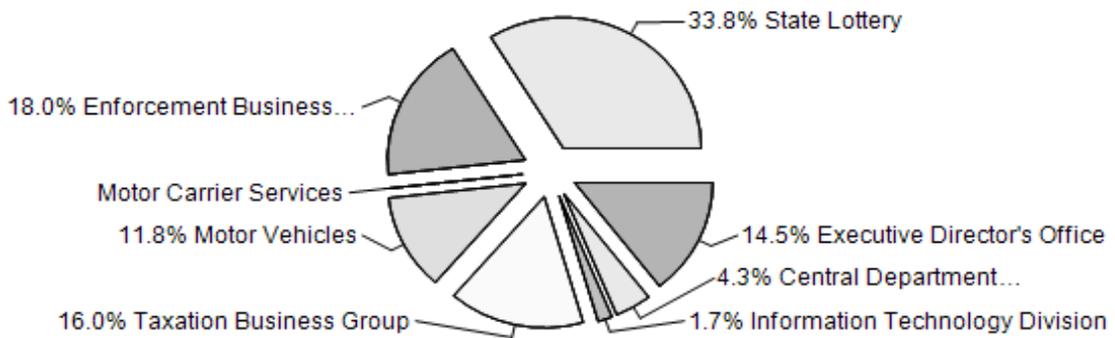


All charts are based on the FY 2012-13 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2012-13 appropriation

General Factors Driving the Budget

The Department's core functions are divided into four functional groups, Taxation Business Group, the Division of Motor Vehicles, the Enforcement Business Group, and the State Lottery Division. These functional groups are supported by the Executive Director's Office, Central Department Operations Division, and the Information Technology Division.

TAXATION BUSINESS GROUP

The *Taxation Business Group* administers individual and corporate income taxes, motor fuel taxes, severance taxes, estate and transfer taxes, and cigarette, tobacco, and liquor excise taxes. The Group includes an Administration Division, the Taxation and Compliance Division, the Taxpayer Service Division, the Tax Conferee, and a Special Purpose Division.

The primary budget driver for the Taxation Business Group is the number of taxpayers (both individual and business) in the State and the State's tax laws. In addition, there are programs administered by the Department, such as the Cigarette Tax Rebate, the Amendment 35 distribution to local governments, the Old Age Heat and Fuel and Property Tax Rebate Program that statutes require expenditures in the Department of Revenue. These programs have minimal administrative costs and are absorbed within the Taxation Business Group.

Electronic tax filing (e-filing) and electronic funds transfers (EFT) for refunds save the Department significant expense when those methods of filing taxes and mailing refunds are used. The Department encourages taxpayers and filers to use e-filing and EFT when possible.

Taxation and Compliance Division

The Division enforces the State's tax laws and regulations for corporate and individual income taxes, sales taxes, severance taxes, and other state taxes. It conducts audits on individuals and corporations that do business in the State. It maintains six offices around the Country as well as sending Colorado-based auditors to audit the returns of corporations based out-of-state that do business in Colorado.

In the 2010 session, the General Assembly appropriated \$1.1 million General Fund and 3.7 FTE in FY 2010-11 to the Department for five years to address the backlog in resolving disputes regarding gross conservation easements, some of which date back to 2002. Then in the 2011 session, the General Assembly passed H.B. 11-1300, which also address the backlog by authorizing an expedited method of resolution of the disputes. Progress continues to be slow in resolving these disputes. *[Please refer to the Issue Brief that begins on Page 20]*

The Mineral Audit unit audits oil, gas, and mineral rents and royalties; the mill levy from oil and gas production; and severance taxes from federal, state, and private lands. It receives funding from the U.S. Department of the Interior's Minerals Management Service, under a cooperative agreement for delegated authority to audit federal minerals production in Colorado. Federal royalties are shared 50/50 with the State.

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Taxpayer Service Division

This Division assists taxpayers in the process of filing taxes by conducting outreach activities (including seminars for both individual and business taxpayers), staffing a telephone call center that answers both specific and general questions, and maintaining a website to distribute information. The Division handles local sales tax collections for many cities, counties and special districts. The Fuel Tracking System tracks the movement of gasoline and other motor fuels to expedite the collection of excise taxes on those products.

Tax Conferee

The Tax Conferee conducts formal administrative hearings to resolve disputed tax assessments or refund denials. The Tax Conferee acts as an intermediary in the hearing process and an official designee of the Executive Director. If the Tax Conferee cannot resolve the case, then a formal hearing, with the Executive Director presiding, is conducted. If these steps fail to resolve the dispute, either party may move the case to the judicial system.

Special Purpose Division

This Division is responsible for the distribution of moneys for the Cigarette Tax Rebate, Amendment 35 (cigarette tax) moneys to local governments, the Old Age Heat and Fuel and Property Tax Rebate, and the Commercial Vehicle Enterprise Sales Tax Refund. Administrative Costs for these programs are minimal and are absorbed by the Taxpayer Business Group Administration Division. These programs are authorized by constitutional or statutory provision and appropriations are determined by the forecasts of the Legislative Council Staff or the Office of State Planning and Budgeting. Long Bill Appropriations are continuously appropriated and included in the Long Bill for informational purposes, and the General Fund appropriations are exempt from the statutory limits on General Fund appropriations.

The *Cigarette Tax Rebate* distributes a portion of state cigarette taxes to qualified city and county governments to reimburse those governments for the foregone tax revenues on cigarettes. To be eligible for the distribution, the local government may not impose any fees, licenses, or taxes on cigarettes. The *Amendment 35* distribution compensates local governments for the loss of local tax revenues that are the result of the decrease in cigarette taxes due to the increased taxes imposed by Amendment 35. Both distributions are based on the percentage of total state sales tax revenue collected in the local jurisdiction.

The *Old Age Heat and Fuel and Property Tax Program* provides assistance in the payment of property taxes and heat and fuel expenses for Colorado residents who meet income, residency, and age requirements. The grants are available to those who are at least sixty-five years of age and who have lived in their residence for the entire tax year. A couple is jointly eligible if either meets the age and residence requirement. The grants are also available to disabled persons of any age who meet the residency requirement.

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| Old Age Heat and Fuel and Property Tax Assistance Grants Income Limitations Specified in Section 39-31-101 and 104, C.R.S. | | |
|---|----------------------|---|
| Type of Grant | Maximum Grant | Grant Reduction * |
| Property Tax – Individual | \$600 | Grant is reduced by 10.0 percent of the amount that the individual’s income exceeds \$6,313 in 2011. No benefits are payable for an income greater than \$12,313. All income figures are adjusted for inflation annually. |
| Property Tax – Couple | \$600 | Grant is reduced by 10.0 percent of the amount that the couple’s income exceeds \$10,205 in 2011. No benefits are payable for an income greater than \$16,205. All income figures are adjusted for inflation annually. |
| Heat or Fuel Expenses – Individual | \$192 | Grant is reduced by 10.0 percent of the amount that the individual’s income exceeds \$6,313 in 2011. No benefits are payable for an income greater than \$12,313. All income figures are adjusted for inflation annually. |
| Heat or Fuel Expenses – Couple | \$192 | Grant is reduced by 10.0 percent of the amount that the couple’s income exceeds \$10,205 in 2011. No benefits are payable for an income greater than \$16,205. All income figures are adjusted for inflation annually. |

DIVISION OF MOTOR VEHICLES

This Division is responsible for issuing driver’s licenses and state identification cards, tracking driver records, registering and titling of motor vehicles and issuing license plates, regulating commercial driving schools, administering the International Registration Plan, overseeing the vehicle emissions testing stations and vehicles, overseeing the motorist insurance identification database, and implementing the ignition interlock program.

The primary budget drivers are the number of people obtaining driver’s licenses or identification cards, purchasing, registering, and titling motor vehicles, vehicles needing emissions testing, the number of drivers committing traffic infractions that require the recording of points and the imposition of driving sanctions, and the number of people committing first-time drunk driving violations who require assistance with obtaining ignition interlock devices.

Driver and Vehicle Services

This Section issues driver’s licenses and identification cards, through 37 state operated driver’s license offices and 17 county operated driver’s license offices. It maintains the official driver records of all drivers in the state, records administrative sanctions against drivers, and revokes, when appropriate, driver’s licenses for persons that have received excessive “points”, been convicted of drunk driving or DUI or have refused lawful requests to prove sobriety. The Section oversees the registration of vehicles and the issuance of vehicle license plates. Finally, the Section operates the International Registration Plan, which allows commercial vehicles to register in the home state (or Canadian province) and fees are assessed based on the mileage driven in each state or province.

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| DIVISION OF MOTOR VEHICLES DRIVER'S LICENSES & DRIVER CONTROL | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| <u>Type of License Issued /a</u> | | | | |
| Adult License | 393,102 | 446,377 | 641,791 | 923,609 |
| Minor License | 89,545 | 84,215 | 83,156 | 85,519 |
| Motorcycle Only | 4 | 1 | 1 | 0 |
| Commercial License | 44,632 | 35,692 | 41,736 | 51,040 |
| <u>Permits Issued /a</u> | | | | |
| Adult License | 55,161 | 51,247 | 53,519 | 54,815 |
| Minor | 74,345 | 72,385 | 71,292 | 70,002 |
| Motorcycle Instruction | 10,295 | 7,454 | 7,611 | 7,623 |
| Commercial Vehicle Instruction | <u>11,906</u> | <u>10,043</u> | <u>11,094</u> | <u>13,084</u> |
| Total Licenses and Permits Issued | 678,990 | 707,414 | 910,200 | 1,205,692 |
| /a Includes only State offices - excludes county offices | | | | |
| Total Identification Cards in Force | 653,764 | 661,413 | 651,495 | 628,775 |
| Total Permits in Force | 113,593 | 112,942 | 106,548 | 114,285 |
| Total Regular Licenses in Force | 3,529,045 | 3,610,553 | 3,659,765 | 3,670,574 |
| Total CDL Licenses in Force | 132,580 | 132,903 | 132,950 | 132,572 |
| <u>Driver Record Administration</u> | | | | |
| Total Restraints Issued | 263,568 | 241,470 | 225,689 | 215,108 |
| License Reinstatements | 88,585 | 85,531 | 82,261 | 79,147 |
| Renewals by Mail | 784 | 2,434 | 3,272 | 5,550 |
| Renewals on-line | 4,696 | 21,138 | 110,495 | 159,893 |

Vehicle Emissions

This Section conducts inspections of emissions stations (including mobile testing vehicles) to ensure compliance with vehicle emissions testing standards. Staff is responsible for licensing all emissions stations and inspectors, and overseeing station operations to prevent fraud and abuse. All funding for this program is from the AIR Account, a sub-account of the Highway Users Tax Fund (HUTF).

| DIVISION OF MOTOR VEHICLES VEHICLE EMISSIONS LICENSES | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Station Licenses Issued | 74 | 77 | 83 | 75 |
| Station Licenses Renewed | 56 | 39 | 64 | 67 |
| Mechanic's Licenses Issued | 467 | 493 | 579 | 355 |
| Mechanic's Licenses Renewed | 147 | 182 | 200 | 151 |

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Titles

This Section is responsible for the issuance of legal, negotiable certificates of title to prove vehicle ownership and protect the public in transactions involving the purchase of vehicles. Staff reviews all high-risk title applications to verify that the assignment of ownership has been properly made. The Section also assists the public, counties, law enforcement agencies, and other state agencies by responding to other information requests and is responsible for managing and maintaining all records. Funding for this program is provided by the Colorado State Titling and Registration Account, a sub-account of the HUTF.

| DIVISION OF MOTOR VEHICLES | | | | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| TITLE APPLICATIONS RECEIVED | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Title Applications Received | 1,452,418 | 1,430,621 | 1,471,503 | 1,561,184 |

Motorist Insurance Identification Database Program

This program helps law enforcement officials verify owner compliance with motor vehicle insurance requirements and prevents registration of vehicles that are uninsured. Funding is provided by the Motorist Insurance Identification Account, a sub-account of the HUTF.

Ignition Interlock Program

This program assists first-time drunk-driving offenders with obtaining and installing an ignition interlock device, which they are required to do in order to reinstate restricted driving privileges. The majority of the funding, which comes from fees charged for reinstating driver's licenses, goes to assist offenders who are unable to afford the device. Funding is provided by the First-time Drunk Driving Offender Account, a sub-account of the HUTF.

| DIVISION OF MOTOR VEHICLES | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| IGNITION INTERLOCK PROGRAM | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Number of persons assisted | N/A | 56 | 1,058 | 2,330 |
| Cost of assistance | N/A | \$3,491 | \$213,424 | \$432,287 |

MOTOR CARRIER SERVICES DIVISION

Pursuant to H.B. 12-1019, the Motor Carrier Services Division was abolished and the major portion of its responsibilities, the Ports of Entry, was transferred to the Department of Public Safety, Colorado State Patrol. The International Registration Program remained in the Department of Revenue, but was transferred to the Division of Motor Vehicles, Driver and Vehicle Services Section.

ENFORCEMENT BUSINESS GROUP

The *Enforcement Business Group* regulates the limited gaming industry, liquor and tobacco retailers and special events, the horse racing track and off-track betting establishments, the automobile sales industry, and the medical marijuana industry (including growing facilities, medical marijuana infused products manufacturing facilities, and dispensaries. The Hearing Division is located in this Group.

The primary budget drivers are the number of licensed limited gaming establishments and the number of people they employ, the number of liquor and tobacco retailing establishments as well as the number of special events requesting alcohol licenses, the number of racing and off-track betting venues, the number of automobile dealers and sales persons, the number of hearings conducted for license suspensions and revocations, and the number of licensed medical marijuana facilities. The numbers of these facilities depends on the number of customers served.

Limited Gaming Division

The Limited Gaming Division regulates the limited stakes gaming industry in the Colorado cities of Black Hawk, Central City, and Cripple Creek. In 1991, the voters approved an amendment to the Colorado Constitution to allow limited stakes gaming in those three cities, subject to local voter approval. The Division licenses gaming establishments and their employees and enforces state laws and regulations pertaining to limited gaming.

The Limited Gaming Control Commission approves the Division's annual budget and oversees the regulation of the casinos. Pursuant to Section 9 (5) (b) (I) of Article XVIII of the Colorado Constitution, the Limited Gaming Control Commission adopts the Division's budget and the budget is not subject to the control of the General Assembly. All expenses for the operation of the Division are paid from the Limited Gaming Fund.

Section 9 (5) (b) (II) of Article XVIII of the Colorado Constitution specifies that after payment of the expenses of the Limited Gaming Division, 50.0 percent of the proceeds from the State gaming revenues are transferred to the General Fund, or such other fund or funds as directed by the General Assembly, 28.0 percent shall be transferred to the State Historical Fund, 12.0 percent shall be distributed to Gilpen County and Teller County, and 10.0 percent shall be distributed to the City of Black Hawk, the City of Central, and the City of Cripple Creek. The distributions to the local jurisdictions are made in proportion to the revenues derived from casinos in each of the respective jurisdictions.

In 2008, voter approved Amendment 50, which allowed an increase in the maximum bets, additional games, and an increase in casino hours of operation. After payment of the expenses of the Limited Gaming Division, 78.0 percent of the *additional* revenue from expanded gaming is distributed to the State's community colleges. The remaining 22.0 percent is distributed to the local gaming jurisdictions in the same manner as the original distributions. In FY 2011-12, the community colleges received \$6.7 million.

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| ENFORCEMENT BUSINESS GROUP | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Limited Gaming Division Revenues, Expenses and Distributions | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Limited Gaming Revenue | \$97,445,021 | \$110,809,510 | \$105,949,859 | \$103,557,500 |
| Commission/Division Expenses | 11,251,725 | 12,372,539 | 12,097,096 | 12,305,062 |
| Distributions | | | | |
| State General Fund | \$2,811,210 | \$16,200,000 | \$20,400,269 | \$20,304,942 |
| Local Government Gaming Impact Fund | 5,543,271 | 3,772,780 | 3,600,806 | 3,314,827 |
| Department of Transportation | 10,127,274 | 0 | 0 | 0 |
| Tourism Promotion Fund | 15,578,699 | 14,208,015 | 12,002,686 | 11,049,424 |
| State Historical Society | 23,878,704 | 24,867,360 | 24,195,009 | 23,127,355 |
| State Council on the Arts Cash Fund | 1,200,026 | 1,121,726 | 0 | 0 |
| Film Incentives Cash Fund | 180,011 | 407,997 | 240,054 | 220,989 |
| New Jobs Incentives Cash Fund | 1,400,052 | 1,291,231 | 0 | 0 |
| Bioscience Discovery Evaluation Grants | 4,500,000 | 5,500,000 | 4,320,967 | 3,977,793 |
| Office of Economic Development Film Commission | 300,000 | 0 | 0 | 0 |
| Innovative Higher Ed Research Fund | 1,000,000 | 1,904,251 | 1,680,376 | 1,546,920 |
| Creative Industries Cash Fund | 0 | 0 | 960,215 | 883,954 |
| Limited Gaming Counties | | | | |
| Gilpin County | 8,196,195 | 8,720,983 | 8,544,294 | 8,196,996 |
| Teller County | 2,037,536 | 1,936,457 | 1,824,995 | 1,714,728 |
| Limited Gaming Cities | | | | |
| City of Black Hawk | 6,056,663 | 6,516,136 | 6,352,054 | 6,048,629 |
| Central City | 773,499 | 751,350 | 768,192 | 782,200 |
| City of Cripple Creek | 1,697,946 | 1,613,714 | 1,520,829 | 1,428,940 |
| Amendment 50 Distributions | | | | |
| Limited Gaming Counties | N/A | 951,648 | 1,069,993 | 1,031,963 |
| Limited Gaming Cities | N/A | 793,040 | 891,661 | 859,969 |
| Community College System | N/A | <u>6,185,713</u> | <u>6,954,952</u> | <u>6,707,757</u> |
| Total Distributions | \$85,281,086 | \$96,742,401 | \$95,327,352 | \$91,197,386 |

Liquor and Tobacco Enforcement Division

This Division licenses liquor wholesalers and retailers, enforces laws prohibiting alcohol sales to minors and underage consumption, and enforces laws prohibiting tobacco sales to underage consumers. Starting in FY 2012-13, the liquor and tobacco functions were merged into one division. Funding for the Division is provided by the General Fund, the Liquor Enforcement Division and State Licensing Authority Cash Fund, the Tobacco Education Programs Fund, and the Reduced Cigarette Ignition Propensity Standards and Firefighter Protection Act Enforcement Fund.

| ENFORCEMENT BUSINESS GROUP | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| LIQUOR AND TOBACCO ENFORCEMENT DIVISION | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| State administrative actions | 320 | 296 | 369 | 278 |
| State revocations | 1 | 0 | 4 | 3 |
| State suspensions | 115 | 152 | 163 | 51 |
| State denials | 3 | 1 | 0 | 1 |

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| ENFORCEMENT BUSINESS GROUP | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| LIQUOR AND TOBACCO ENFORCEMENT DIVISION | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Division-filed court cases | 512 | 466 | 784 | 756 |
| Division-assisted local hearings | 13 | 5 | 6 | 6 |

Division of Racing Events

The Division promotes and regulates the horse and dog racing industry in Colorado. The only current operating live venue is Arapahoe Park, which offers live racing on Fridays, Saturdays, and Sundays for 13 consecutive weekends in May through August. Arapahoe Park also offers simulcast wagering on out-of-state races during the live racing season. The Division also oversees the seven off-track betting facilities that offer wagering on simulcast horse and greyhound racing from around the Country.

| ENFORCEMENT BUSINESS GROUP | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| DIVISION OF RACING EVENTS | | | | |
| | CY 2008 | CY 2009 | CY 2010 | CY 2011 |
| Live Racing Days | | | | |
| Horse Racing | 36 | 36 | 39 | 40 |
| Greyhound Racing | 126 | 0 | 0 | 0 |
| Pari-mutuel sales /a | \$90,756,248 | \$64,216,527 | \$77,435,356 | \$79,749,656 |
| Pari-mutuel tax collections | \$1,568,600 | \$470,859 | \$562,299 | \$598,123 |

/a Includes off-track betting

Motor Vehicle Dealer Licensing Board

The Board is responsible for the licensure and regulation of the automobile sales industry, including dealers and sales persons. In addition to licensing, the Board investigates complaints against dealers and sales persons and can issue civil enforcement actions or refer the case for criminal actions. Funding for the Board is from the Auto Dealers License Fund.

| ENFORCEMENT BUSINESS GROUP | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| MOTOR VEHICLE DEALER LICENSING BOARD | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Motor Vehicle Case Types | | | | |
| Dealer Licenses Processed | 5,170 | 4,663 | 4,466 | 4,493 |
| Dealer License Collections | \$1,154,500 | \$1,791,261 | \$1,255,549 | \$1,316,604 |
| Salesperson Licenses Processed | 15,099 | 13,645 | 13,186 | 13,566 |
| Salesperson License Collections | \$1,055,235 | \$1,633,225 | \$1,074,576 | \$1,177,800 |

Hearings Division

The Division conducts hearings in a number of areas that affects the licensing rights of citizens. These include driver license suspensions, revocations, cancellation or denial of medical and physical disability, habitual traffic offenders, horse racing license, and other actions that affect the licensing rights of citizens. The Division also provides computer support and data analysis for public awareness program related to traffic safety. Funding for the Division is provided by

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the Driver’s License Administrative Revocation Account, a sub-account of the Highway Users Tax Fund.

| ENFORCEMENT BUSINESS GROUP | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| HEARINGS DIVISION | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Motor Vehicle Case Types | | | | |
| Excessive Points | 9,251 | 8,275 | 6,988 | 6,073 |
| Express Consent | 13,913 | 14,262 | 12,226 | 12,135 |
| DUI Convictions | 1,779 | 490 | 140 | 138 |
| Habitual Traffic Offender | 854 | 283 | 73 | 72 |
| Insurance related restraints | 420 | 467 | 302 | 244 |
| Ignition Interlock | 0 | 1,347 | 1,908 | 2,267 |
| CDL Restraints | 0 | 679 | 533 | 165 |
| Other | <u>8,000</u> | <u>1,521</u> | <u>1,352</u> | <u>1,616</u> |
| Total | 34,217 | 27,324 | 23,522 | 22,710 |
| Other Hearings | 62 | 54 | 125 | 119 |
| Total | 34,279 | 27,378 | 23,647 | 22,829 |

Medical Marijuana Enforcement Division

In 2000, the voters approved an initiative to amend the Colorado Constitution to authorize the use of marijuana for “debilitating medical conditions”. Due to the recent proliferation of medical marijuana dispensaries opening around the State, the General Assembly enacted H.B. 10-1284 to regulate medical marijuana caregivers, dispensaries, cultivation facilities, and medical marijuana infused-products manufacturing facilities.

The Bill created the Medical Marijuana State Licensing Authority in the Department of Revenue to enforce the law and to promulgate and enforce regulations related to medical marijuana facilities. Regulation of caregivers and patients was assigned to the Department of Public Health and Environment. Funding for the Licensing Authority is from the Medical Marijuana License Cash Fund.

| ENFORCEMENT BUSINESS GROUP | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| MEDICAL MARIJUANA ENFORCEMENT DIVISION | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Licensing Activity | | | | |
| Center Business License Applications Received | N/A | N/A | 819 | |
| Center Business Licenses Issued | | | | 273 |
| Center Business License Applications Revenues | N/A | N/A | \$6,463,950 | |
| Center Business License Fee Revenues | | | | \$1,410,250 |
| Infused Product Business License Applications Received | N/A | N/A | 325 | |
| Infused Product Business Licenses Issued | | | | 38 |
| Infused Produce Business License Applications Revenues | N/A | N/A | \$406,650 | |

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| ENFORCEMENT BUSINESS GROUP | | | | |
|--|-------------------|-------------------|--------------------|--------------------|
| MEDICAL MARIJUANA ENFORCEMENT DIVISION | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Infused Product Business License Fee Revenues | | | | \$222,750 |
| Cultivation Business License Applications Received | N/A | N/A | 1,241 | |
| Cultivation Business Licenses Issued | | | | 218 |
| Cultivation Business License Applications Revenues | <u>N/A</u> | <u>N/A</u> | <u>\$1,551,500</u> | - |
| Cultivation Business License Fee Revenues | | | | <u>\$1,149,500</u> |
| Total Licenses Received/Issued | N/A | N/A | 2,385 | 529 |
| Total License Revenues | N/A | N/A | \$8,422,100 | \$2,782,500 |

STATE LOTTERY DIVISION

The State Lottery Division is responsible for the promotion and operations of the State Lottery, which includes scratch ticket games and jackpot games. The scratch ticket games are scratch-off tickets that provide for instant winnings for tickets (although some games have secondary drawings for additional prizes). Jackpot games, such as Cash-5, Lotto, and the multi-state PowerBall and MegaMillions games are games that have drawings at specified dates and times. The primary budget drivers are the number of lottery retailers and the number of tickets sold. The proceeds of the lottery go primarily for Colorado open-space and recreation purposes. Pursuant to Article XXVII of the Colorado Constitution, proceeds of the lottery are distributed in the following fashion:

- 40 percent to the Conservation Trust Fund;
- 10 percent to the State Division of Parks and Outdoor Recreation; and
- 50 percent to State Board of the Great Outdoors Colorado Trust Fund (except that the 50 percent is capped at \$35 million in 1992 dollars).

| LOTTERY DIVISION | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| REVENUES BY TYPE AND DISTRIBUTION (\$ Millions) | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Revenues by Type | | | | |
| Cash 5 | \$20.8 | \$21.3 | \$19.2 | \$19.5 |
| Lotto | 43.6 | 41.6 | 39.3 | 33.3 |
| Powerball | 100.7 | 101.6 | 70.0 | 81.9 |
| Scratch | 328.3 | 328.1 | 344.9 | 364.2 |
| Matchplay | N/A | 6.2 | 11.4 | 9.3 |
| MegaMillions | N/A | 2.4 | 25.1 | 37.1 |
| Raffle | <u>N/A</u> | <u>N/A</u> | <u>9.0</u> | <u>0.0</u> |
| Total | \$493.4 | \$501.2 | \$518.9 | \$545.3 |

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| LOTTERY DIVISION | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| REVENUES BY TYPE AND DISTRIBUTION (\$ Millions) | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Distributions | | | | |
| Conservation Trust Fund | \$47.8 | \$45.1 | \$45.3 | \$49.3 |
| Great Outdoors Colorado | 54.3 | 56.4 | 56.0 | 57.1 |
| Parks & Outdoor Recreation | 12.0 | 11.3 | 11.3 | 12.3 |
| Public School Capital Construction Fund | <u>5.5</u> | <u>0.1</u> | <u>0.7</u> | <u>4.6</u> |
| Total | \$119.6 | \$112.9 | \$113.3 | \$123.3 |

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Summary: FY 2012-13 Appropriation & FY 2013-14 Request

| Department of Revenue | | | | | | |
|--|----------------------|---------------------|----------------------|-----------------------------|----------------------|----------------|
| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds | FTE |
| FY 2012-13 Appropriation: | | | | | | |
| HB 12-1339 (Long Bill) | \$296,857,697 | \$95,804,403 | \$198,734,454 | \$1,494,452 | \$824,388 | 1,370.8 |
| HB 12-1019 (Ports of Entry) | (9,758,101) | 379,400 | (10,173,574) | 36,073 | 0 | (122.3) |
| HB 12-1216 (Refinance DMV) | (74,421) | (22,664,244) | 22,664,243 | (74,420) | 0 | 0.0 |
| License Plate Bills | 177,052 | 0 | 177,052 | 0 | 0 | 0.0 |
| Other Legislation | <u>497,474</u> | <u>148,583</u> | <u>348,891</u> | <u>0</u> | <u>0</u> | <u>1.8</u> |
| TOTAL | \$287,699,701 | \$73,668,142 | \$211,751,066 | \$1,456,105 | \$824,388 | 1,250.3 |
| FY 2013-14 Requested Appropriation: | | | | | | |
| FY 2012-13 Appropriation | \$287,699,701 | \$73,668,142 | \$211,751,066 | \$1,456,105 | \$824,388 | 1,250.3 |
| R-1 CITA Annual Maintenance and Support | 1,500,000 | 1,500,000 | 0 | 0 | 0 | 0.0 |
| R-2 DOR IT Infrastructure Performance Enhancements | 3,917,008 | 2,859,487 | 1,057,521 | 0 | 0 | 0.0 |
| R-3 Tax Document Processing Pipeline Efficiencies | (1,010,422) | (1,010,422) | 0 | 0 | 0 | (10.7) |
| R-4 EDO Realignment | 367,281 | (257,623) | 257,623 | 367,281 | 0 | 0.0 |
| R-5 EUDL Grant Funding Restoration | 88,113 | | 88,113 | 0 | 0 | 0.0 |
| NPI-1 OIT Enterprise Asset Management | 24,365 | 9,721 | 14,644 | 0 | 0 | 0.0 |
| NPI-2 Employee Engagement Survey Adjustment | 4,745 | 1,893 | 2,852 | 0 | 0 | 0.0 |
| NPI-3 CCLS Building Upgrade, Repair & Replace | 125,001 | 80,180 | 44,821 | 0 | 0 | 0.0 |
| Common Policy Adjustments | 2,666,243 | 891,432 | 2,226,295 | (451,484) | 0 | 0.0 |
| Department Indirect Costs Adjustment | 437,065 | 524,212 | 82,415 | (169,562) | 0 | 0.0 |
| State Indirect Costs Adjustment | 0 | (610,480) | 500,572 | 109,908 | 0 | 0.0 |
| Leased Space Fund Mix Adjustment | 0 | 127,738 | (127,738) | 0 | 0 | 0.0 |
| Cash Funds Adjustment | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Annualize Prior Year Legislation | (649,007) | (212,402) | (436,605) | 0 | 0 | (0.8) |
| September OSPB Adjustments | <u>(500,000)</u> | <u>(500,000)</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0.0</u> |
| TOTAL | \$294,670,093 | 77,071,878 | \$215,461,579 | \$1,312,248 | \$824,388 | 1,238.8 |
| Increase/(Decrease) | \$6,970,392 | \$3,403,736 | \$3,710,513 | (\$143,857) | \$0 | (11.5) |
| Percentage Change | 2.4% | 4.6% | 1.8% | (9.9%) | 0.0% | (0.9%) |

DESCRIPTION OF BUDGET REQUESTS

R-1 – CITA Annual Maintenance and Support

The request is to fund the annual maintenance and support expense for the continued operation of the Colorado Integrated Tax Architecture (CITA) system. The Department request is for \$1.5 million General Fund in FY 2013-14, \$3.6 million in FY 2014-15, and 3.0 percent annual increases from that level in subsequent fiscal years.

R-2 – DOR IT Infrastructure Performance Enhancements

The request is to provide funding for investments in the data network, server, and storage environment, and to enhance the support services for the Department provided by the Governor's Office of Information Technology (OIT). The Department request is for an appropriation of \$3.9 million in FY 2013-14, including \$2.9 million General Fund and \$3.3 million in FY 2014-15 and subsequent fiscal years, including \$2.1 million General Fund. The request has four components:

- Migration to the Enterprise Computing Environment.
- Modernization of the core data network infrastructure, including the replacement of switches, routers, and UPS devices.
- Software licensing for hardware operating systems that support the GenTax application.
- Enhanced OIT operational services to support the Department's IT infrastructure. This will include the addition of 22.0 FTE in the OIT.

R-3 – Tax Document Processing Pipeline Efficiencies

The request is to reduce funding by \$1.0 million General Fund and 10.7 FTE in FY 2013-14, annualizing to a reduction of \$1.7 million General Fund and 24.3 FTE. The proposal is dependent upon the funding of a capital construction request by the Department of Personnel and Administration for a remittance processing system.

R-4 – Executive Director's Office Realignment

The request is to realign FTE in the Department, resulting in improved utilization of resources, and to finance the realignment through the Department's indirect cost model. The result is a no change in FTE, a decrease in General Fund of \$257,623, an equal increase in cash funds, and an increase in reappropriated funds of \$367,281.

R-5 – Underage Drinking Laws Grant Funding Restoration

The request is for an increase of \$88,113 cash funds from the Liquor Enforcement Division and State Licensing Authority Cash Fund to the Liquor and Tobacco Enforcement Division. The increase would replace funding previously received from the Enforcement of Underage Drinking Laws grant issued by the Office of Juvenile Justice Delinquency Prevention in the U.S. Department of Justice. The funding provides for overtime costs for investigators in the Liquor and Tobacco Enforcement Division to conduct compliance checks at retail establishments and large public venues, and for certain related operating expenses.

Issue: Conservation Easements – Progress Towards Resolution of Backlog of Disputed Tax Credits

The Department of Revenue has received significant appropriations during FY 2010-11 and FY 2011-12 to address the resolution of the backlog in disputed conservation easements. These appropriations will continue through FY 2014-15. These appropriations include \$1.1 million General Fund and 3.7 FTE from a FY 2010-11 decision item, and \$3.4 million General Fund and 18.7 FTE (annualized to \$3.3 million and 18.9 FTE) appropriated in H.B. 11-1300. A large portion of these funds and FTE are reappropriated to other agencies, such as the Department of Law, the Judicial Department, and the Department of Regulatory Agencies.

SUMMARY:

- A number of conservation easement credits claimed by taxpayers prior to 2008 were disallowed by the Department of Revenue.
- Due to a lack of resources, the Department of Revenue was unable to resolve the disputes.
- During the 2010 and 2011 sessions, the General Assembly provided funding to the Departments of Law, Regulatory Agencies, and Revenue, as well as the Judicial Department to resolve these disputes.
- Most of the cases now working through the system are in district court and, according to the Department of Law, are in the discovery phase of that process.

RECOMMENDATION:

Staff recommends that the Committee ask the Department to discuss the progress toward resolving the conservation easement backlog at its budget hearing.

DISCUSSION:

Background

Pursuant to Section 38-30.5-102, C.R.S., a conservation easement in gross (referred to hereinafter as a conservation easement or easement) is a right of the owner of the easement to prohibit certain acts with respect to the property in order to maintain the property in a manner that will preserve its value for recreation, education, habitat, open space, or historical importance.

The owner of the property donates the easement to a recognized organization or government entity (the easement holder), retaining ownership of the property but granting the owner of the easement the permanent right to restrict the use of such property. The easement holder is responsible for ensuring that the property owner abides by the terms of the easement.

The restrictions of the property typically include some restriction on development of the property, though they may allow a continuation of existing uses such as ranching or farming. The restrictions are contained in a "deed of conservation easement", which is recorded in the property records like any other deed.

Owners who donate all or a portion of a conservation easement to a government entity or nonprofit organization may qualify for federal and state tax benefits. Federal law [26 USC 170(h)] allows taxpayers to claim a federal income tax *deduction* for all or part of a donated conservation easement. A number of states, including Colorado, provide a state income tax *credit* (as opposed to a deduction) to incentivize land protection through conservation easements. The taxpayer who donates the conservation easement and is eligible for the income tax credit may sell that credit to another party that will use the credit to offset its own state income tax liability.

As of September 2011, there were in excess of 4,300 conservation easements in Colorado covering 1.6 million acres, which is about 2.4 percent of the State's total land area. In general, the value of the conservation easement is the fair market value of the land less the value of the land with the restrictions placed upon the land by the conservation easement. The more restrictions the easement places on the land, the higher the value of the tax deduction or credit.

Problems with Appraisals and Tax Credits Claimed

After the discovery of possible abuses of tax benefits associated with conservation easements, the federal Internal Revenue Service (IRS) initiated audits of conservation easement transactions completed by Colorado taxpayers. The Department of Revenue received notification about these audits in 2007, triggering further audits and investigations by the Department of Revenue (DOR) and the Division of Real Estate (DRE) in the Department of Regulatory Agencies.

The most common problems identified were violations of the Uniform Standards of Professional Appraisal Practice (USPAP) and misstatements of value by appraisers conducting the appraisals. By overvaluing the land, the fair market value of the conservation easement was inflated, thereby allowing the landowner to claim a larger tax credit. In addition, the conservation purposes of some of the easements were questioned.

House Bill 08-1353

In response to the abuses identified in the previous paragraph, the General Assembly enacted H.B. 08-1353 to help ensure the validity and proper valuation of conservation easements that are donated and used as the basis for claiming a tax credit. Among the reforms enacted by H.B. 08-1353 are:

- Established additional requirements for appraisers conducting conservation easement appraisals, including that a copy of the completed appraisal and an affidavit affirming several items, be submitted to the Division of Real Estate (Division) within 30 days after completion of the appraisal.

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- Required the Division to review submitted conservation easement appraisals and corresponding affidavits for completeness and to track this information in an electronic database.
- Authorized the Division to investigate the activities of any appraiser who submits an appraisal of a conservation easement, including whether the appraiser complied with USPAP requirements or a substantial misstatement of value has occurred.
- Established a certification process at the Division to ensure that governmental entities and charitable organizations that hold tax-credit-generating easements meet certain minimum requirements.
- Established a nine-member Conservation Easement Oversight Commission (CEOC) to advise the Division and DOR regarding conservation easements for which a tax credit is claimed and to review applications for conservation easement holder certification.
- Required DOR to consult with the Division and the CEOC to develop and implement a separate process for its review of conservation easement tax credit claims.

Dispute Resolution

The Department of Revenue has procedures in place for a taxpayer to dispute decisions made by the Department of Revenue regarding tax issues. The appeals process includes taking cases before a tax conferee, with an appeal to the Executive Director of the Department. If the tax issue is not resolved, the taxpayer may take the case to district court.

2010 Decision Item

The Department of Revenue has disallowed the credit in a total of 638 cases dating to before the enactment of H.B. 08-1353. Due to a lack of resources in the Department of Revenue, these cases languished unresolved for a number of years. The General Assembly provided temporary funding of \$1.0 million General Fund and 3.7 FTE to the Department of Revenue to address this backlog through the normal processes for appealing decisions on tax matters. The General Assembly requested that the Department provide annual reports on the progress made towards resolution of these disputes.

House Bill 11-1300

In the 2011 session, the General Assembly enacted H.B. 11-1300, which tried to expedite the resolution of the disputed by allowing taxpayers to bypass the Department of Revenue's tax dispute resolution process and proceed directly to district court. The bill provided additional funding to the Departments of Law, Regulatory Agencies, and Revenue and the Judicial Department. The bill provided an appropriation of \$3.6 million General Fund and 18.7 FTE, and \$12,112 cash funds for FY 2011-12. This appropriation annualized to \$3.3 million General Fund and 18.9 FTE through FY 2014-15.

The bill provided taxpayers with three options to expedite resolution of the disputes:

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- To waive the administrative hearing and proceed directly to district court. Penalties and interest ceased to accrue while the case is on appeal.
- To request an expedited administrative hearing. The Department is required to hold a hearing and issue a final determination prior to July 1, 2014
- If a taxpayer does not request either of the above options, the Department is required to hold a hearing and issue a final determination on or before July 1, 2016. If the Department does not issue a final determination by that date, the Department is required to allow the full amount of the credit and waive all interest and penalties.

The bill requires the Department of Revenue (and the other agencies) to provide periodic reports to the General Assembly regarding the resolution of these disputes. A summary of the latest report from the Department of Revenue, for the third quarter of 2012, is included at the end of this issue brief.

The bill also allows the consolidation of similar cases. The Department of Law reports that where the taxpayer has elected to proceed directly to district court, the cases have been consolidated into 125 discrete cases representing 492 discrete donations. The majority of these cases have entered the discovery phase.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue brief is relevant to the goal of the Department's Strategic Plan regarding the Department's fiduciary responsibility regarding the collection of taxes, its statutory responsibilities, and the public confidence that the Department is enforcing tax laws in a responsible and transparent manner.

CONSERVATION EASEMENTS
SUMMARY OF DEPARTMENT OF REVENUE QUARTERLY REPORT REQUIRED BY SECTION 39-22-522.5 (12), C.R.S.

Date of Report **September 28, 2012**
 Disallowed Conservation Easement Credits 638
 Value of Disputed Tax Claims \$222,800,000 *
 * Includes \$18.6 million in penalties and \$49.3 million in interest.

Cases sent to Conservation Easement Oversight Commission (CEOC) in DORA for review 638
 Number of appraisals (including partial and 2nd or 3rd review) sent to CEOC for review. 699

| CEOC Recommendations | Reject | Reject | Reject | Accept | Accept | Accept | No Opinion | Total |
|---|--------------|-------------|-------------|--------------|-------------|-------------|-------------|------------|
| | May Violate* | No Opinion* | Appears OK* | May Violate* | No Opinion* | Appears OK* | No Opinion* | |
| Total Unique Recommendation Reviewed | 527 | 40 | 1 | 36 | 0 | 35 | 45 | 684 |
| Initial Department (DOR) Action | | | | | | | | |
| Credit Not Used/Not Disallowed | 1 | 0 | 0 | 2 | 0 | 18 | 1 | 22 |
| Still under review | <u>21</u> | <u>0</u> | <u>0</u> | <u>3</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>24</u> |
| Total Cases Disallowed | 505 | 40 | 1 | 31 | 0 | 17 | 44 | 638 |
| Final Department (DOR) Action | | | | | | | | |
| Allowed in Full by DOR | 2 | 0 | 0 | 2 | 0 | 6 | 3 | 13 |
| Settled by DOR | 14 | 8 | 0 | 9 | 0 | 1 | 1 | 33 |
| Allowed in Full/Part by Court | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disallowed Entirely by Court | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Active Cases | 489 | 32 | 1 | 20 | 0 | 10 | 40 | 592 |

* The term "May Violate" indicates that it appears that there may be material violations of the Uniform Standards of Professional Appraisal Practice (USPAP) that could adversely impact the analyses and conclusions in the appraisal. The term "Appears OK" indicates that the appraisal appears to be consistent with the USPAP.

Mediation Process: No new cases have been sent to mediation since July 1, 2011. Of the 51 cases that had gone to mediation prior to that date, none were settled through the mediation process. The taxpayer appraisals in these cases valued these lands at \$35,255,800, while the Department's appraisals valued these lands at 620,007.

CONSERVATION EASEMENTS
SUMMARY OF DEPARTMENT OF REVENUE QUARTERLY REPORT REQUIRED BY SECTION 39-22-522.5 (12), C.R.S.

Conservation Easement Cases Referred to the Office of the Attorney General

| | HB 11-1300 | | Non HB 11-1300 | Total |
|---------------------------|-------------------|----------------------------------|-----------------------|--------------|
| Elected District Court | 478 | On Appeals/Transferred to Court | 14 | 492 |
| Elected Expedited Hearing | <u>29</u> | | | |
| Total Making an Election | 507 | | | |
| | | | | |
| Made no Election | <u>36</u> | Remain in Administrative Process | <u>81</u> | <u>117</u> |
| | | | | |
| Total # of Cases | 543 | | 95 | 638 |

Cases resolved by the Department of Revenue

| | |
|---|-----------|
| Tax credits allowed in full | 13 |
| | |
| Cases settled prior to input from CEOC or DRE | 4 |
| Cases settled after consultation from CEOC or DRE | <u>33</u> |
| | |
| Total Cases Resolved by DOR | 50 |

The Department sent Notices of Final Determination to the Tax Matter Representative (TMR) and Transferees in 1 case not subject to H.B. 11-1300 that was not protested in a timely manner.

The Department sent Notices of Final Determination to the TMR and Transferees in 1 case subject to H.B. 11-1300 per Section 39-22-522.5 (5) (e), C.R.S. when the TMR failed to provide required documentation within 60 days of the Department's written request.

CONSERVATION EASEMENTS

SUMMARY OF DEPARTMENT OF REVENUE QUARTERLY REPORT REQUIRED BY SECTION 39-22-522.5 (12), C.R.S.

| Dollar Amounts Owed or Waived | Cases | Taxes Owed | Interest | Penalties | Total |
|--|--------------|-------------------|-----------------|--------------------|--------------|
| Cases in which Notices of Final Determination were issued by the Department of Revenue | 6 | \$1,359,028 | \$662,410 | \$154,707 | \$2,176,145 |
| Cases settled by the Department | | | | | |
| Amounts determined to be owed | 37 | \$2,875,385 | \$102,259 | \$17,968 | \$2,995,612 |
| Amounts waived | | \$4,620,132 | \$1,805,709 | \$750,735 | \$7,176,576 |
| Credits allowed in full | 13 | \$3,394,950 | | | |
| Total Amounts determined to be owed | | \$4,234,413 | \$764,669 | \$172,675 | \$5,171,757 |
| Expenditures | | FY 2011-12 | | FY 2012-13* | |
| DOR salary and benefits | | \$532,169 | | \$134,558 | |
| Appraisals and other litigation costs | | 746,676 | | 14,688 | |
| Attorney General Expenses | | 1,466,610 | | 275,022 | |
| Operating Expenses | | <u>11,796</u> | | <u>0</u> | |
| | | \$2,757,251 | | \$424,268 | |

* Dollar Amounts Expended through August 31, 2012

Issue: Office of State Auditor Report on Conservation Easements

In September 2012, the Office of the State Auditor (OSA) released a performance audit report on the Conservation Easement Tax Credit as it relates to the Department of Revenue and the Division of Real Estate in the Department of Regulatory Affairs. The OSA report makes a number of recommendations that apply to the Department of Revenue as well as the Department of Regulatory Affairs.

SUMMARY:

- The OSA conducted a performance audit of the Department of Revenue, the Division of Real Estate in the Department of Regulatory Affairs, and the Conservation Easement Oversight Commission. The Audit report was released in September 2012.
- The OSA report made a total of 12 recommendations, eight of which affect the Department of Revenue, seven of which affect the Division of Real Estate, and three of which affect the Conservation Easement Oversight Commission (CEOC).
- Both Departments and the Commission agreed with the OSA recommendation and set implementation dates.

DISCUSSION:

The OSA performance audit of conservation easement tax credits was conducted pursuant to a legislative request. Background on conservation easement tax credits were explained in the prior briefing issue starting on Page 20.

Purpose of Audit

The OSA conducted this performance audit pursuant to a legislative request. The overall objective of the audit was to determine whether there are effective internal controls in place at both the Department of Revenue (DOR) and the Division of Real Estate (DRE) to ensure that conservation easement tax credits being claimed and used by taxpayers are valid. Because of significant legislative changes that occurred in 2008, the audit focused on the requirements and processes in place for the conservation easement tax credit since the enactment of H.B. 08-1353. The audit focused on:

- Whether processes for reviewing conservation easement appraisals are sufficient to ensure that the appraisal is performed by a qualified appraiser and that any material violations of professional standards, substantial misstatements of value, or other relevant matters are identified and communicated to DOR.
- Whether processes for certifying and renewing certification for conservation easement holders are sufficient to ensure that only qualified entities are being certified to hold conservation easements for which state tax credits will be claimed.

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- Whether processes for reviewing conservation easement tax credit claims are sufficient to ensure that unqualified tax credit claims are denied and qualified tax credit claims are not denied.
- Whether all essential elements related to conservation easement tax credit claims are reviewed at the most effective and efficient points in the process.
- The conservation easement tax credit program's overall value and effectiveness.

For more detail on the Audit Report, a copy can be obtained from the Office of the State Auditor or online at:

[http://www.leg.state.co.us/OSA/coauditor1.nsf/All/5F733A628FCF979A87257A94007374E8/\\$FILE/2171%20ConserEasemTaxCredit%20092612%20KM.pdf](http://www.leg.state.co.us/OSA/coauditor1.nsf/All/5F733A628FCF979A87257A94007374E8/$FILE/2171%20ConserEasemTaxCredit%20092612%20KM.pdf)

Audit Findings and Recommendations

The OSA made twelve audit recommendations, of which eight are related to the Department of Revenue. The recommendations related to the Department are summarized here. It should be noted that DOR agreed to all recommendation made by the OSA.

Review of Tax Credit Claims

The OSA looked at whether the DOR policies and procedures are adequate to ensure consistent and appropriate treatment of conservation easement tax credit claims. To address this, the OSA made the following recommendation:

1. DOR should strengthen its review of conservation easement tax credit claims to ensure coverage of key requirements and consideration of relevant risk factors. This includes reviewing the reported conservation purpose as part of a "Level 1 Review" and developing risk factors or other criteria that would require referral of the claim to the CEOC. It would also include expanding the current list of risk factors to include phased donations and donors with prior disallowed credit claims, and updating the risk factors on an annual basis. *DOR agreed with this recommendation with an implementation date of March 2013.*

Review Documentation

The OSA found that the conservation easement transactions can be complex, with a number of requirements that the taxpayer must adhere to when claiming the tax credit. The DOR tax examiners must also rely on their professional expertise, experience, and judgment when determining whether to allow or disallow a tax credit. The OSA audit report found that the tax examiners do not sufficiently document their review of conservation easement tax credit claims and uses. To address this deficiency, the OSA made the following recommendation:

2. DOR should ensure that its review of conservation easement tax credits claims is consistently applied and that the resulting decision to allow or disallow claims are appropriate and supported. This recommendation includes developing and utilizing a standard work program tool to guide and document tax examiners review of claims, developing more complete and detailed written policies and procedures for reviewing claims, and instituting a quality review process. *DOR agreed with this recommendation with an implementation date of July 2013.*

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Information Management

The database developed and used by DOR to track information related to conservation easement tax credits is one large data table, more resembling a spreadsheet rather than a relational database. Therefore, the OSA made the following recommendation:

3. DOR should ensure that its electronic data and information management systems effectively support the administration of the conservation easement tax credit. The recommendation includes utilization of a relational database to manage data, capturing data in the year in which the claim is made, regardless of when the use of the credit occurs, and instituting appropriate data entry controls. *DOR agreed with this recommendation with an implementation date of December 2013.*

CEOC Consultations

The OSA audit found "a misalignment in two key areas that we believe limits the CEOC's ability to effectively fulfill the purpose for which it was created, which is to help inform and facilitate DOR's decision making to allow or disallow tax credit claims." To address these deficiencies, the OSA made the following recommendation:

4. DOR, DRE, and the CEOC should improve communication efforts and continue to build a common understanding about the purpose and goals of the consultation process, including using the consultation process to hold routine discussions about the general issues and trends being observed with tax credit claims. *DOR agreed with this recommendation with an implementation date of June 2012.*
5. DOR should provide the CEOC with more information, such as areas of concern or specific questions that need to be addressed, when referring individual conservation easement tax credit claims to the CEOC for consultation. DOR should also communicate its final decisions to allow or disallow tax credit claims that are referred for consultation.
6. This recommendation is relates to DRE and the CEOC.

Review of Conservation Easement Appraisals

7. This recommendation is relevant to DRE.

Certification of Conservation Easement Holders

8. This recommendation is relevant to DRE.

Ensuring Long-Term Value and Benefits

9. This recommendation is relevant to DRE.

Statutory and Regulatory Framework

The OSA audit found that the "statutory and regulatory framework for Colorado's conservation easement tax credit does not adequately protect the State in those situations and circumstances in which governmental entities and nonprofit organization holding tax-credit generating conservation easements are no longer certified." To address this situation, the OSA made the following recommendation:

10. DRE and DOR should evaluate options for protecting the State's investment of public resources in tax-credit-generating conservation easements when the conservation easement holder is no longer certified. DRE and DOR should report back to the Legislative Audit Committee and the House and Senate Finance Committees by July 1, 2013, on viable options and pursue statutory and/or regulatory changes, as appropriate. *DOR and DRE agreed with this recommendation with an implementation date of July 2013.*

Pre-Approval of Tax Credit Claims

The OSA found that, because of the complexity of conservation easement tax credit claims, the State should shift the process of approving claims from an approval or disapproval after the fact to a pre-approval process that provides certainty to the taxpayer. Toward that end, the OSA made the following recommendation.

11. DOR, DRE, and the CEOC should work together to design a pre-approval process for reviewing and approving conservation easement tax credit claims. The agencies should report back to the Legislative Audit Committee and the House and Senate Finance Committees by July 1, 2013, on viable options and pursue statutory and/or regulatory changes, as appropriate. The pre-approval process should ensure that: (a) the State has reasonable assurance that conservation easement tax credits being claimed are valid and comply with all statutory and regulatory requirements; (b) tax credit claims are approved or denied separately from and prior to any uses of the tax credit; (c) all essential elements are reviewed and approved by those with the most appropriate and relevant experience; and (d) the review and approval of tax credits is timely. *DOR, DRE, and CEOC agreed with this recommendation with an implementation date of July 2013.*

Effectiveness of Conservation Easement Tax Credit

Colorado uses the conservation easement tax credit as a means of incentivizing land conservation by private landowners. OSA used three measures of effectiveness in its evaluation. The audit found, for *Effectiveness Measure 1*, that the conservation easement tax credit appears to encourage additional land protection. The total acres of land protected since the program was established in 1999 have increased by about 430 percent since the tax credit was made available. In 1999, land trusts and government entities reporting holding conservation easements on 283,000 acres. By 2010, the total acreage had increased to about 1.5 million acres. The next page is a map showing the distribution of conservation easements and whether or not the donation of the easement occurred under the previous regime (no tax credit for the donation) and the current regime (tax credit is granted for fair market value of donation).

For *Effectiveness Measure 2*, the audit found that the conservation easement tax credit allows taxpayers to reduce their tax burden. Overall, the audit found that for income tax year 2010, taxpayers reduced their tax burden by \$33.3 million through the conservation easement tax credit. On average for the 910 taxpayers that claimed the credit, the tax liability was reduced from \$48,000 to \$11,000, a reduction of approximately 77 percent. The OSA found that the tax credit provides a substantial financial benefit to donate easements on their land.

For *Effectiveness Measure 3*, the audit attempted to determine whether the benefits to the State (conservation of land) have a reasonable cost (taxes foregone). The OSA audit states that is

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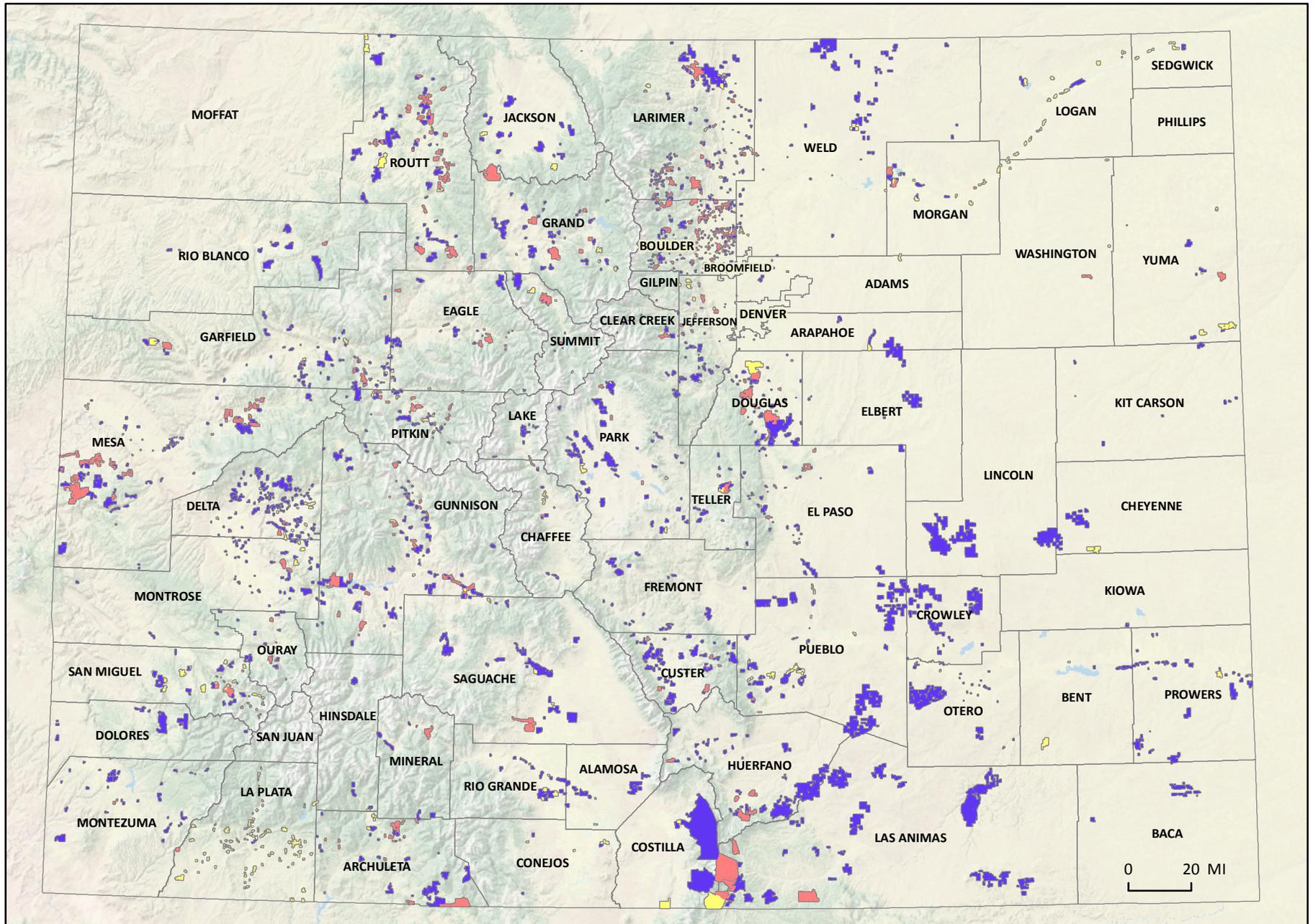
unclear whether the conservation easement tax credit protects conservation values at a reasonable cost. The audit did find that the State received the benefit of the conservation of land, approximately 1.2 million acres since the tax credit was established, at a total cost through income tax year 2011 of \$682.9 million. Overall, this means that the state obtained the benefit of the conservation of the land at a cost of \$570 per acre. Whether this is a good value is a judgment that each member of the General Assembly and the public at large must make.

12. DOR should help ensure the State's ability to measure the public benefits of the conservation easement tax credit. Primarily, this involves improvements to taxpayer forms so that data regarding the conservation purpose can be more easily captured. That taxpayer forms capture data in a form that facilitates aggregate analysis of donations, ensuring that taxpayers file the appropriate forms, and eliminating any unnecessary or duplicative forms. *DOR agreed with this recommendation with an implementation date of July 2013.*

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue brief is relevant to the goal of the Department's Strategic Plan regarding the Department's fiduciary responsibility regarding the collection of taxes, its statutory responsibilities, and the public confidence that the Department is enforcing tax laws in a responsible and transparent manner.

Conservation Easements in Colorado



■ Conservation easements created in 2000 or later
 ■ Conservation easements created before 2000
 ■ Date established unknown

Issue: Medical Marijuana Cash Fund Shortfall / Impact of Amendment 64

During FY 2011-12, the Medical Marijuana License Cash Fund suffered a severe shortage of revenues, due primarily to the fact that local governments were not issuing local licenses to medical marijuana businesses in a timely fashion and the Department is required by statute to wait until the local license is issued before the Department can issue its license. While the Cash Fund had revenues from one-time application fees, the Department had planned to rely on ongoing licensing fees to sustain its enforcement actions. The resulting revenue shortfall required the Department to reduce staffing from 37.0 FTE to 15.0 FTE. In addition, the passage of Amendment 64 will result in large changes to the industry and to the State's enforcement regime.

SUMMARY:

- Revenue shortfalls to the Medical Marijuana License Cash Fund forced the State Licensing Authority to reduce staff by more than one-half (from 37.0 FTE to 17.0 FTE).
- The passage of Amendment 64 (legalizing the possession of small amounts of marijuana) will have profound effects on both the industry and the State's regulators.

RECOMMENDATION:

Staff recommends that the Department discuss the issues of medical marijuana and Amendment 64 at the Department's budget hearing. Specifically, the Department should explain its decisions regarding staffing levels in the Medical Marijuana Enforcement Division.

DISCUSSION:

House Bill 10-1284 provided the regulatory structure for the medical marijuana industry in Colorado, including establishing the State *[Medical Marijuana]* Licensing Authority (SLA) in the Department of Revenue. The SLA is authorized to employ, at its discretion, and based on workload, no more than 1.0 FTE for each 10 medical marijuana centers licensed by the or making application for a license.

Pursuant to Section 12-43.3-202, the powers and duties of the SLA include:

- Grant or refuse state licenses for medical marijuana industry (includes facilities for the cultivation, manufacture, distribution, and sale of medical marijuana).
- Promulgate rules and such special rulings and finding as necessary for the proper regulation and control of the industry.
- Hear and determine, at a public hearing, any contested state license denial and complaints against a licensee.

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- Issue subpoenas to require the presence of persons and the production of papers, books, and records to the determination of any hearing so held.
- Maintain confidentiality of reports or other information obtained from a licensee.
- Develop forms, licenses, identification cards, and applications.

The SLA receives its funding from the Medical Marijuana License Cash Fund. The fund initially received a large infusion of moneys from application fees and started processing applications with the intent to issue licenses. The majority of the ongoing revenue for the Fund was expected to come from annual license fees. The SLA had hired 37.0 FTE for the purposes of investigating applicants and enforcing the law and rules and regulations.

During FY 2011-12, the Fund started falling behind revenue projections. As part of its FY 2012-13 budget submission, the Department projected that the fund's revenues would be \$6.9 million, primarily from annual license fees. Instead, the Department saw revenues of \$3.8 million. This revenue shortfall was caused by the delays in local governments issuing local licenses to the businesses.

By statute, the SLA is not permitted to issue the State license until the local license is issued. Therefore, the Fund experienced a revenue shortfall of 45.0 percent. The actual and projected expenditures for FY 2010-11 and FY 2011-12 are detailed in the following table.

| ENFORCEMENT BUSINESS GROUP | | | | |
|---|-------------------|--------------------------------|-------------------|--------------------------------|
| MEDICAL MARIJUANA ENFORCEMENT DIVISION | | | | |
| REVENUES AND EXPENDITURES | | | | |
| | FY 2010-11 | FY 2011-12 | FY 2011-12 | FY 2011-12 |
| | Actual | Original Projection | Actual | Percentage Variance |
| Revenue | \$8,584,089 | \$6,865,641 | \$3,779,125 | -45.0% |
| Expenditures | <u>4,730,685</u> | <u>7,595,484</u> | <u>5,262,020</u> | <u>-30.7%</u> |
| Ending Fund Balance | \$3,853,404 | \$5,172,036 | \$2,370,508 | -54.2% |

As a result of the revenue shortfall, the Department restricted expenditures and reduced FTE in the Medical Marijuana Enforcement Division. The Division today has a force of 17.0 FTE, a reduction of 20.0 FTE. This reduction in FTE and other expenses resulted in the fund having a fund balance at the end of FY 2011-12 of \$2.4 million. The actual and projected expenditures for FY 2010-11 and FY 2011-12 are detailed in the following table.

Staff inquired as to why the SLA reduced staffing so drastically. The Division has adopted a policy of only planning to expend what it has in the Medical Marijuana License Cash Fund at the beginning of the fiscal year, and not counting on any additional revenue during the fiscal year. The Department does not want to count on additional revenues to hire personnel and then have to lay those personnel off if the revenues do not materialize. To do so would make it very difficult to hire qualified enforcement personnel who would be concerned about the uncertainty around the program.

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The Division Director stated that the SLA does not have enough FTE to do more than deal with background checks and other activities associated with applications. According to the Division, very little enforcement activity of businesses is occurring. Staff considers that Division's action in reducing FTE to be overly cautious, though understandable considering the uncertainty that surrounds the program.

Implications of Amendment 64

The passage of Amendment 64 in this last general election is expected to have a profound effect on the medical marijuana business community and the Medical Marijuana Enforcement Division in the Department of Revenue.

It can be expected that many medical marijuana business will seek to become a "regular" marijuana business due to a larger perceived market for the latter. Because marijuana is now legal, the main customers of the medical marijuana business will become those who are under 21 years of age with a medical condition that enables them to obtain a medical marijuana registry card. Those people who previously had a medical marijuana registry card will be able to obtain marijuana without going through that process; though some may choose to continue in that program as medical marijuana is not subject to an excise tax that may be imposed on purchases of non-medical marijuana.

The other issue affecting the Department is how the marijuana industry will be regulated. As of now, it is unknown whether the Medical Marijuana Enforcement Division will expand to regulate all marijuana, or will a new division be created. Staff considers it likely that the medical marijuana industry will be dramatically downsized and the marijuana industry becomes more prominent in the state.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue brief is relevant to the goal of the Department's Strategic Plan regarding the Department's statutory responsibility, namely the enforcement of state laws related to medical marijuana and promulgating rules and regulations for the industry and enforcing those rules and regulations.

Issue: DOR Tax Pipeline

In its September 2011 performance audit of the Department of Revenue tax pipeline, the OSA determined "that there are two issues that prevent the pipeline from being efficient and cost-effective: (1) The tax pipeline relies on inefficient and antiquated manual processes and (2) the process is inefficiently divided between the Department of Revenue and Central Services in the Department of Personnel and Administration." During the year since the release of the audit report, the Department of Revenue and the Department of Personnel and Administration have come to an agreement to upgrade the tax pipeline, which includes capital construction expenditures to combine with operating expense reductions in both departments. The annualized General Fund appropriations will be reduced by \$1.7 million and 38.8 FTE.

SUMMARY:

- The September 2011 audit by the Office of State Auditor (OSA) found that the tax pipeline relied upon inefficient and antiquated manual processes and was inefficiently divided between two departments (Revenue and Personnel and Administration).
- The two departments have proposed addressing the deficiencies noted in the OSA report by proposing a technical solution that will improve the tax pipeline.
- After a capital construction outlay in FY 2013-14 of \$1.5 million, the Department of Revenue will obtain General Fund savings of \$1.0 million and 17.9 FTE in FY 2013-14 and annualized savings thereafter of \$1.7 million and 38.8 FTE.

RECOMMENDATION:

Staff recommends that the JBC consider approval, at figure setting for Capital Construction, approval of the FY 2013-14 request for \$1,468,566 Capital Construction Funds for the equipment, software, and services required to implement the requests by the Department of Revenue and the Department of Personnel and Administration. Because of saving in the Department of Revenue, the net cost is \$458,154 General Fund in FY 2013-14. The payback is less than two years and significant General Fund savings will continue in the amount of \$1.7 million per year.

DISCUSSION:

During the JBC Staff briefing prior to the 2012 Session of the General Assembly, staff presented an issue regarding the performance audit performed by the Office of the State Auditor (OSA) regarding the Department of Revenue (DOR) tax "pipeline". In its review of the pipeline, the OSA determined "that there are two issues that prevent the pipeline from being efficient and cost-effective: (1) the tax pipeline relies on inefficient and antiquated manual processes and (2) the process is inefficiently divided between the Department of Revenue and Central Services in the Department of Personnel and Administration."

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The Department of Revenue and the Department of Personnel and Administration have submitted a base reduction request to reduce General Fund appropriations by \$1.0 million and 17.9 FTE in FY 2013-14. The base reduction annualizes to \$1.7 million and 38.8 FTE. The following tables detail where the savings will come from by fiscal year:

| FY 2013-14 Budget and FTE Changes by Work Unit | | | | | | | | |
|---|--------------------|---------------------------|-----------------------------|--------------------------|--------------------|-------------------|---------------------|----------------------|
| Budget Reduction | Incoming Mail | Income Tax Clearing | Business Tax Clearing | Remittance Processing | Data Entry | Tax Files | Admin- istration | Total |
| Department of Revenue | | | | | | | | |
| Personal Services | (\$207,909) | (\$77,287) | (\$109,713) | \$0 | (\$45,751) | (\$49,113) | (\$84,343) | (\$574,116) |
| FTE | (2.6) | (2.1) | (2.5) | 0.0 | (1.2) | (1.3) | (1.0) | (10.7) |
| Seasonal Tax Processing | (\$40,908) | (\$60,246) | \$0 | \$0 | \$0 | \$0 | \$0 | (\$101,154) |
| Operating Expenses | (29,634) | (4,483) | (5,774) | 0 | (3,096) | (13,509) | (950) | (57,446) |
| Leased Space | (7,500) | (12,500) | 0 | 0 | 0 | 0 | 0 | (20,000) |
| Document Management | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(257,706)</u> | <u>0</u> | <u>0</u> | <u>(257,706)</u> |
| Sub-Total | (\$285,951) | (\$154,516) | (\$115,487) | \$0 | (\$306,553) | (\$62,622) | (\$85,293) | (\$1,010,422) |
| Department of Personnel and Administration | | | | | | | | |
| FTE /a | | | | | | | | (7.2) |
| Total Savings | | | | | | | | (\$1,010,422) |
| FTE | | | | | | | | (17.9) |

/a Savings in the Department of Personnel and Administration result in reduced billings to the Department of Revenue. The total dollar savings are reflected in the Department of Revenue section of these tables.

| FY 2014-15 Budget and FTE Changes by Work Unit | | | | | | | | |
|---|--------------------|---------------------------|-----------------------------|--------------------------|--------------------|--------------------|---------------------|----------------------|
| Budget Reduction | Incoming Mail | Income Tax Clearing | Business Tax Clearing | Remittance Processing | Data Entry | Tax Files | Admin- istration | Total |
| Department of Revenue | | | | | | | | |
| Personal Services | (\$334,688) | (\$185,489) | (\$263,312) | \$0 | (\$109,803) | (\$107,909) | (\$84,343) | (\$1,085,544) |
| FTE | (6.2) | (5.0) | (6.0) | 0.0 | (3.0) | (3.1) | (1.0) | (24.3) |
| Seasonal Tax Processing | (\$40,908) | (\$60,246) | \$0 | \$0 | \$0 | \$0 | \$0 | (\$101,154) |
| Operating Expenses | (59,108) | (8,966) | (11,547) | 0 | (6,192) | (26,883) | (950) | (113,646) |
| Leased Space | (7,500) | (12,500) | 0 | 0 | 0 | 0 | 0 | (20,000) |
| Document Management | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(392,160)</u> | <u>0</u> | <u>0</u> | <u>(392,160)</u> |
| Sub-Total | (\$442,204) | (\$267,201) | (\$274,859) | \$0 | (\$508,155) | (\$134,792) | (\$85,293) | (\$1,712,504) |
| Department of Personnel and Administration | | | | | | | | |
| FTE /a | | | | | | | | (14.5) |
| Total Savings | | | | | | | | (\$1,712,504) |
| FTE | | | | | | | | (38.8) |

/a Savings in the Department of Personnel and Administration result in reduced billings to the Department of Revenue. The total dollar savings are reflected in the Department of Revenue section of these tables.

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The Decision Item/Base Reduction requires the approval of the Capital Construction Request for an appropriation of \$1.5 million capital construction funds. This appropriation will address the elements of the OSA audit findings that the Department relies too heavily on manual processes that are inefficient and that technology solutions exist to automate these functions, improving the speed of the tax pipeline processes and the accuracy of the data that is captured.

The Department of Revenue (DOR) and the Department of Personnel and Administration (DPA) have worked to address the OSA's finding that the DOR is not fully utilizing Central Services within DPA for services including processing outgoing mail, processing warrants (checks) and printing tax-related documents.

As identified in the tables above, the Department of Revenue will be able, through technology solutions, to reduce its appropriations by \$1.0 million General Fund and 10.7 FTE in FY 2013-14 and reduce appropriations by \$1.7 million General Fund and 24.3 FTE in subsequent years. The Department of Personnel and Administration will be able to reduce an additional 7.2 FTE in FY 2013-14 and 14.5 FTE in subsequent fiscal years. The monetary savings identified by DPA of \$41,236 in FY 2013-14 and \$389,969 in subsequent years are in reappropriated funds that are the result of reduced billings to DOR, since fewer data entry and imaging services will be required.

The purchase of the automated systems may result in additional savings to the State as that equipment will be available to other agencies. The resulting increased utilization of the equipment reduces the unit costs of the equipment.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue relates to the Department of Revenue strategic plan by addressing four of the Department's five main goals: Customer Service; Fiduciary Responsibility; Statutory Responsibility; and Public Confidence. The Tax Pipeline is integral to the Department's responsibilities regarding the efficient and timely collection of tax revenues for the State.

Issue: Driver's License Administrative Revocation Account and First Time Drunk Driving Offender Account

Within the Department of Revenue, the Driver's License Administration Revocation Account (DLARA) has a funding shortfall, estimated at \$1.1 million in FY 2012-13, while the First Time Drunk Driving Offender Account (FTDDOA) has accumulated a surplus that is larger than annual appropriations. Both Accounts are sub-accounts of the Highway Users Tax Fund (HUTF) and are funded by a fee for the reinstatement of driver's licenses. Of the \$95 fee for reinstatement, \$60 is credited to the DLARA and \$35 is credited to the FTDDOA.

SUMMARY:

- The Driver's License Administrative Revocation Account of the Highway Users Tax Fund (HUTF) is funded through part of the fee (\$60 of the total \$95 fee) for the reinstatement of a driver's license. Moneys from the fund are used for the direct and indirect costs of the Driver Control Section of Division of Motor Vehicles, Driver and Vehicle Services and in the Hearings Division in the Enforcement Business Group.
- The First Time Drunk Driving Offender Account of the HUTF is funded by the remainder of the fee (\$35 of the total \$95 fee) for the reinstatement of a driver's license. The FTDDOA is used to fund "high-visibility drunk driving enforcement episodes" by the Department of Transportation, and to fund assistance to offenders who need to purchase an ignition interlock device in order to obtain a restricted permit to continue to drive.
- The DLARA has a funding shortfall of \$740,000 in FY 2012-13 and approximately \$800,000 in subsequent fiscal years, while the FTDDOA has an excess fund balance of \$4.3 million at the end of FY 2011-12, which is projected to grow to \$4.5 million by the end of FY 2013-14.

RECOMMENDATION:

Staff recommends that the Joint Budget Committee discuss the revenue deficiency the Driver's License Administrative Revocation Account is experiencing. The JBC could consider sponsoring legislation that would alter the statutory distribution of the fee for the reinstatement of driver's licenses and/or transfer moneys from the First Time Drunk Driving Offender Account to the Driver's License Administrative Revocation Account on an annual basis.

DISCUSSION:

Statutes (Section 42-2-132 (4) (b), C.R.S.) establishes the fee for the reinstatement of a suspended driver's license. The fee for is \$95, with \$60 of the fee credited to the Driver's License Administration Revocation Account (DLARA), a subaccount of the HUTF, and \$35 of the fee credited to the First Time Drunk Driving Offender Account (FTDDOA), also a subaccount of the HUTF. The fee credited to the DLARA was last increased in S.B. 03-192, while the fee credited to the FTDDOA was established in H.B. 08-1194.

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The DLARA provides the funding for the driver control functions in the Division of Motor Vehicles, Driver and Vehicle Services, and the Hearings Division in the Enforcement Business Group. Driver Control is responsible for maintaining the records of all licensed drivers in the State, issuing points for traffic violations, administratively suspending or revoking licenses for violations, and reinstatements of licenses. The moneys in the DLARA also fund the Hearings Division in the Enforcement Business Group. The Hearings Division primarily hears cases involving excessive points, express consent, DUI conviction, habitual traffic offenders, and other cases related to driving, though it hears small numbers of other cases regarding the issuance, suspension, denial, or revocation of licenses such as liquor and tobacco, racing, some tax hearings, and other hearings.

The FTDDOA provides funding to the Department of Revenue for the operation of the Ignition Interlock program, which provides ignition interlock devices for applicants who qualify. In addition, the Account provides funding for the operation of "High Visibility Drunk Driving Enforcement" episodes. House Bill 08-1194, which created the FTDDOA, required the Department of Transportation to increase the number of drunk driving enforcement episodes to twelve from the seven that were run prior to enactment. The funding for these episodes from the FTDDOA was increased from \$1.0 million to \$1.5 million for FY 2012-13, as funding from other sources, such as the Law Enforcement Assistance Fund, has declined.

Revenues to the DLARA have recently been flat or even declined. According to the Department, the recent funding shortfall has been covered by a transfer from the other accounts in the HUTF, which amounted to about \$250,000 in each of the last two fiscal years. For FY 2012-13 through FY 2014-15, the Department's budget submission indicates this will continue in those fiscal years, but that the transfer will exceed \$750,000 in each fiscal year. The Long Bill gives the Department the flexibility in the POTS lines to address this shortfall, but \$750,000 is too large an amount to continue.

Meanwhile, the fund balance in the FTDDOA has been increasing. Total appropriations from the account in FY 2012-13 are \$2.5 million, with revenues of \$2.7 million. The FTDDOA has a fund balance, however, of \$4.6 million at the beginning of FY 2012-13, which is expected to increase to \$4.9 million at the end of FY 2012-13.

The uses of the FTDDOA are, according to both departments, more than adequate at the present time. The Department of Revenue reports that it has not needed the full appropriation for the costs of purchasing ignition interlock devices for those who need assistance with their purchase, though the number are increasing in the years since the implementation of the program. The Department of Transportation (DOT) reports that the funding it receives for "high visibility drunk driving enforcement" episodes is sufficient to meet its needs. The "proper" number of episodes is a judgment call and more is not always better. The State could see the value of the episodes decrease if there are too many, and law enforcement participation, which primarily is for overtime for officers, may also decline as officers decline the opportunity to participate. The DOT feels that at the present time, the twelve episodes it conducts are sufficient.

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These factors mean that the FTDDOA will continue to grow the fund balance, which already is more than 10 times the 16.5 percent suggested (required of other funds and accounts) in Section 24-75-402 (3) (a), C.R.S. Since the fee is set in statute, the Department cannot adjust the fund balance.

When staff asked the Department what it plans to do about the deficient funding in the DLARA, the response was "Department staff acknowledges that, ideally, the cost of doing any particular cash-funded line of business would be reflected in the fees/finest/surcharges/etc. that support it. The Department is presently undergoing an effort to map out what legislative and budget actions would be necessary to consolidate its Motor Vehicle-related finances and may initiate legislative and budget proposals for the FY 2014-15 budget cycle."

So, while the DLARA does not have enough revenue to fund the appropriations made from the account, the FTDDOA has more than a sufficient revenues and fund balance to fund appropriations made from that account. Staff has identified three options for the JBC to consider:

1. Do nothing. Expenditures will continue to be limited by revenues in the account.
2. Sponsor legislation that will adjust the distribution of fees for the reinstatement of a driver's license after it has been suspended or revoked. This would involve increase the portion of the fee that goes to the DLARA and reduce the portion of the fee that goes to the FTDDOA.
3. Sponsor legislation to transfer a portion of the fund balance from the FTDDOA to the DLARA for a specified number of fiscal years. The amount of the transfer would be set as the amount necessary to restore the fund balance in the DLARA to \$0.

From staff's perspective, Option 1 is not a desirable option. As mentioned, the Department has the flexibility in the POTS lines to adjust the amounts for each cash fund to align to the amounts, but at some point the other cash funds will run short of cash because of this funding arrangement. This amounts to deferring a needed action till subsequent fiscal years. Ideally, each cash fund should support its own appropriations, and this exacerbates the problem by delaying the ultimate solution.

Staff calculated the effects of Option 2, a shift of \$12.50 of the reinstatement fee from the FTDDOA to the DLARA (decreases the amount credited to FTDDOA and increase the amount credited to DLARA). The effects are shown in the following table.

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| FIRST TIME DRUNK DRIVING OFFENDER ACCOUNT (FTDDOA) | | | | |
|---|------------------|------------------|------------------|------------------|
| AND | | | | |
| DRIVERS LICENSE ADMINISTRATIVE REVOCATION ACCOUNT (DLARA) | | | | |
| EFFECT ON BOTH ACCOUNTS OF A SHIFT OF \$12.50 FROM THE FTDDOA to DLARA | | | | |
| | FY | FY | FY | FY |
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| First Time Drunk Driving Offender Account | | | | |
| Beginning Fund Balance | \$4,595,679 | \$4,115,043 | \$3,236,207 | \$2,400,992 |
| Revenues | 2,747,874 | 2,884,084 | 2,951,955 | 3,019,826 |
| Less Fee Reduction | 0 | (1,030,025) | (1,054,275) | (1,078,513) |
| Expenditures | (2,488,466) | (2,732,895) | (2,732,895) | (2,732,895) |
| Transfer to DLARA | <u>(740,044)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Ending Fund Balance | \$4,115,043 | \$3,236,207 | \$2,400,992 | \$1,609,411 |
| Current Projected Ending Fund Balance | 4,855,087 | 5,006,277 | 5,225,337 | N/A |
| Driver's License Administrative Revocation Account | | | | |
| Beginning Fund Balance | \$0 | \$0 | \$0 | \$0 |
| Transfer from DLARA | 740,044 | 0 | 0 | 0 |
| Revenues | 4,601,366 | 4,818,576 | 4,916,188 | 4,818,576 |
| Add Fee Increase | 0 | 1,030,025 | 1,054,275 | 1,078,513 |
| Expenditures | (5,341,410) | (5,678,607) | (5,693,431) | (5,708,255) |
| Transfer to HUTF | <u>0</u> | <u>(169,994)</u> | <u>(277,032)</u> | <u>(188,834)</u> |
| Ending Fund Balance | \$0 | \$0 | \$0 | \$0 |

This option starts to reduce the excessive fund balance in the FTDDOA, while keeping the DLARA solvent. The DLARA (but not the FTDDOA) is an account that is swept into the HUTF at the end of each fiscal year. Therefore, you will note that the ending fund balance for the DLARA is \$0 at the end of the fiscal year. As an additional option, the JBC could consider, if it chooses this option, to leave an account balance equal to 16.5 percent of the accounts expenditures in the prior year and sweep the rest into the HUTF. This would help the account to continue to fund the appropriations attributed to the account.

Because the second option would not likely start the different crediting scheme for the fund until the start of FY 2013-14, staff would recommend including a transfer of fund balance for FY 2012-13 only.

The third option is to transfer the amount of the fund deficiency in the DLARA from the FTDDOA. This would reduce the FTDDOA fund balance at a slightly slower rate and provide for a longer-term solution to the funding deficiency of the DLARA, though it is still not a permanent solution. Eventually, under any option chosen, the reinstatement fee will be insufficient to fund the programs it supports and will have to be increased or the programs funding will have to be reduced.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue relates to the Department of Revenue's strategic plan by addressing the Department's goal of Fiduciary Responsibility. The Goal is to provide responsible financial, resource, and project management that builds a sustainable foundation utilizing a high standard of care.

Issue: Workload Decrease in the Hearings Division

Data from the Department of Revenue regarding the Hearings Division in the Enforcement Business Group show that the number of hearings conducted by the Division have decreased by about one-third over the last five years. The Department has not proposed a reduction in staffing as this workload has declined.

SUMMARY:

- The Hearings Division in the Enforcement Business Group has experienced a one-third decrease in hearings conducted over the last five fiscal years.
- The Department of Revenue implemented an interactive voice response phone system during FY 2010-11, intended to make staff more efficient.
- The Department has not requested a reduction in staff resources commensurate with the reduction in workload. Staff does note that actual expenditures in FY 2011-12 were well below the Department's appropriation.
- As noted in a previous issue, the Driver's License Administrative Revocation Account, which is the primary funding source for the Hearings Division, is experiencing a shortfall in revenues necessary to support the approved appropriations from the Account.

RECOMMENDATION:

Staff recommends that the Committee discuss this issue with the Department at the Department's Budget Hearing.

DISCUSSION:

The Hearings Division holds hearings on a number of issues that affect the licensing rights of the citizens. These hearings include licenses for drivers, commercial vehicle drivers, third party drive testers, emissions test facilities and inspectors, state liquor licenses, racing licenses, certain motor vehicle dealers. In addition, it holds hearings for fine sanctions against tobacco vendors and supports the Executive Director in the disposition of state and municipal tax cases, though these types of hearing general constitute far less than one percent of the Division's caseload.

The Department has provided data on the number and types of cases that the Division hears during each fiscal year. The data is summarized in the following table.

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| ENFORCEMENT BUSINESS GROUP | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| HEARING DIVISION CASES | | | | | |
| | FY | FY | FY | FY | FY |
| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
| Motor Vehicle Cases | | | | | |
| Excessive Points | 7,341 | 9,251 | 8,275 | 6,988 | 6,073 |
| Express Consent | 13,319 | 13,913 | 14,262 | 12,226 | 12,135 |
| DUI Convictions | 1,916 | 1,779 | 490 | 140 | 138 |
| Habitual Traffic Offender | 776 | 854 | 283 | 73 | 72 |
| Insurance related restraints | 555 | 420 | 467 | 302 | 244 |
| Ignition Interlock | 0 | 0 | 1,347 | 1,908 | 2,267 |
| CDL Restraints | 0 | 0 | 679 | 533 | 165 |
| Other | <u>10,564</u> | <u>8,000</u> | <u>1,521</u> | <u>1,352</u> | <u>1,616</u> |
| Total Motor Vehicle and Driver's License Hearings | 34,471 | 34,217 | 27,324 | 23,522 | 22,710 |
| Other Hearings | <u>67</u> | <u>62</u> | <u>54</u> | <u>125</u> | <u>119</u> |
| Total | 34,538 | 34,279 | 27,378 | 23,647 | 22,829 |

Overall, from FY 2007-08 through FY 2011-12, the Hearings Division has seen a reduction of almost 12,000 cases, a reduction of more than one-third. The most dramatic reduction came in DUI convictions, which dropped from 1,916 in FY 2007-08 to 138 in FY 2011-12, a 93 percent reduction in cases. The largest numerical reduction came in the other category, which dropped from 10,564 to 1,616 over the same time span.

In FY 2010-11, the JBC approved the transfer of an appropriation of \$30,028 for an Interactive Voice Response (IVR) phone system. The funding came from a reduction in personal services in the Hearings Division, though FTE were not reduced. The Department's justification included that it would delay the need for additional staff as the hearings load increased. However, since then, the hearing load, as identified in the table, has decreased by about one-third.

Staff realizes that one-year reductions in workloads may or may not represent a trend, however, as identified in the table above, the reductions have now gone on for three years, while the Department has not requested a reduction in staff resources as a result of the decreased workload. Staff went back and examined the last four years of appropriations vs. expenditures. The results are displayed in the following table:

| ENFORCEMENT BUSINESS GROUP | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| HEARINGS DIVISION - APPROPRIATIONS and EXPENDITURES | | | | |
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Appropriations - Hearings Division | \$2,069,985 | \$2,114,946 | \$2,106,956 | \$2,122,273 |
| Expenditures - Hearings Division | <u>1,898,162</u> | <u>1,848,884</u> | <u>2,069,523</u> | <u>1,857,770</u> |
| Reversion | \$171,823 | \$266,062 | \$37,433 | \$264,503 |

While there are significant reversions in FY 2011-12, the third year for the reduced number of hearings, the prior year had not seen significant reversions. If the JBC were to address the workload decrease with a decrease in appropriations, it would partially address the imbalance

between the DLARA revenue deficiencies that for the account that provides the funding for the appropriation.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue relates to the Department of Revenue's strategic plan by addressing the Department's goal of Fiduciary Responsibility. The Department should strive to match its workforce with its workload.

Issue: Various Fees Not Credited to a Fund

The Department of Revenue currently receives appropriations from five sources that are not cash funds, though they are appropriated in the cash funds column. These are generally for administrative expenses related to activities carried out by the Department. Staff recommends that these fees be credited to a cash fund and appropriated therefrom.

SUMMARY:

- Statutes currently allow the Department of Revenue to collect administrative and application fees for a variety of purposes, usually processing of the fees or penalties collected.
- Those fees are not always credited to a cash fund, but are appropriated in the "Cash Funds" column.
- The letternotes indicate the sources of the funds as, for example, "administrative processing fees associated with outstanding judgments and warrants."
- The appropriations from each of these sources do not make up a significant part of the Department's annual appropriation.

RECOMMENDATION:

Staff recommends that the Joint Budget Committee consider legislation that would direct these fees to a specific cash fund and that the existing appropriations are appropriated from those cash funds. Staff recommends that the Department address the issue at its Budget Hearing.

DISCUSSION:

The Department of Revenue has five sources of funding that are not from cash funds, but instead are from various fees that are appropriated directly for specific purposes. These funding sources are:

- Investigation and application fees (for Racing) – These fees are paid by people or entities requesting the issuance of licenses or registrations for horse racing, greyhound racing, or off-track betting establishments pursuant to Section 12-60-506 (1), C.R.S.
- Outstanding judgments and warrants – Pursuant to Section 42-2-118 (3) (c), C.R.S., "any person who pays an outstanding judgment, or who has a warrant entered, or who makes payment for a check or order, that has been returned for insufficient funds or a closed account is required to pay a \$30 administrative processing fee for each judgment, warrant, or returned check or order. If paid to a court, the court retains 50.0 percent and transmits the remainder to the Department of Revenue. If fee is collected by the Department of Revenue, the Department retains the fee."

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- Penalty assessment fees – Pursuant to Section 42-1-217 (2), C.R.S., the Department retains the first fifty cents of any penalty for any traffic infraction, which is used for administrative purposes. The remainder is credited to the Highway Users Tax Fund (HUTF).
- Fees for the registration of special mobile machinery – Pursuant to Section 42-3-107 (16) (f) (IV) (C), C.R.S., the registration of multiple pieces of special mobile machinery requires the payment of a \$7.00 fee, of which \$3.60 is retained by the agent (county clerk), \$0.40 is remitted to the HUTF, and \$3.00 is available upon appropriation to the Department of Revenue to fund the administration and enforcement of the registration of special mobile machinery.
- Waste tire fees – Pursuant to Section 25-17-202, the seller of each new tire sold is required to collect \$1.50 for each new tire sold. The State Treasurer is required to pay to the Department of Revenue an amount equal to the Department's direct and indirect administrative costs related to the collection of the fees. This amount may not exceed one and two-thirds percent of the total fees collected. The remaining fees are then credited down the chain of the various waste tire cash funds.

Staff proposes that the Committee consider sponsoring legislation to credit these fees to, if possible, existing cash funds. The moneys will then be appropriated to the Department of Revenue from those cash funds for the purposes that are consistent with the statutory purposes for the collection of the fees. Staff will work with the Department of Revenue to determine which funds make the most sense for the purposes of each fee, and have the legislation credit the fees to those respective funds. It is not staff's intent to suggest the creation of additional cash funds.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue relates to the Department of Revenue's strategic plan by addressing the Department's goal of Statutory Responsibility. Crediting fees to and appropriating them from a cash fund promotes consistency in the application of the law.

Issue: Performance Audit of the Department of Revenue – Tobacco Tax and Tobacco Settlement Collections and Distributions

The Department of Revenue is responsible for the collection of Tobacco Taxes pursuant to Amendment 35 to the Colorado Constitution and for the distribution of a portion of those moneys to the cities and counties to compensate those jurisdictions for the loss of revenue caused by the amendment's likely effect of reducing cigarette and other tobacco sales. In May 2012, the Office of the State Auditor (OSA) released a performance audit that included a purpose of determining the amounts of Amendment 35 tobacco taxes collected by the Department of Revenue and review the transfers and distributions of Amendment 35 tobacco tax moneys by the Department of Revenue. The findings and recommendations of the OSA for the Department of Revenue are summarized in this issue brief.

SUMMARY:

- The Office of the State Auditor conducted a performance audit of the Department of Revenue and found that the
- The OSA report states: "Overall, we found that the Department of Revenue [*and the Office of the State Treasurer*] complied with the requirement of the State Constitution and statutes related to the collection, transfer, and distribution of tobacco-related funds received under Amendment 35 and the Tobacco Settlement."
- The OSA report made no recommendations for the Department of Revenue.

DISCUSSION:

Purpose

The Office of the State Auditor (OSA) conducted a performance audit of the Department of Revenue, and the Department of the Treasury with regard to the collection and distribution of Amendment 35 tax revenues and Tobacco Master Settlement Agreement moneys. As the audit relates to the Department of Revenue, the audit had the following objectives:

- Determine the amounts of Amendment 35 tobacco taxes collected by the Department of Revenue.
- Review the transfers and distributions of Amendment 35 tobacco tax revenue to determine whether the Department of Revenue complied with the State Constitution and statute.

Audit Findings Related to the Department of Revenue

The Department of Revenue collects Amendment 35 taxes from retailers, transfers a portion of those funds (approximately \$1.3 million) to local governments to compensate them for the

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reduced tax collections on tobacco products that resulted from Amendment 35, and transfers the remainder to the State Treasurer.

The OSA found that the Department of Revenue complied with the requirements of the State Constitution and statutes related to the collection, transfer, and distribution of tobacco-related funds received under Amendment 35 and the Tobacco Master Settlement Agreement.

The OSA did not report any problems with the Department of Revenues performance in collection, transfer or distribution of Amendment 35 moneys, not did it make recommendations regarding this issue.

For more information from the audit, a copy can be obtained from the Office of the State Auditor, or on-line at:

[http://www.leg.state.co.us/OSA/coauditor1.nsf/All/968EFD730C6A43F187257A0F005C57D5/\\$FILE/2183%20Tobacco%20Perf%20May%202012.pdf](http://www.leg.state.co.us/OSA/coauditor1.nsf/All/968EFD730C6A43F187257A0F005C57D5/$FILE/2183%20Tobacco%20Perf%20May%202012.pdf)

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S STRATEGIC PLAN:

This issue relates to the Department of Revenue's strategic plan by addressing three of the Department's five main goals: Fiduciary Responsibility; Statutory Responsibility; and Public Confidence. The efficient and effective collection of taxes as required by the Colorado Constitution and state statutes is integral to the Department's mission, goals, and objectives.

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Appendix A: Number Pages

| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|--|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
|--|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|

DEPARTMENT OF REVENUE
Barbara Brohl, Executive Director

(1) EXECUTIVE DIRECTOR'S OFFICE

Provides administrative, accounting, budgeting, human resource management, internal auditing, planning, and research and analysis. The cash funds sources are for the direct and indirect costs of administering the programs through the Department and include: The Colorado State Titling and Registration Account, the AIR Account, the Driver's License Administrative Revocation Account, the First Time Drunk Driving Offender Account, the Highway Users Tax Fund, the Licensing Services Cash Fund, the Limited Gaming Fund, the Liquor Enforcement and State Licensing Authority Cash Fund, the Lottery Fund, the Medical Marijuana License Cash Fund, and the Racing Cash Fund. The reappropriated funds sources are for the indirect costs of administering the Limited Gaming Division and the State Lottery Division and are appropriated from those divisions.

| | | | | |
|--|------------------|------------------|------------------|--------------------|
| Personal Services | <u>3,995,366</u> | <u>3,721,549</u> | <u>3,800,545</u> | <u>5,486,917</u> * |
| FTE | 43.4 | 44.3 | 43.4 | 63.9 |
| General Fund | 1,176,752 | 921,345 | 1,199,345 | 1,677,249 |
| Cash Funds | 2,230,967 | 2,265,334 | 2,021,948 | 3,009,240 |
| Reappropriated Funds | 587,647 | 534,870 | 579,252 | 800,428 |
| Health, Life, and Dental | <u>6,112,200</u> | <u>7,383,247</u> | <u>8,018,517</u> | <u>8,807,887</u> |
| General Fund | 2,139,044 | 2,342,712 | 3,120,652 | 3,451,987 |
| Cash Funds | 3,973,156 | 5,040,535 | 4,897,865 | 5,355,900 |
| Short-term Disability | <u>107,422</u> | <u>119,500</u> | <u>116,580</u> | <u>124,153</u> |
| General Fund | 42,178 | 46,128 | 50,078 | 52,815 |
| Cash Funds | 65,244 | 73,372 | 66,502 | 71,338 |
| S.B. 04-257 Amortization Equalization Disbursement | <u>1,556,089</u> | <u>1,879,736</u> | <u>2,089,733</u> | <u>2,372,039</u> |
| General Fund | 601,984 | 726,794 | 900,566 | 1,007,253 |
| Cash Funds | 954,105 | 1,152,942 | 1,189,167 | 1,364,786 |

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| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| S.B. 06-235 Supplemental Amortization Equalization | | | | | |
| Disbursement | <u>1,136,913</u> | <u>1,505,862</u> | <u>1,790,968</u> | <u>2,141,425</u> | |
| General Fund | 439,870 | 580,357 | 768,377 | 909,326 | |
| Cash Funds | 697,043 | 925,505 | 1,022,591 | 1,232,099 | |
| Salary Survey | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,277,363</u> | |
| General Fund | 0 | 0 | 0 | 495,342 | |
| Cash Funds | 0 | 0 | 0 | 782,021 | |
| Merit Pay | <u>0</u> | <u>0</u> | <u>0</u> | <u>947,529</u> | |
| General Fund | 0 | 0 | 0 | 405,015 | |
| Cash Funds | 0 | 0 | 0 | 542,514 | |
| Shift Differential | <u>194,571</u> | <u>175,327</u> | <u>40,510</u> | <u>31,864</u> | |
| General Fund | 4,028 | 3,743 | 3,534 | 3,341 | |
| Cash Funds | 190,543 | 171,584 | 36,976 | 28,523 | |
| Workers' Compensation | <u>570,362</u> | <u>717,073</u> | <u>770,412</u> | <u>786,677</u> | |
| General Fund | 220,431 | 253,645 | 319,286 | 313,855 | |
| Cash Funds | 349,931 | 463,428 | 451,126 | 472,822 | |
| Operating Expenses | <u>957,628</u> | <u>1,186,232</u> | <u>1,119,959</u> | <u>1,166,094</u> * | |
| General Fund | 368,749 | 448,972 | 481,434 | 527,569 | |
| Cash Funds | 588,879 | 737,260 | 638,525 | 638,525 | |
| Legal Services | <u>1,534,882</u> | <u>2,863,636</u> | <u>2,989,901</u> | <u>2,989,901</u> | |
| General Fund | 921,991 | 2,157,451 | 2,006,432 | 2,006,432 | |
| Cash Funds | 612,891 | 706,185 | 983,469 | 983,469 | |

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| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|---|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| Administrative Law Judge Services | <u>14,756</u> | <u>3,798</u> | <u>14,200</u> | <u>16,595</u> | |
| Cash Funds | 14,756 | 3,798 | 14,200 | 16,595 | |
| Purchase of Services from Computer Center | <u>9,071,972</u> | <u>9,142,106</u> | <u>9,645,539</u> | <u>12,978,508</u> * | |
| General Fund | 5,258,007 | 5,310,325 | 5,759,188 | 8,050,279 | |
| Cash Funds | 3,442,871 | 3,461,851 | 3,483,933 | 4,928,229 | |
| Reappropriated Funds | 371,094 | 369,930 | 402,418 | 0 | |
| Multiuse Network Payments | <u>3,460,474</u> | <u>3,098,197</u> | <u>4,074,495</u> | <u>2,697,374</u> | |
| General Fund | 325,203 | 369,370 | 982,917 | 383,762 | |
| Cash Funds | 3,124,124 | 2,702,421 | 3,058,734 | 2,313,612 | |
| Reappropriated Funds | 11,147 | 26,406 | 32,844 | 0 | |
| Management and Administration of OIT | <u>1,011,153</u> | <u>1,047,473</u> | <u>546,549</u> | <u>405,480</u> | |
| General Fund | 732,645 | 759,437 | 406,147 | 80,733 | |
| Cash Funds | 248,814 | 257,629 | 124,180 | 324,747 | |
| Reappropriated Funds | 29,694 | 30,407 | 16,222 | 0 | |
| Payment to Risk Management and Property Funds | <u>57,560</u> | <u>161,458</u> | <u>187,392</u> | <u>219,836</u> | |
| General Fund | 18,138 | 52,585 | 69,798 | 82,382 | |
| Cash Funds | 39,422 | 108,873 | 117,594 | 137,454 | |
| Vehicle Lease Payments | <u>509,804</u> | <u>573,239</u> | <u>662,649</u> | <u>662,649</u> | |
| General Fund | 93,106 | 87,991 | 118,040 | 118,040 | |
| Cash Funds | 416,698 | 485,248 | 544,609 | 544,609 | |
| Leased Space | <u>2,900,116</u> | <u>3,327,058</u> | <u>3,517,094</u> | <u>3,577,145</u> * | |
| General Fund | 447,650 | 477,045 | 556,685 | 676,560 | |
| Cash Funds | 2,452,466 | 2,850,013 | 2,960,409 | 2,900,585 | |

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| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| Capitol Complex Leased Space | <u>1,621,365</u> | <u>1,723,674</u> | <u>1,683,593</u> | <u>2,114,391</u> | |
| General Fund | 1,055,065 | 1,105,765 | 1,091,129 | 1,356,346 | |
| Cash Funds | 566,300 | 617,909 | 592,464 | 758,045 | |
| Communication Services Payments | <u>65,346</u> | <u>70,501</u> | <u>69,144</u> | <u>75,015</u> | |
| General Fund | 19,865 | 11,689 | 12,975 | 13,980 | |
| Cash Funds | 45,481 | 58,812 | 56,169 | 61,035 | |
| COFRS Modernization | <u>0</u> | <u>0</u> | <u>313,372</u> | <u>313,372</u> | |
| General Fund | 0 | 0 | 80,654 | 80,654 | |
| Cash Funds | 0 | 0 | 232,718 | 232,718 | |
| Utilities | <u>192,837</u> | <u>187,536</u> | <u>143,703</u> | <u>143,703</u> | |
| General Fund | 0 | 0 | 0 | 0 | |
| Cash Funds | 192,837 | 187,536 | 143,703 | 143,703 | |
| TOTAL - (1) Executive Director's Office | 35,070,816 | 38,887,202 | 41,594,855 | 49,335,917 | 18.6% |
| <i>FTE</i> | <u>43.4</u> | <u>44.3</u> | <u>43.4</u> | <u>63.9</u> | <u>47.2%</u> |
| General Fund | 13,864,706 | 15,655,354 | 17,927,237 | 21,692,920 | 21.0% |
| Cash Funds | 20,206,528 | 22,270,235 | 22,636,882 | 26,842,569 | 18.6% |
| Reappropriated Funds | 999,582 | 961,613 | 1,030,736 | 800,428 | (22.3%) |

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| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(2) CENTRAL DEPARTMENT OPERATIONS DIVISION

This division maintains documents and records transactions for taxes, licensing, and other fee payments; deposits tax remittances; processes tax documents; issues income tax refunds; and handles a variety of incoming and outgoing mail. Major sources of cash funds include the Auto Dealers License Fund, the Liquor Enforcement Division and State Licensing Authority Cash Fund, the Racing Cash Fund, the Aviation Fund, the Highway Users Tax Fund, the Identification Security Fund, the Colorado State Titling and Registration Account, the Limited Gaming Fund, the Driver's License Administrative Revocation Account, the Outstanding Judgments and Warrants Account, and the AIR Account. Sources of reappropriated funds are the State Lottery Division and the Limited Gaming Division.

| | | | | | |
|-----------------------------------|------------------|------------------|------------------|------------------|---|
| Personal Services | <u>4,898,225</u> | <u>5,015,821</u> | <u>5,303,546</u> | <u>4,235,808</u> | * |
| FTE | 97.2 | 96.3 | 97.3 | 80.6 | |
| General Fund | 4,249,301 | 4,432,690 | 4,607,445 | 3,677,946 | |
| Cash Funds | 566,119 | 498,181 | 590,054 | 545,743 | |
| Reappropriated Funds | 82,805 | 84,950 | 106,047 | 12,119 | |
| Seasonal Tax Processing | <u>388,751</u> | <u>330,643</u> | <u>439,288</u> | <u>296,391</u> | * |
| General Fund | 388,751 | 330,643 | 439,288 | 296,391 | |
| Operating Expenses | <u>1,195,592</u> | <u>1,280,359</u> | <u>1,283,311</u> | <u>1,214,005</u> | * |
| General Fund | 1,054,684 | 1,217,644 | 1,135,175 | 1,065,869 | |
| Cash Funds | 140,908 | 62,715 | 148,136 | 148,136 | |
| Postage | <u>3,004,698</u> | <u>2,946,311</u> | <u>2,995,393</u> | <u>2,995,393</u> | |
| General Fund | 2,710,891 | 2,652,076 | 2,657,783 | 2,657,783 | |
| Cash Funds | 293,807 | 294,235 | 337,610 | 337,610 | |
| Pueblo Data Entry Center Payments | <u>1,609,454</u> | <u>1,651,086</u> | 0 | 0 | |
| General Fund | 1,582,036 | 1,646,761 | 0 | 0 | |
| Cash Funds | 27,418 | 4,325 | 0 | 0 | |

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| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| Document Imaging and Storage | <u>394,183</u> | <u>363,220</u> | <u>0</u> | <u>0</u> | |
| General Fund | 394,183 | 362,387 | 0 | 0 | |
| Cash Funds | 0 | 833 | 0 | 0 | |
| Document Management | <u>0</u> | <u>0</u> | <u>2,309,514</u> | <u>2,051,808</u> * | |
| General Fund | 0 | 0 | 2,270,009 | 2,012,303 | |
| Cash Funds | 0 | 0 | 39,505 | 39,505 | |
| TOTAL - (2) Central Department Operations | | | | | |
| Division | 11,490,903 | 11,587,440 | 12,331,052 | 10,793,405 | (12.5%) |
| <i>FTE</i> | <u>97.2</u> | <u>96.3</u> | <u>97.3</u> | <u>80.6</u> | <u>(17.2%)</u> |
| General Fund | 10,379,846 | 10,642,201 | 11,109,700 | 9,710,292 | (12.6%) |
| Cash Funds | 1,028,252 | 860,289 | 1,115,305 | 1,070,994 | (4.0%) |
| Reappropriated Funds | 82,805 | 84,950 | 106,047 | 12,119 | (88.6%) |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(3) INFORMATION TECHNOLOGY DIVISION

This division includes two sections: Systems Support, which provides most of the Department's information technology support; and the Colorado State Titling and Registration System (CSTARS). CSTARS is the motor vehicle titling and registration information system that automates the distribution of vehicle registration taxes among the State, counties, and the Highway Users Tax Fund (HUTF). Major sources of cash funds include the Racing Cash Fund, the Liquor Enforcement Division and State Licensing Authority Cash Fund, the Auto Dealers License Fund, the Aviation Fund, the Highway Users Tax Fund, the Colorado State Titling and Registration Account, the Limited Gaming Fund, the Driver's License Administrative Revocation Account, the AIR Account, and the Outstanding Judgments and Warrants Account. Sources of reappropriated funds are the State Lottery Fund and the Limited Gaming Fund.

(A) System Support

Provides information technology (IT) support to the majority of the Department's IT systems, including taxation, driver's licenses and related systems, and the Enforcement Business Group's systems. Appropriations in this division are for contract services for support of the systems. Support provided by the Office of Information Technology is appropriated in the EDO. Cash fund sources are from the various systems that are supported by this division.

| | | | | |
|---|----------------|----------------|----------------|--------------------|
| Personal Services | <u>217,850</u> | <u>343,248</u> | <u>347,402</u> | <u>297,506</u> * |
| General Fund | 61,155 | 111,952 | 217,352 | 297,506 |
| Cash Funds | 143,922 | 218,715 | 130,050 | 0 |
| Reappropriated Funds | 12,773 | 12,581 | 0 | 0 |
| Operating Expenses | <u>772,876</u> | <u>668,930</u> | <u>773,957</u> | <u>1,332,764</u> * |
| General Fund | 624,163 | 668,930 | 659,759 | 1,218,566 |
| Cash Funds | 148,713 | 0 | 114,198 | 114,198 |
| Programming Costs for Session Legislation | <u>113,107</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| General Fund | 23,360 | 0 | 0 | 0 |
| Cash Funds | 89,747 | 0 | 0 | 0 |

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|--------------------------------------|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| SUBTOTAL - (A) System Support | 1,103,833 | 1,012,178 | 1,121,359 | 1,630,270 | 45.4% |
| <i>FTE</i> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| General Fund | 708,678 | 780,882 | 877,111 | 1,516,072 | 72.8% |
| Cash Funds | 382,382 | 218,715 | 244,248 | 114,198 | (53.2%) |
| Reappropriated Funds | 12,773 | 12,581 | 0 | 0 | 0.0% |

(B) Colorado State Titling and Registration System

Provides contract IT support to the Colorado State Titling and Registration System, which ties the State and the county clerks together to provide a system that facilitates vehicle titling and registration. The source of funding is the Colorado State Titling and Registration Account of the HUTF.

| | | | | | |
|---------------------------------|------------------|------------------|------------------|------------------|--|
| Personal Services | <u>355,241</u> | <u>173,401</u> | <u>518,908</u> | <u>442,688</u> | |
| Cash Funds | 355,241 | 173,401 | 518,908 | 442,688 | |
| Operating Expenses | <u>2,329,295</u> | <u>2,570,162</u> | <u>2,617,535</u> | <u>2,617,535</u> | |
| Cash Funds | 2,329,295 | 2,570,162 | 2,617,535 | 2,617,535 | |
| County Office Asset Maintenance | <u>564,265</u> | <u>568,230</u> | <u>568,230</u> | <u>568,230</u> | |
| Cash Funds | 564,265 | 568,230 | 568,230 | 568,230 | |
| County Office Improvements | <u>4,383</u> | <u>63,214</u> | <u>40,000</u> | <u>40,000</u> | |
| Cash Funds | 4,383 | 63,214 | 40,000 | 40,000 | |

| | | | | | |
|--|------------|------------|------------|------------|-------------|
| SUBTOTAL - (B) Colorado State Titling and Registration System | 3,253,184 | 3,375,007 | 3,744,673 | 3,668,453 | (2.0%) |
| <i>FTE</i> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| Cash Funds | 3,253,184 | 3,375,007 | 3,744,673 | 3,668,453 | (2.0%) |

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|--|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| TOTAL - (3) Information Technology Division | 4,357,017 | 4,387,185 | 4,866,032 | 5,298,723 | 8.9% |
| <i>FTE</i> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| General Fund | 708,678 | 780,882 | 877,111 | 1,516,072 | 72.8% |
| Cash Funds | 3,635,566 | 3,593,722 | 3,988,921 | 3,782,651 | (5.2%) |
| Reappropriated Funds | 12,773 | 12,581 | 0 | 0 | 0.0% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

TAXATION BUSINESS GROUP

The Taxation Business Group administers business taxes; income taxes; severance taxes; estate and transfer taxes; special taxes, including gasoline, special fuel, aviation fuel, cigarette, tobacco, and liquor excise taxes; public utility assessments; and food service licensing fees. Sources of cash funds include the Private Letter Ruling Fund, the Aviation Fund, the Tobacco Tax Cash Fund, the Highway Users Tax Fund (for the Fuel Tracking System), the Mineral Audit Program, and the State Board of Land Commissioners. Sources of reappropriated funds include the Mineral Audit Program (federal funds), the State Board of Land Commissioners, and the Oil and Gas Conservation Commission.

(A) Administration

This section provides administrative support for the Taxation Business Group, including budgeting, human resources, and other support.

| | | | | |
|--|----------------|----------------|----------------|--------------------|
| Personal Services | <u>552,526</u> | <u>538,869</u> | <u>557,305</u> | <u>493,090</u> * |
| FTE | 6.0 | 5.9 | 6.0 | 5.0 |
| General Fund | 547,317 | 533,933 | 554,709 | 491,419 |
| Cash Funds | 5,209 | 4,936 | 2,596 | 1,671 |
| Operating Expenses | <u>13,849</u> | <u>13,706</u> | <u>14,050</u> | <u>13,100</u> * |
| General Fund | 13,849 | 13,706 | 14,050 | 13,100 |
| Colorado Integrated Tax Architecture Maintenance and Support | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,500,000</u> * |
| General Fund | 0 | 0 | 0 | 1,500,000 |

| | | | | | |
|--------------------------------------|------------|------------|------------|------------|----------------|
| SUBTOTAL - (A) Administration | 566,375 | 552,575 | 571,355 | 2,006,190 | 251.1% |
| FTE | <u>6.0</u> | <u>5.9</u> | <u>6.0</u> | <u>5.0</u> | <u>(16.7%)</u> |
| General Fund | 561,166 | 547,639 | 568,759 | 2,004,519 | 252.4% |
| Cash Funds | 5,209 | 4,936 | 2,596 | 1,671 | (35.6%) |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(B) Taxation and Compliance Division

This Division ensures compliance with Colorado's tax laws by conducting compliance audits on individual and corporate income tax returns, sales tax submissions, and other tax returns. The Division maintains five section and six district offices throughout Colorado for these purposes. The Mineral Audit Program audits royalty returns associated with oil, natural gas, coal, and other mineral extraction on federal, state, and private lands.

| | | | | | |
|--|-------------------|-------------------|-------------------|---------------------|--------|
| Personal Expenses | <u>15,125,978</u> | <u>15,466,621</u> | <u>15,818,506</u> | <u>15,356,819</u> * | |
| FTE | 209.4 | 214.4 | 224.3 | 219.1 | |
| General Fund | 14,974,186 | 15,330,436 | 15,612,331 | 15,150,644 | |
| Cash Funds | 4,139 | 0 | 52,090 | 52,090 | |
| Reappropriated Funds | 147,653 | 136,185 | 154,085 | 154,085 | |
| Operating Expenses | <u>1,002,480</u> | <u>991,924</u> | <u>1,054,468</u> | <u>1,042,628</u> * | |
| General Fund | 1,002,480 | 991,924 | 1,044,002 | 1,032,162 | |
| Cash Funds | 0 | 0 | 10,466 | 10,466 | |
| Joint Audit Program | <u>131,244</u> | <u>131,244</u> | <u>131,244</u> | <u>131,244</u> | |
| General Fund | 131,244 | 131,244 | 131,244 | 131,244 | |
| Mineral Audit Program | <u>744,013</u> | <u>721,301</u> | <u>890,388</u> | <u>890,388</u> | |
| FTE | 11.0 | 11.2 | 10.2 | 10.2 | |
| Reappropriated Funds | 24,900 | 24,954 | 66,000 | 66,000 | |
| Federal Funds | 719,113 | 696,347 | 824,388 | 824,388 | |
| SUBTOTAL - (B) Taxation and Compliance Division | 17,003,715 | 17,311,090 | 17,894,606 | 17,421,079 | (2.6%) |
| FTE | <u>220.4</u> | <u>225.6</u> | <u>234.5</u> | <u>229.3</u> | (2.2%) |
| General Fund | 16,107,910 | 16,453,604 | 16,787,577 | 16,314,050 | (2.8%) |
| Cash Funds | 4,139 | 0 | 62,556 | 62,556 | 0.0% |
| Reappropriated Funds | 172,553 | 161,139 | 220,085 | 220,085 | 0.0% |
| Federal Funds | 719,113 | 696,347 | 824,388 | 824,388 | 0.0% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(C) Taxpayer Service Division

This Division assists individual and business taxpayers through regional service centers and a call center; issues tax licenses and permits to businesses; collects local sales and use taxes for many cities, counties, and special districts; and issues individual and business tax refunds. The Fuel Tracking System tracks the movement of gasoline and special fuels with the goal of expediting the collection of excise taxes.

| | | | | | |
|----------------------|------------------|------------------|------------------|------------------|--|
| Personal Services | <u>4,547,269</u> | <u>4,880,471</u> | <u>4,699,321</u> | <u>4,634,115</u> | |
| FTE | 74.9 | 80.0 | 75.4 | 75.2 | |
| General Fund | 4,520,514 | 4,506,360 | 4,600,736 | 4,535,530 | |
| Cash Funds | 26,755 | 374,111 | 98,585 | 98,585 | |
| Operating Expenses | <u>447,987</u> | <u>404,580</u> | <u>402,510</u> | <u>402,510</u> | |
| General Fund | 447,987 | 386,619 | 402,010 | 402,010 | |
| Cash Funds | 0 | 17,961 | 500 | 500 | |
| Fuel Tracking System | <u>464,175</u> | <u>468,414</u> | <u>486,594</u> | <u>486,594</u> | |
| FTE | 1.3 | 1.4 | 1.5 | 1.5 | |
| Cash Funds | 464,175 | 468,414 | 486,594 | 486,594 | |

| | | | | | |
|---|-------------|-------------|-------------|-------------|---------------|
| SUBTOTAL - (C) Taxpayer Service Division | 5,459,431 | 5,753,465 | 5,588,425 | 5,523,219 | (1.2%) |
| FTE | <u>76.2</u> | <u>81.4</u> | <u>76.9</u> | <u>76.7</u> | <u>(0.3%)</u> |
| General Fund | 4,968,501 | 4,892,979 | 5,002,746 | 4,937,540 | (1.3%) |
| Cash Funds | 490,930 | 860,486 | 585,679 | 585,679 | 0.0% |

(D) Tax Conferee

Attempts to resolve tax disputes, including those pertaining to gross conservation easements, before the issues go to court and review issues related to home rule city and county sales and use taxes.

| | | | | | |
|-------------------|------------------|------------------|------------------|------------------|--|
| Personal Services | <u>1,233,247</u> | <u>1,823,548</u> | <u>2,627,732</u> | <u>2,627,732</u> | |
| FTE | 10.5 | 12.7 | 12.2 | 12.2 | |
| General Fund | 1,233,247 | 1,823,548 | 2,627,732 | 2,627,732 | |

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|------------------------------------|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| Operating Expenses | <u>42,882</u> | <u>29,064</u> | <u>61,174</u> | <u>61,174</u> | |
| General Fund | 42,882 | 29,064 | 61,174 | 61,174 | |
| SUBTOTAL - (D) Tax Conferee | 1,276,129 | 1,852,612 | 2,688,906 | 2,688,906 | 0.0% |
| <i>FTE</i> | <u>10.5</u> | <u>12.7</u> | <u>12.2</u> | <u>12.2</u> | <u>0.0%</u> |
| General Fund | 1,276,129 | 1,852,612 | 2,688,906 | 2,688,906 | 0.0% |

(E) Special Purpose

Distributes applicable percentage of gross cigarette taxes and Amendment 35 taxes to cities and counties, distributes grants to assist low-income, disabled, and elderly citizens with payment of property taxes and heat and fuel expenses, and issues rebates of sales taxes to qualified entities under the Commercial Vehicle Enterprise Sales Tax Refund program.

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Cigarette Tax Rebate | <u>11,025,829</u> | <u>11,233,165</u> | <u>10,300,000</u> | <u>10,000,000</u> |
| General Fund | 11,025,829 | 11,233,165 | 10,300,000 | 10,000,000 |
| Amendment 35 Distribution to Local Governments | <u>1,310,383</u> | <u>1,335,640</u> | <u>1,324,800</u> | <u>1,324,800</u> |
| Cash Funds | 1,310,383 | 1,335,640 | 1,324,800 | 1,324,800 |
| Old Age Heat and Fuel and Property Tax Assistance Grant | <u>6,820,822</u> | <u>7,173,388</u> | <u>7,400,000</u> | <u>7,200,000</u> |
| General Fund | 6,820,822 | 7,173,388 | 7,400,000 | 7,200,000 |
| Commercial Vehicle Enterprise Sales Tax Refund | <u>0</u> | <u>17,351</u> | <u>120,524</u> | <u>120,524</u> |
| Cash Funds | 0 | 17,351 | 120,524 | 120,524 |
| Alternative Fuels Rebate | <u>310,519</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Cash Funds | 310,519 | 0 | 0 | 0 |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
| SUBTOTAL - (E) Special Purpose | 19,467,553 | 19,759,544 | 19,145,324 | 18,645,324 | (2.6%) |
| <i>FTE</i> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| General Fund | 17,846,651 | 18,406,553 | 17,700,000 | 17,200,000 | (2.8%) |
| Cash Funds | 1,620,902 | 1,352,991 | 1,445,324 | 1,445,324 | 0.0% |
| TOTAL - Taxation Business Group | 43,773,203 | 45,229,286 | 45,888,616 | 46,284,718 | 0.9% |
| <i>FTE</i> | <u>313.1</u> | <u>325.6</u> | <u>329.6</u> | <u>323.2</u> | <u>(1.9%)</u> |
| General Fund | 40,760,357 | 42,153,387 | 42,747,988 | 43,145,015 | 0.9% |
| Cash Funds | 2,121,180 | 2,218,413 | 2,096,155 | 2,095,230 | (0.0%) |
| Reappropriated Funds | 172,553 | 161,139 | 220,085 | 220,085 | 0.0% |
| Federal Funds | 719,113 | 696,347 | 824,388 | 824,388 | 0.0% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(5) DIVISION OF MOTOR VEHICLES

The Division includes Administration, Driver and Vehicle Services, Vehicle Emissions, Titles, the Motorist Insurance Identification Database Program, and the Ignition Interlock Program.

(A) Administration

This section administers the programs in the Division of Motor Vehicles. Cash funds sources are the cash funds that provide funding for the sub-divisions and programs in the Division.

| | | | | | |
|--------------------------------------|----------------|----------------|----------------|------------------|--------------|
| Personal Services | <u>895,783</u> | <u>778,161</u> | <u>765,538</u> | <u>900,749</u> * | |
| FTE | 10.1 | 9.5 | 8.5 | 9.5 | |
| General Fund | 0 | (4,858) | 27,529 | 27,216 | |
| Cash Funds | 895,783 | 783,019 | 738,009 | 873,533 | |
| Operating Expenses | <u>53,528</u> | <u>45,409</u> | <u>51,400</u> | <u>52,350</u> * | |
| General Fund | 0 | 0 | 251 | 1,582 | |
| Cash Funds | 53,528 | 45,409 | 51,149 | 50,768 | |
| SUBTOTAL - (A) Administration | 949,311 | 823,570 | 816,938 | 953,099 | 16.7% |
| FTE | <u>10.1</u> | <u>9.5</u> | <u>8.5</u> | <u>9.5</u> | <u>11.8%</u> |
| General Fund | 0 | (4,858) | 27,780 | 28,798 | 3.7% |
| Cash Funds | 949,311 | 828,428 | 789,158 | 924,301 | 17.1% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(B) Driver and Vehicle Services

Driver and Vehicle Services administers driver's licensing and records management, vehicle registration, the International Registration Program, and regulation of commercial driving schools. The primary cash funds sources are the Licensing Services Cash Fund, the Identification Security Fund, the Colorado State Titling and Registration Account, the Driver's License Administrative Revocation Account, the License Plate Cash Fund, outstanding judgments and warrants, and penalty assessments.

| | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|---------------|
| Personal Services | <u>15,593,004</u> | <u>15,536,628</u> | <u>17,059,275</u> | <u>16,452,768</u> | * |
| FTE | 346.9 | 348.0 | 361.1 | 353.9 | |
| General Fund | 0 | (4,690) | 603,982 | 593,398 | |
| Cash Funds | 15,593,004 | 15,541,318 | 16,455,293 | 15,859,370 | |
| Operating Expenses | <u>1,424,777</u> | <u>1,957,970</u> | <u>1,721,537</u> | <u>1,701,002</u> | * |
| General Fund | 0 | (102) | 38,045 | 38,045 | |
| Cash Funds | 1,424,777 | 1,958,072 | 1,683,492 | 1,662,957 | |
| Drivers License Documents | <u>3,101,123</u> | <u>3,568,821</u> | <u>4,314,318</u> | <u>4,314,318</u> | |
| General Fund | 0 | 0 | 0 | 0 | |
| Cash Funds | 3,101,123 | 3,568,821 | 4,314,318 | 4,314,318 | |
| License Plate Ordering | <u>3,805,827</u> | <u>4,274,917</u> | <u>5,522,960</u> | <u>5,330,116</u> | |
| Cash Funds | 3,805,827 | 4,274,917 | 5,522,960 | 5,330,116 | |
| SUBTOTAL - (B) Driver and Vehicle Services | 23,924,731 | 25,338,336 | 28,618,090 | 27,798,204 | (2.9%) |
| FTE | <u>346.9</u> | <u>348.0</u> | <u>361.1</u> | <u>353.9</u> | (2.0%) |
| General Fund | 0 | (4,792) | 642,027 | 631,443 | (1.6%) |
| Cash Funds | 23,924,731 | 25,343,128 | 27,976,063 | 27,166,761 | (2.9%) |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(C) Vehicle Emissions

The Emissions section conducts audits of inspection and readjustment stations and facilities to ensure compliance with vehicle emissions testing standards under the Automobile Inspection and Readjustment Program.

| | | | | | |
|---|----------------|----------------|------------------|------------------|-------------|
| Personal Services | <u>945,389</u> | <u>838,102</u> | <u>1,081,868</u> | <u>1,081,868</u> | |
| FTE | 14.4 | 12.6 | 15.0 | 15.0 | |
| Cash Funds | 945,389 | 838,102 | 1,081,868 | 1,081,868 | |
| Operating Expenses | <u>84,477</u> | <u>83,213</u> | <u>86,825</u> | <u>86,825</u> | |
| Cash Funds | 84,477 | 83,213 | 86,825 | 86,825 | |
| SUBTOTAL - (C) Vehicle Emissions | 1,029,866 | 921,315 | 1,168,693 | 1,168,693 | 0.0% |
| FTE | <u>14.4</u> | <u>12.6</u> | <u>15.0</u> | <u>15.0</u> | <u>0.0%</u> |
| Cash Funds | 1,029,866 | 921,315 | 1,168,693 | 1,168,693 | 0.0% |

(D) Titles

Provides administrative and accounting support for the issuance of motor vehicle titles, certifies vehicle ownership for tax assessment and other purposes, and ensures uniformity among the county clerks that provide the interface for the public in these transactions.

| | | | | | |
|------------------------------|------------------|------------------|------------------|------------------|---------------|
| Personal Services | <u>1,550,327</u> | <u>1,605,329</u> | <u>1,661,471</u> | <u>1,638,996</u> | |
| FTE | 32.2 | 31.7 | 32.9 | 32.2 | |
| Cash Funds | 1,550,327 | 1,605,329 | 1,661,471 | 1,638,996 | |
| Operating Expenses | <u>188,913</u> | <u>206,769</u> | <u>324,986</u> | <u>305,574</u> | |
| Cash Funds | 188,913 | 206,769 | 324,986 | 305,574 | |
| SUBTOTAL - (D) Titles | 1,739,240 | 1,812,098 | 1,986,457 | 1,944,570 | (2.1%) |
| FTE | <u>32.2</u> | <u>31.7</u> | <u>32.9</u> | <u>32.2</u> | <u>(2.1%)</u> |
| Cash Funds | 1,739,240 | 1,812,098 | 1,986,457 | 1,944,570 | (2.1%) |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(E) Motorist Insurance Identification Database Program

Maintains the database to compare motor vehicle registration records against insured motorist records to authorize the accurate driver's license suspension of uninsured drivers.

| | | | | | |
|--|----------------|----------------|----------------|----------------|--|
| Personal Services | <u>250,539</u> | <u>256,764</u> | <u>0</u> | <u>0</u> | |
| FTE | 0.9 | 0.8 | 0.0 | 0.0 | |
| Cash Funds | 250,539 | 256,764 | 0 | 0 | |
| Operating Expenses | <u>473</u> | <u>494</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 473 | 494 | 0 | 0 | |
| Motorist Insurance Identification Database Program | <u>0</u> | <u>0</u> | <u>330,517</u> | <u>330,517</u> | |
| FTE | 0.0 | 0.0 | 1.0 | 1.0 | |
| Cash Funds | 0 | 0 | 330,517 | 330,517 | |

| | | | | | |
|--|------------|------------|------------|------------|-------------|
| SUBTOTAL - (E) Motorist Insurance Identification Database Program | 251,012 | 257,258 | 330,517 | 330,517 | 0.0% |
| FTE | <u>0.9</u> | <u>0.8</u> | <u>1.0</u> | <u>1.0</u> | <u>0.0%</u> |
| Cash Funds | 251,012 | 257,258 | 330,517 | 330,517 | 0.0% |

(F) Ignition Interlock Program

Assists first time drunk driving offenders with obtaining ignition interlock devices to allow those offenders to drive, with certain restrictions.

| | | | | | |
|--------------------|----------------|----------------|----------------|----------------|--|
| Personal Services | <u>198,723</u> | <u>182,966</u> | <u>211,931</u> | <u>211,931</u> | |
| FTE | 5.0 | 4.3 | 5.0 | 5.0 | |
| Cash Funds | 198,723 | 182,966 | 211,931 | 211,931 | |
| Operating Expenses | <u>223,641</u> | <u>462,139</u> | <u>934,842</u> | <u>934,842</u> | |
| Cash Funds | 223,641 | 462,139 | 934,842 | 934,842 | |

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|--|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| SUBTOTAL - (F) Ignition Interlock Program | 422,364 | 645,105 | 1,146,773 | 1,146,773 | 0.0% |
| <i>FTE</i> | <u>5.0</u> | <u>4.3</u> | <u>5.0</u> | <u>5.0</u> | <u>0.0%</u> |
| Cash Funds | 422,364 | 645,105 | 1,146,773 | 1,146,773 | 0.0% |
| TOTAL - (5) Division of Motor Vehicles | 28,316,524 | 29,797,682 | 34,067,468 | 33,341,856 | (2.1%) |
| <i>FTE</i> | <u>409.5</u> | <u>406.9</u> | <u>423.5</u> | <u>416.6</u> | <u>(1.6%)</u> |
| General Fund | 0 | (9,650) | 669,807 | 660,241 | (1.4%) |
| Cash Funds | 28,316,524 | 29,807,332 | 33,397,661 | 32,681,615 | (2.1%) |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(6) MOTOR CARRIER SERVICES DIVISION

This division enforces interstate trucking laws through the ports of entry system. It registers motor carriers, collects registration fees on fuel distributors, petroleum storage companies, and interstate carriers; enforces vehicle safety regulations; and enforces regulations concerning owners and operators of motor carriers. It operates 17 port of entry buildings at ten locations and ten mobile port scales. Please note that the Taxation Business Group manages the federally funded interstate trucker registration audit system, known as the Joint Federal-State Motor Fuel Tax System. Major sources of cash funds include the Highway Users Tax Fund, the Nuclear Materials Transportation Fund, the Hazardous Materials Safety Fund. House Bill 10-1113 transferred the Motor Carrier Safety Assistance Program to the Department of Public Safety, Colorado State Patrol, effective August 15, 2010 and also commissioned a study to determine possible improvements to the operations of the Ports of Entry section, including determining what department is best suited to operate the program. House Bill 12-1019 abolished the Motor Carrier Services Division in the Department of Revenue and transferred the Ports of Entry to the Colorado State Patrol and transferred the International Registration Program to Driver and Vehicle Services in the Division of Motor Vehicles.

| | | | | |
|--|------------------|------------------|----------------|----------|
| Personal Services | <u>6,758,292</u> | <u>6,733,742</u> | <u>(4,748)</u> | <u>0</u> |
| FTE | 123.3 | 125.3 | 0.0 | 0.0 |
| General Fund | 635,891 | 534,050 | (4,748) | 0 |
| Cash Funds | 6,113,587 | 6,199,692 | 0 | 0 |
| Reappropriated Funds | 8,814 | 0 | 0 | 0 |
| Operating Expenses | <u>500,798</u> | <u>520,027</u> | <u>0</u> | <u>0</u> |
| General Fund | 36,974 | 36,780 | 0 | 0 |
| Cash Funds | 463,824 | 483,247 | 0 | 0 |
| Fixed and Mobile Port Maintenance | <u>214,616</u> | <u>219,204</u> | <u>0</u> | <u>0</u> |
| Cash Funds | 214,616 | 219,204 | 0 | 0 |
| Hazardous Materials Permitting Program | <u>125,459</u> | <u>103,497</u> | <u>0</u> | <u>0</u> |
| FTE | 2.1 | 2.0 | 0.0 | 0.0 |
| Cash Funds | 125,459 | 103,497 | 0 | 0 |

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|--|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| Motor Carrier Safety Assistance Program | <u>88,219</u> | <u>0</u> | <u>0</u> | | |
| FTE | 0.9 | 0.0 | 0.0 | 0.0 | |
| Federal Funds | 88,219 | 0 | 0 | 0 | |
| TOTAL - (6) Motor Carrier Services Division | 7,687,384 | 7,576,470 | (4,748) | 0 | (100.0%) |
| FTE | <u>126.3</u> | <u>127.3</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| General Fund | 672,865 | 570,830 | (4,748) | 0 | (100.0%) |
| Cash Funds | 6,917,486 | 7,005,640 | 0 | 0 | 0.0% |
| Reappropriated Funds | 8,814 | 0 | 0 | 0 | 0.0% |
| Federal Funds | 88,219 | 0 | 0 | 0 | 0.0% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(7) ENFORCEMENT BUSINESS GROUP

This division regulates the limited gaming industry; regulates horse and dog racing events; enforces the state's liquor, medical marijuana, and tobacco laws; and licenses liquor retailers, wholesalers, and manufacturers and medical marijuana retailers and manufacturing and cultivation facilities. This division also regulates the distribution of motor vehicles and manages adjudication hearings related to drivers licenses, certain racing licenses, and some tax disputes.

(A) Administration

Provides administrative support to the divisions in the Group: the Limited Gaming Division; the Alcohol and Tobacco Enforcement Division; the Division of Racing Events; the Hearings Division, the Motor Vehicle Dealer Licensing Board; and the Medical Marijuana Enforcement Division.

| | | | | |
|----------------------|----------------|----------------|----------------|------------------|
| Personal Services | <u>574,177</u> | <u>635,691</u> | <u>629,903</u> | <u>649,536</u> * |
| FTE | 7.5 | 7.9 | 8.0 | 8.0 |
| General Fund | (3,303) | 26,826 | 13,810 | 20,299 |
| Cash Funds | 455,799 | 508,753 | 518,098 | 355,016 |
| Reappropriated Funds | 121,681 | 100,112 | 97,995 | 274,221 |
| Operating Expenses | <u>12,400</u> | <u>10,048</u> | <u>12,780</u> | <u>12,780</u> * |
| General Fund | 144 | (21) | 598 | 400 |
| Cash Funds | 9,719 | 9,092 | 10,940 | 6,985 |
| Reappropriated Funds | 2,537 | 977 | 1,242 | 5,395 |

| | | | | | |
|--------------------------------------|------------|------------|------------|------------|-------------|
| SUBTOTAL - (A) Administration | 586,577 | 645,739 | 642,683 | 662,316 | 3.1% |
| FTE | <u>7.5</u> | <u>7.9</u> | <u>8.0</u> | <u>8.0</u> | <u>0.0%</u> |
| General Fund | (3,159) | 26,805 | 14,408 | 20,699 | 43.7% |
| Cash Funds | 465,518 | 517,845 | 529,038 | 362,001 | (31.6%) |
| Reappropriated Funds | 124,218 | 101,089 | 99,237 | 279,616 | 181.8% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(B) Limited Gaming Division

Licenses and regulates limited gaming establishments, conducts background investigations on all gaming employees, monitors compliance with State limited gaming laws, and conducts audits to ensure tax remittances from gaming establishments are correct. Line allocations are determined by the Limited Gaming Commission and are not subject to appropriation by the General Assembly.

| | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|--------|
| Personal Services | <u>6,004,899</u> | <u>6,205,319</u> | <u>6,784,591</u> | <u>6,652,800</u> | * |
| FTE | 81.9 | 79.3 | 85.4 | 84.4 | |
| Cash Funds | 6,004,899 | 6,205,319 | 6,784,591 | 6,652,800 | |
| Operating Expenses | <u>465,553</u> | <u>467,302</u> | <u>1,332,689</u> | <u>1,331,739</u> | * |
| Cash Funds | 465,553 | 467,302 | 1,332,689 | 1,331,739 | |
| Licensure Activities | <u>104,984</u> | <u>100,547</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 104,984 | 100,547 | 0 | 0 | |
| Investigations | <u>37,160</u> | <u>28,524</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 37,160 | 28,524 | 0 | 0 | |
| Payments to Other State Agencies | <u>3,339,714</u> | <u>3,457,747</u> | <u>3,853,589</u> | <u>3,853,589</u> | |
| Cash Funds | 3,339,714 | 3,457,747 | 3,853,589 | 3,853,589 | |
| Distribution to Gaming Cities and Counties | <u>95,307,995</u> | <u>91,182,958</u> | <u>23,788,902</u> | <u>23,788,902</u> | |
| Cash Funds | 95,307,995 | 91,182,958 | 23,788,902 | 23,788,902 | |
| Indirect Cost Assessment | <u>711,203</u> | <u>685,832</u> | <u>433,170</u> | <u>926,636</u> | * |
| Cash Funds | 711,203 | 685,832 | 433,170 | 926,636 | |
| SUBTOTAL - (B) Limited Gaming Division | 105,971,508 | 102,128,229 | 36,192,941 | 36,553,666 | 1.0% |
| FTE | <u>81.9</u> | <u>79.3</u> | <u>85.4</u> | <u>84.4</u> | (1.2%) |
| Cash Funds | 105,971,508 | 102,128,229 | 36,192,941 | 36,553,666 | 1.0% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(C) Liquor and Tobacco Enforcement Division

Enforces the State's alcohol laws and regulations; issues licenses and permits to manufacturers, importers, distributors, and retailers of alcoholic beverages; and enforces State laws prohibiting the sale of tobacco products to minors.

| | | | | | |
|--------------------|----------|----------|------------------|--------------------|--|
| Personal Services | <u>0</u> | <u>0</u> | <u>2,140,010</u> | <u>2,217,909</u> * | |
| FTE | 0.0 | 0.0 | 26.5 | 26.5 | |
| General Fund | 0 | 0 | 138,013 | 138,013 | |
| Cash Funds | 0 | 0 | 2,001,997 | 2,079,896 | |
| Operating Expenses | <u>0</u> | <u>0</u> | <u>87,705</u> | <u>97,919</u> * | |
| General Fund | 0 | 0 | 7,201 | 7,201 | |
| Cash Funds | 0 | 0 | 80,504 | 90,718 | |

| | | | | | |
|--|------------|------------|-------------|-------------|-------------|
| SUBTOTAL - (C) Liquor and Tobacco Enforcement | | | | | |
| Division | 0 | 0 | 2,227,715 | 2,315,828 | 4.0% |
| <i>FTE</i> | <u>0.0</u> | <u>0.0</u> | <u>26.5</u> | <u>26.5</u> | <u>0.0%</u> |
| General Fund | 0 | 0 | 145,214 | 145,214 | 0.0% |
| Cash Funds | 0 | 0 | 2,082,501 | 2,170,614 | 4.2% |

Liquor Enforcement Division

This program was consolidated into the Liquor and Tobacco Enforcement Division for FY 2012-13.

| | | | | |
|--------------------|------------------|------------------|----------|----------|
| Personal Services | <u>1,559,906</u> | <u>1,535,943</u> | <u>0</u> | <u>0</u> |
| FTE | 18.7 | 20.3 | 0.0 | 0.0 |
| Cash Funds | 1,559,906 | 1,535,943 | 0 | 0 |
| Operating Expenses | <u>55,069</u> | <u>55,896</u> | <u>0</u> | <u>0</u> |
| Cash Funds | 55,069 | 55,896 | 0 | 0 |

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|---|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| SUBTOTAL - Liquor Enforcement Division | 1,614,975 | 1,591,839 | 0 | 0 | 0.0% |
| <i>FTE</i> | <u>18.7</u> | <u>20.3</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| Cash Funds | 1,614,975 | 1,591,839 | 0 | 0 | 0.0% |

Tobacco Enforcement Program

This program was consolidated into the Liquor and Tobacco Enforcement Division for FY 2012-13.

| | | | | | |
|---|----------------|----------------|------------|------------|-------------|
| Personal Services | <u>431,726</u> | <u>385,817</u> | 0 | 0 | |
| <i>FTE</i> | 6.7 | 5.8 | 0.0 | 0.0 | |
| General Fund | 131,474 | 115,485 | 0 | 0 | |
| Cash Funds | 300,252 | 270,332 | 0 | 0 | |
| Operating Expenses | <u>28,314</u> | <u>28,874</u> | 0 | 0 | |
| General Fund | 6,902 | 7,036 | 0 | 0 | |
| Cash Funds | 21,412 | 21,838 | 0 | 0 | |
| SUBTOTAL - Tobacco Enforcement Program | 460,040 | 414,691 | 0 | 0 | 0.0% |
| <i>FTE</i> | <u>6.7</u> | <u>5.8</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0%</u> |
| General Fund | 138,376 | 122,521 | 0 | 0 | 0.0% |
| Cash Funds | 321,664 | 292,170 | 0 | 0 | 0.0% |

(D) Division of Racing Events

Licenses racetracks and individuals involved in horse and dog racing (currently inactive), allocates race days among racetracks, tests animals for drugs, and oversees wagering.

| | | | | |
|-------------------|----------------|----------------|------------------|--------------------|
| Personal Services | <u>687,154</u> | <u>666,098</u> | <u>1,124,123</u> | <u>1,060,739</u> * |
| <i>FTE</i> | 6.1 | 6.3 | 8.7 | 7.7 |
| Cash Funds | 687,154 | 666,098 | 1,124,123 | 1,060,739 |

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|---|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| Operating Expenses | <u>77,751</u> | <u>64,715</u> | <u>222,577</u> | <u>221,627</u> * | |
| Cash Funds | 77,751 | 64,715 | 222,577 | 221,627 | |
| Laboratory Services | <u>26,055</u> | <u>69,270</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 26,055 | 69,270 | 0 | 0 | |
| Commission Meeting Costs | <u>929</u> | <u>1,061</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 929 | 1,061 | 0 | 0 | |
| Racetrack Applications | <u>24,234</u> | <u>17,559</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 24,234 | 17,559 | 0 | 0 | |
| Purses and Breeders Awards | <u>1,299,203</u> | <u>1,266,932</u> | <u>1,400,000</u> | <u>1,400,000</u> | |
| Cash Funds | 1,299,203 | 1,266,932 | 1,400,000 | 1,400,000 | |
| SUBTOTAL - (D) Division of Racing Events | 2,115,326 | 2,085,635 | 2,746,700 | 2,682,366 | (2.3%) |
| FTE | <u>6.1</u> | <u>6.3</u> | <u>8.7</u> | <u>7.7</u> | (11.5%) |
| Cash Funds | 2,115,326 | 2,085,635 | 2,746,700 | 2,682,366 | (2.3%) |

(E) Hearings Division

Conducts hearings on driver's license suspensions and revocations, probationary licenses, habitual traffic offenders, misuse of temporary registration permits, and horse and dog racing licenses. Provides computer support and data analysis for traffic safety programs. Cash funds source is the Driver's License Administrative Revocation Account.

| | | | | |
|-------------------|------------------|------------------|------------------|------------------|
| Personal Services | <u>1,975,288</u> | <u>1,763,346</u> | <u>2,182,046</u> | <u>2,182,046</u> |
| FTE | 26.1 | 27.2 | 29.4 | 29.4 |
| General Fund | 0 | 0 | 178,955 | 178,955 |
| Cash Funds | 1,975,288 | 1,763,346 | 2,003,091 | 2,003,091 |

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|---|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| Operating Expenses | <u>94,235</u> | <u>94,424</u> | <u>101,408</u> | <u>101,408</u> | |
| General Fund | 0 | 0 | 2,470 | 2,470 | |
| Cash Funds | 94,235 | 94,424 | 98,938 | 98,938 | |
| SUBTOTAL - (E) Hearings Division | 2,069,523 | 1,857,770 | 2,283,454 | 2,283,454 | 0.0% |
| <i>FTE</i> | <u>26.1</u> | <u>27.2</u> | <u>29.4</u> | <u>29.4</u> | <u>0.0%</u> |
| General Fund | 0 | 0 | 181,425 | 181,425 | 0.0% |
| Cash Funds | 2,069,523 | 1,857,770 | 2,102,029 | 2,102,029 | 0.0% |

(F) Motor Vehicle Dealer Licensing Board

Conducts hearings on driver's license suspensions and revocations, probationary licenses, habitual traffic offenders, misuse of temporary registration permits, and horse and dog racing licenses. Provides computer support and data analysis for traffic safety programs.

| | | | | | |
|--|------------------|------------------|------------------|------------------|-------------|
| Personal Services | <u>1,691,845</u> | <u>1,714,584</u> | <u>1,782,358</u> | <u>1,782,358</u> | |
| FTE | 26.7 | 26.9 | 26.2 | 26.2 | |
| Cash Funds | 1,691,845 | 1,714,584 | 1,782,358 | 1,782,358 | |
| Operating Expenses | <u>117,672</u> | <u>117,491</u> | <u>119,023</u> | <u>119,023</u> | |
| Cash Funds | 117,672 | 117,491 | 119,023 | 119,023 | |
| SUBTOTAL - (F) Motor Vehicle Dealer Licensing Board | 1,809,517 | 1,832,075 | 1,901,381 | 1,901,381 | 0.0% |
| <i>FTE</i> | <u>26.7</u> | <u>26.9</u> | <u>26.2</u> | <u>26.2</u> | <u>0.0%</u> |
| Cash Funds | 1,809,517 | 1,832,075 | 1,901,381 | 1,901,381 | 0.0% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(G) Medical Marijuana Enforcement

Licenses and regulates medical marijuana dispensaries, growing facilities, and medical marijuana infused product manufacturing facilities. Investigates complaints and enforces law and regulations regarding such facilities.

| | | | | | |
|---|--------------|--------------|--------------|--------------|---------------|
| Medical Marijuana Enforcement | 4,097,790 | 3,919,025 | 5,653,838 | 5,653,838 | |
| FTE | 11.2 | 31.7 | 55.2 | 55.2 | |
| Cash Funds | 4,097,790 | 3,919,025 | 5,653,838 | 5,653,838 | |
| SUBTOTAL - (G) Medical Marijuana Enforcement | 4,097,790 | 3,919,025 | 5,653,838 | 5,653,838 | 0.0% |
| <i>FTE</i> | <u>11.2</u> | <u>31.7</u> | <u>55.2</u> | <u>55.2</u> | <u>0.0%</u> |
| Cash Funds | 4,097,790 | 3,919,025 | 5,653,838 | 5,653,838 | 0.0% |
| TOTAL - (7) Enforcement Business Group | 118,725,256 | 114,475,003 | 51,648,712 | 52,052,849 | 0.8% |
| <i>FTE</i> | <u>184.9</u> | <u>205.4</u> | <u>239.4</u> | <u>237.4</u> | <u>(0.8%)</u> |
| General Fund | 135,217 | 149,326 | 341,047 | 347,338 | 1.8% |
| Cash Funds | 118,465,821 | 114,224,588 | 51,208,428 | 51,425,895 | 0.4% |
| Reappropriated Funds | 124,218 | 101,089 | 99,237 | 279,616 | 181.8% |

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|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|
|--|----------------------|----------------------|-----------------------------|-----------------------|------------------------------|

(8) STATE LOTTERY DIVISION

The State Lottery Division is an enterprise under the provisions of Section 20 of Article X of the Colorado Constitution (the Taxpayer's Bill of Rights). Expenditures are paid from the State Lottery Fund and appropriated as cash funds. The Lottery's direct costs for worker's compensation, variable vehicle expenses, legal services, the purchase of services from the computer center, multiuse network payments, payments to risk management, vehicle lease payments, leased space, Capitol Complex leased space, and communications services payments are shown in consolidated budget lines within the Executive Director's Office.

| | | | | |
|----------------------------------|-------------------|-------------------|-------------------|--------------------|
| Personal Services | <u>8,185,856</u> | <u>8,062,827</u> | <u>8,881,413</u> | <u>8,830,202</u> * |
| FTE | 113.9 | 117.2 | 117.1 | 117.1 |
| Cash Funds | 8,185,856 | 8,062,827 | 8,881,413 | 8,830,202 |
| Operating Expenses | <u>1,046,128</u> | <u>1,013,624</u> | <u>1,203,156</u> | <u>1,203,156</u> |
| Cash Funds | 1,046,128 | 1,013,624 | 1,203,156 | 1,203,156 |
| Payments to Other State Agencies | <u>118,199</u> | <u>107,348</u> | <u>239,410</u> | <u>239,410</u> |
| Cash Funds | 118,199 | 107,348 | 239,410 | 239,410 |
| Travel | <u>113,498</u> | <u>110,638</u> | <u>113,498</u> | <u>113,498</u> |
| Cash Funds | 113,498 | 110,638 | 113,498 | 113,498 |
| Marketing and Communications | <u>14,615,981</u> | <u>13,282,526</u> | <u>14,700,000</u> | <u>14,700,000</u> |
| Cash Funds | 14,615,981 | 13,282,526 | 14,700,000 | 14,700,000 |
| Multi-State Lottery Fees | <u>116,175</u> | <u>137,472</u> | <u>177,433</u> | <u>177,433</u> |
| Cash Funds | 116,175 | 137,472 | 177,433 | 177,433 |
| Vendor Fees | <u>8,789,827</u> | <u>9,228,155</u> | <u>12,571,504</u> | <u>12,571,504</u> |
| Cash Funds | 8,789,827 | 9,228,155 | 12,571,504 | 12,571,504 |

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| | FY 2010-11 Actual | FY 2011-12 Actual | FY 2012-13 Appropriation | FY 2013-14 Request | Request vs. Appropriation |
|---|------------------------------|------------------------------|-------------------------------------|-------------------------------|--------------------------------------|
| Retailer Compensation | <u>39,584,085</u> | <u>41,640,942</u> | <u>52,241,350</u> | <u>52,241,350</u> | |
| Cash Funds | 39,584,085 | 41,640,942 | 52,241,350 | 52,241,350 | |
| Ticket Costs | <u>4,033,841</u> | <u>3,834,164</u> | <u>6,578,000</u> | <u>6,578,000</u> | |
| Cash Funds | 4,033,841 | 3,834,164 | 6,578,000 | 6,578,000 | |
| Research | <u>207,273</u> | <u>105,900</u> | <u>250,000</u> | <u>250,000</u> | |
| Cash Funds | 207,273 | 105,900 | 250,000 | 250,000 | |
| Indirect Cost Assessment | <u>528,542</u> | <u>495,367</u> | <u>351,950</u> | <u>658,082</u> * | |
| Cash Funds | 528,542 | 495,367 | 351,950 | 658,082 | |
| Prizes | <u>328,719,521</u> | <u>0</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 328,719,521 | 0 | 0 | 0 | |
| Powerball Prize Variance | <u>5,384,038</u> | <u>0</u> | <u>0</u> | <u>0</u> | |
| Cash Funds | 5,384,038 | 0 | 0 | 0 | |
| TOTAL - (8) State Lottery Division | 411,442,964 | 78,018,963 | 97,307,714 | 97,562,635 | 0.3% |
| <i>FTE</i> | <u>113.9</u> | <u>117.2</u> | <u>117.1</u> | <u>117.1</u> | 0.0% |
| Cash Funds | 411,442,964 | 78,018,963 | 97,307,714 | 97,562,635 | 0.3% |
| TOTAL - Department of Revenue | 660,864,067 | 329,959,231 | 287,699,701 | 294,670,103 | 2.4% |
| <i>FTE</i> | <u>1,288.3</u> | <u>1,323.0</u> | <u>1,250.3</u> | <u>1,238.8</u> | (0.9%) |
| General Fund | 66,521,669 | 69,942,330 | 73,668,142 | 77,071,878 | 4.6% |
| Cash Funds | 592,134,321 | 257,999,182 | 211,751,066 | 215,461,589 | 1.8% |
| Reappropriated Funds | 1,400,745 | 1,321,372 | 1,456,105 | 1,312,248 | (9.9%) |
| Federal Funds | 807,332 | 696,347 | 824,388 | 824,388 | 0.0% |

Appendix B: Recent Legislation Affecting Department Budget

2011 Session Bills

S.B. 11-051 (Giron/Swerdfeger): Gaming and Lottery Intercepts State Debt. Adds debts owed to the State as a justification for withholding lottery and gambling winnings from the payout to the winner of lottery prizes or gambling prizes at a casino. Appropriates \$94,600 cash funds from the Debt Collection Fund for computer programming changes required by the State Internet Portal Authority for implementation.

S.B. 11-076 (Steadman/Becker): PERA Contribution Rates. For the 2011-12 state fiscal year only, reduces the employer contribution rate for the State and Judicial divisions of the Public Employee Retirement Association (PERA) by 2.5 percent and increases the member contribution rate for these divisions by the same amount. In effect, continues the FY 2010-11 PERA contribution adjustments authorized through S.B. 10-146 for one additional year. Reduces the Department's total appropriation by \$1,741,453, of which \$563,224 is General Fund, \$1,162,667 is cash funds, and \$15,562 is reappropriated funds.

S.B. 11-152 (Hodge/Gerou): Suppl. Approp. Department of Revenue. Modifies appropriations made in the FY 2010-11 Long Bill.

S.B. 11-163 (Lambert/Gerou): Repeal Alternative Fuels Rebate Program. Repeals the Alternative Fuels Rebate program, which provides a rebate to state and local governments and qualified non-profit organization that purchase certain high efficiency vehicles. Eliminates cash funds expenditures of \$310,000, and ends the diversion of approximately \$400,000 from the General Fund to the Alternative Fuels Rebate Fund. The net General Fund revenue impact will be an increase of \$400,000 less an undetermined amount that State agencies would have been eligible to receive from the rebate fund for purchases of vehicles with General Fund moneys.

S.B. 11-184 (Steadman/Ferrandino): Tax Reporting. Establishes a tax amnesty program from October 1, 2011 to November 15, 2011 that allows taxpayers who owe taxes to the State to pay those taxes without penalty and at an interest rate set at one-half of the established rate. Also requires the Department of Revenue to prepare a "tax profile and expenditure" report biennially. Appropriates \$12,096 General Fund to the Department of Revenue in FY 2010-11 to begin preparations for the tax amnesty. Appropriates \$483,895 cash funds (\$20,740 reappropriated to the Governor's Office of Information Technology) from the Tax Amnesty Cash Fund to the Department of Revenue in FY 2011-12 for implementation of the tax amnesty and for preparation of the first tax profile and expenditure report. The tax amnesty is expected to increase revenues to the State Education Fund by \$9.7 million in FY 2011-12.

S.B. 11-209 (Hodge/Gerou): FY 2011-12 Long Bill. General appropriations act for FY 2011-12.

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S.B. 11-223 (Hodge/Gerou): Sales Tax Vendor Fee. Temporarily reduces the "vendor fee" (the fee that retailers are allowed to retain as compensation for their costs in collecting State sales tax) from 3.33 percent to 2.22 percent. The reduction will be in place for two years. Increases General Fund revenue by \$22.8 million in FY 2011-12.

H.B. 11-1004 (Baumgardner/Harvey): Farm Truck Registration. Exempts a person whose vehicle is used primarily for agriculture on a farm or ranch classified as agricultural land for property tax purposes and repeals the farm truck and tractor exemption from having to pay the motorist insurance identification fee. Appropriates \$22,200 cash funds from the Colorado State Titling and Registration Account to the Department of Revenue in FY 2011-12 for implementation of bill. These moneys are reappropriated to the Governor's Office of Information Technology.

H.B. 11-1005 (Sonnenberg/Brophy): Reinstate Tax Exemption For Ag Products. Reinstates the sales and use tax exemption for certain agricultural products. Decreases General Fund revenue by \$3.7 million in FY 2011-12.

H.B. 11-1014 (DelGrosso/Roberts): Child Care Contrib Income Tax Credit. Repeals, effective with the 2013 income tax year, the trigger for allowing taxpayers to claim an income tax credit for donations to child care facilities. Under the trigger, projected General Fund revenues must be sufficient to increase General Fund appropriations by at least 6.0 percent in the pertinent State fiscal year. For the 2013 income tax year, allows no more than 50.0 percent of the credit to be claimed in that tax year, and allows the remainder of the credit to be carried forward to the subsequent income tax year. For the 2014 income tax year, allows no more than 75.0 percent of the credit to be claimed in that tax year, and allows the remainder to be carried forward to the subsequent income tax year.

H.B. 11-1043 (Massey/Steadman): Medical Marijuana: Revises statutes concerning medical marijuana. Appropriates \$7,696 cash funds from the Medical Marijuana License Cash Fund (MMLCF) to the Department of Revenue, Information Technology Division for reprogramming the Department's computers systems, and reappropriates those moneys to the Governor's Office of Information Technology which will perform the reprogramming services. Decreases the appropriation to the Department of Revenue, Enforcement Business Group, Medical Marijuana Enforcement, by \$7,696 cash funds from the MMLCF.

H.B. 11-1157 (Casso/White): Diesel Inspection Program Exemption. Allows the owner of a diesel powered vehicle registered in a vehicle emissions program area, but primarily based outside of that area, to be exempt from the requirements of vehicles based in the program area. Appropriates \$6,000 cash funds from the Highway Users Tax Fund and \$592 cash funds from the Colorado State Titling and Registration Account to the Department of Revenue in FY 2011-12 for implementation. Of this amount, \$592 is reappropriated to the Governor's Office of Information Technology for computer programming changes required for implementation.

H.B. 11-1161 (Gerou/Hodge): Auth HUTF Use For Div Of Motor Vehicles. Extends for FY 2011-12 the authorization to use Highway Users Tax Fund "off-the-top" moneys in the Department of Revenue, Division of Motor Vehicles, for the operation of driver's license offices.

H.B. 11-1163 (Vaad/Tochtrop): CDOT Super-load Highway Permits. Defines conditions under which the Department of Transportation may issue a "super-load" permit. Appropriates \$740 to the Department of Revenue in FY 2011-12 for implementation. For more information on H.B. 11-1163, please see the "Recent Legislation" section in the Department of Transportation section of this document.

H.B. 11-1182 (Ferrandino/Hodge): CO State Title & Regis System Fees: Establishes a fee for registration of vehicles to support the Colorado State Titling and Registration (CSTAR) Account of the Highway Users Tax Fund (HUTF) and decreases the fee that supports the Motorist Insurance Identification (MII) Account of the HUTF. Increases revenues to the CSTAR Account by \$2.28 million and decreases revenues to the MII Account by \$1.96 million.

H.B. 11-1216 (Riesberg/Aguilar): Disability Benefit License Plate Numbers. Authorizes public and private sales of unique combinations of letters and numbers on license plates by a license plate auction group created in the Governor's Office. Appropriates \$2,960 cash funds from the Colorado State Titling and Registration System to implement the bill. Those moneys are reappropriated to the Governor's Office for implementation of the bill.

H.B. 11-1234 (Vaad/Spence): Taxicab Vehicle License Plates. Creates a taxicab license plate which will be required of all vehicles engaged in the taxicab business and only those vehicles authorized to provide taxicab service. Specifies that the taxicab license plate is to be used for vehicles that are used as both a taxicab and luxury limousine. Appropriates \$8,880 cash funds from the Colorado State Titling and Registration Account and \$2,072 cash funds from the Licensing Services Cash Fund to the Department of Revenue in FY 2011-12 for programming changes to the Department's computer systems. These moneys are reappropriated to the Governor's Office of Information Technology. In addition, appropriates \$14,800 cash funds from the License Plate Cash Fund for the purchase of the license plates from Correctional Industries.

H.B. 11-1293 (Stephens/Jahn): Repeal HB 10-1192 Related to Software. Repeals H.B. 10-1192 regarding sales and use tax on standardized software, effective July 1, 2012. Adopts in statutes standards for determining when sales and use tax applies to the purchase of software. Appropriates \$19,701 General Fund and 0.5 FTE to the Department of Revenue for FY 2011-12.

H.B. 11-1296 (Kagan/Steadman): Continue State Sales Tax On Cigarettes. Extends for two years, until July 1, 2013, the suspension of the exemption from State sales and use tax on the sale of cigarettes. Increases General Fund revenue by \$27.3 million in FY 2011-12.

H.B. 11-1300 (Looper/Grantham): Conserv Easement Tax Credit Dispute Res. Authorizes the use of an expedited process for resolving disputed claims over conservation easement tax credits with the following provisions:

- Allows taxpayers to waive the hearing before the Executive Director of the Department of Revenue and instead appeal directly to a district court;
- establishes venues for the appeals in a manner that allows cases to be consolidated regionally;

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- eliminates surety bond requirements for taxpayers appealing directly to district court;
- suspends the imposition of additional interest and penalties during the appeal for taxpayers who appeal directly to district court;
- provides procedures for the administrative process;
- establishes a process for courts to publish notices to taxpayers who cannot be located;
- allows taxpayer claims to be consolidated and settled, and allows additional parties to intervene at the discretion of the court; and
- specifies procedures related to discovery, case management conferences, disclosure of information by the parties, trial management orders, and the phasing of issue to be resolved by the court.

Modifies the aggregate cap for claims for conservation easements that was a part of H.B. 10-1197. For income tax years 2011 and 2012, the cap is lowered from \$26.0 million to \$22.0 million, and for income tax year 2013, the cap is increased to \$34.0 million from \$26.0 million. The reduction in the cap is slightly more than the General Fund appropriations listed below, making the act neutral with regard to the General Fund revenues and expenditures.

Appropriates from the General Fund to the Department of Revenue \$1,974 in FY 2010-11, and \$2,742,991 and 3.6 FTE in FY 2011-12. In addition, appropriates \$553,000 General Fund to the Judicial Department in FY 2011-12 for expenses related to the increased use of the district courts, including using retired judges to hear the cases, appropriates \$12,112 cash fund from the Conservation Easement Holder Certification Fund to the Department of Regulatory Agencies in FY 2011-12. Finally, the Department of Law is appropriated \$1,349,581 reappropriated funds and 9.1 FTE from the Department of Revenue and \$2,352 reappropriated funds from the Department of Regulatory Agencies in FY 2011-12.

2012 Session Bills

S.B. 12-012 (King S/Miklosi): DOR Audits Auto Emission Test Centers. Implements the recommendations of the Legislative Audit Committee regarding the Department of Revenue's audits of facilities that conduct automobile emission inspections. Specifically, federal environmental protection agency rules require such inspections at least twice per year while current state law generally requires them every 90 days; the act harmonizes state law with federal law. Current law requires the department to conduct performance audits on each test lane at enhanced inspection centers and equipment audits on each lane at all types of inspection centers; the act requires such audits to be conducted at least twice per year on each lane at the facilities. Finally, the act authorizes the department to conduct risk-based audits for stations and facilities employing inspectors or mechanics suspected of violating rules. The act will be implemented within existing appropriations.

S.B. 12-041 (Spence/Priola): Commercial Vehicle Enterprise Fund Continuous Appropriation. The commercial vehicle enterprise tax fund (fund) consists of fines on overweight commercial vehicles. Among other things, moneys in the fund are annually appropriated to the Department of Revenue to refund sales and use taxes paid related to certain commercial vehicles. The act changes the annual appropriation requirement to a continuous appropriation to the department for the same purpose.

S.B. 12-044 (Guzman/Pabon): Failure to Provide Valid Transit Pass or Coupon: Repeals the crime of theft of public transportation services and creates a class B traffic infraction, failure to present a valid transit pass or coupon, that covers the same prohibited conduct as the former crime. If the violation occurs in Denver, the Denver County court keeps the fine revenue; in all other jurisdictions, the fine revenue is sent to the judicial department.

If a person was convicted of theft of public transportation services by fare evasion prior to its repeal, and the person has completed the sentence at the time the act becomes law, the court that entered the conviction shall seal the conviction by January 1, 2013, or the person may petition the court for sealing if the person wants the conviction sealed before January 1, 2013. If a person was convicted of theft of public transportation services by fare evasion prior to its repeal, but has not completed the sentence at the time the act becomes law, that person can petition for sealing after completing the sentence.

The act makes the following appropriations for fiscal year 2011-12:

- \$14,800 cash funds from the driver's license administrative revocation account in the highway users tax fund to the department of revenue for computer center services. That money is then appropriated to the governor's office of state planning and budgeting for allocation to the office of information technology.
- \$2,324 cash funds to the department of revenue for implementation of the act, of which \$2,302 is from collected penalty assessments and \$22 is from administrative processing fees related to outstanding warrants and judgments.

For fiscal year 2012-13, the act appropriates \$28,639 and 0.8 FTE to the department of revenue for implementation of this act, of which \$22,224 is from the driver's license administrative revocation account in the highway users tax fund, \$6,355 is from collected penalty assessments, and \$60 is from administrative processing fees related to outstanding warrants and judgments.

H.B. 12-1019 (Vaad/King S.): Transfer Ports of Entry to State Patrol. Abolishes the Motor Carrier Services Division (Division) of the Division of Motor Vehicles of the Department of Revenue (Department) and transfers the powers, duties, and functions of the division by type 3 transfers as follows:

- Transfers the Ports of Entry Section of the division to the Colorado State Patrol of the Department of Public Safety.
- Transfers the powers, duties, and functions of the division relating to commercial driver's licenses to the Department.
- Transfers the powers, duties, and functions of the division relating to the international registration plan to the Department.

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- Also defines the term "port of entry officer" and makes multiple appropriations for the 2012-13 fiscal year in order to fund its implementation.

Adjusts appropriations to both departments in the FY 2012-13 Long Bill to reflect the transfers, including an increase of \$95,696 General Fund related to indirect cost recoveries.

H.B. 12-1038 (Looper/Williams S.): Multi-year Class A Trailer Registration. Creates an alternate registration for interstate commercial trailers and semitrailers if the owner is based in a jurisdiction other than Colorado or, if the owner is based in Colorado, the trailer or semitrailer is at least 10 years old. The registration does not expire until the trailer is sold or transferred. The owner notifies the Department of Revenue (department) when the trailer is sold or transferred. The department will issue a report in 2014 making recommendations as to the cost-effectiveness of this system of registration.

The expiration tabs and stickers for class A motor vehicles is eliminated.

The act sets the specific ownership tax at \$95.50 and the registration fee at \$24.50. Of the fee, the department or authorized agent that registers the vehicle retains \$2.00, the department transfers \$1.50 of the fee to the county for the county road and bridge fund, the statewide bridge enterprise special revenue fund is credited with \$5.00, the Colorado state titling and registration account is credited with \$0.50, the license plate cash fund is credited with \$2.50, and the highway users tax fund is credited with \$13.00.

\$118,000 is appropriated in FY 2011-12 and \$45,147 in FY 2012-13 from the Colorado state titling and registration account to the Department of Revenue to implement the act.

H.B. 12-1042 (Pace/Schwartz): Income Tax Credit for Estate Taxes on Ag Land. The act establishes an income tax credit for a person who inherits agricultural land located within the state that is based on the Colorado estate taxes that are attributable to the transfer of the agricultural land. The tax credit is subject to the following requirements:

- If more than one person inherits the land, the credit is apportioned among all beneficiaries;
- If the credit exceeds the income taxes owed, the excess is refundable to the taxpayer;
- If the land is reclassified in the 10 years after the credit is claimed, the taxpayer is required to repay the credit, with interest, to the state as part of an amended income tax return; and
- The credit is only effective if congress enacts legislation that has the effect of delaying the state estate tax. After the delay is over and there is a state estate tax again, the credit may be claimed.

H.B. 12-1197 (Gerou/Hodge): Suppl Aprop Dept of Revenue. Modifies appropriations made in the 2011 Long Bill (S.B. 11-209).

H.B. 12-1216 (Becker/Lambert): Drivers Licensing Services Fund. Extends for 3 years the current diversion, from the highway users tax fund to the licensing services cash fund, of revenue collected for examinations for driver's licenses and for the issuance or renewal of instruction permits, driver's licenses, and identification cards. In addition, it permits the use of funds in the

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motorist insurance identification account to be used for expenses incurred by the department of revenue in licensing drivers and issuing identification cards for 3 more years. The long bill is adjusted to account for the continued diversion of funds, reducing General Fund appropriations by \$22.7 million and increasing cash funds by the same amount.

H.B. 12-1314 (Sonnenberg/Hodge): Oil & Gas Filing Exemption. The act creates an exception to the requirement that everyone subject to the severance tax on oil and gas must file a return with the department of revenue. This exception applies to any person who has less than \$250 withheld by all unit operators or first purchasers in a taxable year and whose withholding is greater than or equal to the taxes owed by the person for the taxable year.

In addition, if any person fails to file a report related to the severance tax, the executive director of the department of revenue may estimate the amount of tax, interest, and penalties due and mail the estimate to the last-known address of the person. If, within 10 days of receiving the estimate, the person fails to file a correct report and payment, the estimate becomes the amount payable to the state. The act prohibits the executive director from sending this estimate to a person who has less than \$250 withheld by all unit operators or first purchasers for the taxable year, unless the executive director has good cause to believe that such person does not qualify for the filing exception.

\$14,800 is appropriated to the governor, lieutenant governor, and state planning and budgeting for allocation to the office of information technology for the implementation of the act.

H.B. 12-1327 (Coram/Roberts): Towing Carriers Repeal Bond Impose 5 Yr Revocation. Section 1 of the act specifies that the current \$150 application fee for a towing carrier permit is waived for carriers that hold a \$50,000 surety bond as required under prior law, until the bond expires. Section 2 clarifies that the permit fee is payable annually and repeals the requirement for the \$50,000 surety bond. Section 2 also provides that a towing carrier that fails to pay a fine for violating applicable statutory or regulatory requirements is subject to:

- Immediate revocation of its operating authority; and
- A prohibition on reapplying for new authority for a period of 5 years.
- The 5-year period of disqualification applies to the towing carrier and to its owners, principals, officers, members, partners, directors, and affiliated companies.

Finally, section 2 states that a towing carrier's facilities and vehicles are subject to inspection by the Public Utilities Commission (PUC) or the State Patrol.

Section 3 directs the PUC to create a document or electronic verification system so that the department of revenue can confirm that a towing carrier has valid operating authority. Section 4 establishes a special license plate for tow trucks, similar to the special plates currently in use for taxicabs and limousines, to be implemented beginning in 2013.

The act appropriates \$11,840 from the license plate cash fund and \$12,210 from the Colorado state titling and registration account of the highway users tax fund to the Department of Revenue for implementation of the act.

S.B. 12S-001 (Cadman/Priola): Registration Fees Special Mobile Machinery. Allows an owner of more than 10 pieces of special mobile machinery to register all new special mobile machinery quarterly with the county and to obtain and use special mobile machinery plates, identifying decals, or certificates to designate that the registration for the machinery is pending. This allows the owner to renew the registrations for all of the machinery on the same date each year. The license plate for special mobile machinery is not required to have an annual validating tab or sticker. Fees are set to implement the bill.

\$126,563 and 0.8 FTE are appropriated to the Department of Revenue for implementation of the act. Of that sum, \$63,476 is from the Colorado State Titling and Registration Account of the Highway Users Tax Fund and \$63,087 is from fees to register special mobile machinery under the provisions of this act. Of these moneys, \$76,220 is reappropriated to the Office of State Planning and Budgeting in the Governor's Office for allocation to the Office of Information Technology for the purchase of computer center services for the Department of Revenue. An additional \$124,492 is appropriated from the License Plate Cash Fund to the Department of Revenue, for allocation to the Division of Motor Vehicles to purchase license plates related to the implementation of the act.

Appendix C: Update on Long Bill Footnotes and Requests for Information

Long Bill Footnotes

- 50 Department Revenue, Enforcement Business Group, Limited Gaming Division --** It is the intent of the General Assembly that the Department of Revenue shall not spend more than 5.0 percent of Amendment 50 revenues for administrative expenses of the Limited Gaming Division.

Comment: The Governor did not veto any footnotes in the Long Bill, however, he did express concerns with those footnotes, including Footnote 50 affecting the Department of Revenue. Specifically, his message in signing the Long Bill was:

"It is the Governor's constitutional obligation to review the general appropriations bill and exercise the line item veto when necessary. We recognize and appreciate the legitimate and reasonable expression by the General Assembly of the intent associated with certain appropriations contained in the FY 2012-13 Long Bill. In fact, many of these expressions of intent are based on information contained within the Executive Branch budget requests. Meanwhile, we also note that in relation to prior years, the content of footnotes to the general appropriations bill has changed. Specifically, we interpret these expressions of intent as different from attempts to administer appropriations or to pursue substantive law via the general appropriations bill. Thus, in a departure from previous years, we have not vetoed any of the footnotes in H.B. 12-1335.

While the Legislature has the prerogative to express its intent, the Executive Branch maintains the clear and inherent responsibility to administer appropriations. (See *Colorado General Assembly v. Owens*, 136 P.3d 262 (Colo. 2006); *Colorado General Assembly v. Lamm*, 704 P.2d 1371 (Colo. 1985); and *Anderson v. Lamm*, 195 Colo. 437, 579 P.2d 620 (1978).) For this reason, we have directed Executive Branch agencies to comply with the intent of the footnotes contained in H.B. 12-1335 only to the extent practicable and appropriate.

However, if operational needs dictate otherwise, the Executive Branch will not be constrained by any limitation implied within the Long Bill footnotes. In particular, State departments may find it necessary to deviate from the intent expressed in the following footnotes:"

"Footnote 50, Page 430"

Requests for Information

REQUESTS AFFECTING MULTIPLE DEPARTMENTS

4. **All Departments, Totals** -- Every department is requested to submit to the Joint Budget Committee, by November 1, 2012, information on the number of additional federal and cash funds FTE associated with any federal grants or private donations that were received in FY 2011-12. The Departments are also requested to identify the number of additional federal and cash funds FTE associated with any federal grants or private donations that are anticipated to be received during FY 2012-13.

Comment: The Department reports that it does not have any FTE that meet these criteria.

DEPARTMENT OF REVENUE

1. **Department of Revenue, Executive Director's Office, Taxation Business Group, Taxation and Compliance Division, Taxpayer Service Division, and Tax Conferee** -- The Department is requested to provide to the Joint Budget Committee, no later than September 30, 2012, a report detailing the amount of additional General Fund revenue realized during the fiscal year ending on June 30, 2012 from the General Assembly's funding of the Department's decision item to address the "conservation easement backlog".

Comment: The Department responded that the mediation efforts enabled by the referenced decision item have not resulted in the resolution of any of the disputed conservation easements and therefore have not resulted in additional revenue.

2. **Department of Revenue, Taxation Business Group, Taxation and Compliance Division** -- The Department is requested to provide to the Joint Budget Committee, by September 30, 2012, a report detailing the amount of additional General Fund revenue realized during FY 2011-12 by the General Assembly's funding of 2009 Decision Item #1 - "Out-of-state tax law compliance and enforcement".

Comment: The Department provided the requested report. The decision item increased the number of out-of-state offices from three to six, and increase the number of out-of-state based audit staff from three to twenty-one. The decision item annualized to \$1.8 million General Fund and 20.0 FTE in FY 2011-12.

The Department states that the out-of-state audits generated \$106.7 million in assessments in FY 2011-12. In the 2009 decision item, the Department projected an increase of \$83.3 million in FY 2011-12. The Department has long used a revenue to assessment rate of 40.0 percent, meaning that for every \$100 in assessments, General Fund revenue is assumed to have increased by \$40. Using that ratio, the decision item resulted in increased General Fund revenue of \$42.7 million.

Appendix D: Indirect Cost Assessment Methodology

Description of Indirect Cost Assessment Methodology

The Department of Revenue indirect cost assessment methodology is calculated based on three components: an “*Indirect Cost Pool*”, an “*Indirect Cost Base*”, and an “*Indirect Cost Rate*”.

The *Indirect Cost Pool* is comprised of personal services expenses in the Executive Director's Office and the Central Department Operations Division. In addition, for business group and divisional indirect costs, the *Indirect Cost Pool* for those divisions consist of personal services and operating expenses in the Administration Section/Division of those Business Groups/Divisions. For FY 2012-13 the Department’s Indirect Cost Pool for statewide and departmental indirect costs is \$7,497,339 and \$2,030,976 for divisional indirect costs. **Table 1** outlines which lines are included in the department’s Indirect Cost Pool.

| Table 1 | | |
|---|--------------------|-------------------------------------|
| Department of Revenue - Indirect Cost Pool | | |
| Division | Line Item | FY 2012-13 Appropriation |
| Executive Director's Office | Personal Services | \$3,800,545 |
| Central Department Operations | Personal Services | 4,146,794 |
| | Postage | 2,995,393 |
| Taxation Business Group – Administration /a | Personal Services | 557,305 |
| | Operating Expenses | 14,050 |
| Division of Motor Vehicle – Administration /a | Personal Services | 765,538 |
| | Operating Expenses | 51,400 |
| Enforcement Business Group - Administration /a | Personal Services | 629,903 |
| | Operating Expenses | <u>12,780</u> |
| Department Indirect Cost Pool | | \$12,973,708 |

/a These amounts are for divisional indirect costs only.

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The *Indirect Cost Base* is comprised of the appropriations for personal services in each business group or division. **Table 2** summarizes the department’s Indirect Cost Base.

| Table 2 | | | | |
|--|----------------------------|---------------------------------|--------------------------|----------------------------|
| Department of Revenue Indirect Cost Base | | | | |
| FY 2012-13 Appropriation | | | | |
| | Cash Funds | Reappropriated Funds | Federal Funds | Division Total |
| Taxation Business Group | <u>\$640,365</u> | <u>\$739,264</u> | <u>\$0</u> | <u>\$1,379,629</u> |
| Administration | 2,596 | 0 | 0 | 2,596 |
| Taxation and Compliance | 52,090 | 154,085 | 0 | 206,175 |
| Taxpayer Service | 585,679 | 585,179 | 0 | 1,170,858 |
| Tax Conferee | 0 | 0 | 0 | 0 |
| Division of Motor Vehicles | <u>\$22,625,541</u> | <u>\$0</u> | <u>\$0</u> | <u>\$22,625,541</u> |
| Administration | 789,158 | 0 | 0 | 789,158 |
| Driver and Vehicle Services | 18,138,785 | 0 | 0 | 18,138,785 |
| Vehicle Emissions | 1,168,693 | 0 | 0 | 1,168,693 |
| Titles | 1,986,457 | 0 | 0 | 1,986,457 |
| Motorist Insurance | | | | |
| Identification | 330,517 | 0 | 0 | 330,517 |
| Ignition Interlock Program | 211,931 | 0 | 0 | 211,931 |
| Enforcement Business Group | <u>\$21,775,127</u> | <u>\$99,237</u> | <u>\$0</u> | <u>\$21,874,364</u> |
| Administration | 518,098 | 99,237 | 0 | 617,335 |
| Limited Gaming | 8,117,280 | 0 | 0 | 8,117,280 |
| Liquor and Tobacco | | | | |
| Enforcement | 2,082,501 | 0 | 0 | 2,082,501 |
| Racing Events | 1,400,000 | 0 | 0 | 1,400,000 |
| Hearings | 2,102,029 | 0 | 0 | 2,102,029 |
| Motor Vehicle Dealer | | | | |
| Licensing | 1,901,381 | 0 | 0 | 1,901,381 |
| Medical Marijuana | | | | |
| Enforcement | 5,653,838 | 0 | 0 | 5,653,838 |
| State Lottery Division | <u>\$10,084,569</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Total Available Indirect to Offset General Fund | <u>\$55,125,602</u> | <u>\$838,501</u> | <u>\$0</u> | <u>\$45,879,534</u> |

The *Indirect Cost Rate* is calculated either based on the number of FTE and/or the workload, where it can be identified. Because each division and cash fund may have different rates based on the number of FTE or workload, the number of different variations is not included here.

FY 2013-14 Indirect Cost Assessment Request

For FY 2013-14 the Department has requested \$5,779,835 for indirect cost assessments. The following funds are excluded from indirect cost assessments based on either their fund balance or their funding deficiencies relative to the programs the support:

- Aviation Fund
- County Jail Identification Processing Unit Fund

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- Defensive Driving School Fund
- Disabled Parking Education and Enforcement Fund
- Horse Breeders' and Owners' Awards and Supplemental Purse Fund
- Investigation and Application Fees
- License Plate Cash Fund
- Motorist Insurance Identification Account of the HUTF
- Penalty assessments
- Persistent Drunk Driver Cash Fund
- Prepaid Wireless Trust Cash Fund
- Private Letter Ruling Fund
- Reduced Cigarette Ignition Propensity Standards and Firefighter Protection Enforcement Fund.
- Tobacco Education Program Fund
- Waste Tire Fees

The Department adjusts its indirect cost assessments against the remaining cash funds so there is not a reduction in the total indirect cost assessment.

Table 3 shows the FY 2013-14 Department indirect cost assessment based on the November 1 request for each division.

| Table 3 | | | | |
|--|-----------------------|---------------------------------|--------------------------|---------------------------|
| Department of Revenue Indirect Cost Assessments | | | | |
| FY 2013-14 Request | | | | |
| | Cash Funds | Reappropriated Funds | Federal Funds | Division Total |
| Taxation Business Group | \$7,730 | \$0 | \$0 | \$7,730 |
| Division of Motor Vehicles | 3,673,577 | 0 | 0 | 3,673,577 |
| Enforcement Business Group | 1,006,365 | 634,659 | 0 | 1,641,024 |
| State Lottery Division | <u>0</u> | <u>457,504</u> | <u>0</u> | <u>457,504</u> |
| Total | \$4,687,672 | \$1,092,163 | \$0 | \$5,779,835 |

Appendix E: Change Requests' Relationship to Performance Measures

This appendix will show how the Department of Revenue indicates each change request ranks in relation to the Department's top priorities and what performance measures the Department is using to measure success of the request.

| Change Requests' Relationship to Performance Measures | | | |
|--|---|---|---|
| R | Change Request Description | Goals / Objectives | Performance Measures |
| R-1 | Colorado Integrated Tax Architecture Annual Maintenance and Support | (1) Customer Service - Be respectful to customers by providing processes that are clear, simple, timely, and convenient. (2) Fiduciary Responsibility - Provide responsible financial, resource, and project management that builds a sustainable foundation utilizing a high standard of care. (3) Statutory Responsibility - Promote fairness and consistency in the application of the law. (4) Public Confidence - Maximize public trust through responsible stewardship and transparent processes. | The Department did not provide performance measures by which the success of this request would be measured. |
| R-2 | DOR IT Infrastructure Performance Enhancements | (1) Customer Service - Be respectful to customers by providing processes that are clear, simple, timely, and convenient. (2) Fiduciary Responsibility - Provide responsible financial, resource, and project management that builds a sustainable foundation utilizing a high standard of care. | The Department did not provide performance measures by which the success of this request would be measured. |
| R-3 | Tax Document Processing Pipeline Efficiencies. | (1) Customer Service - Be respectful to customers by providing processes that are clear, simple, timely, and convenient. (2) Fiduciary Responsibility - Provide responsible financial, resource, and project management that builds a sustainable foundation utilizing a high standard of care. | The Department did not provide performance measures by which the success of this request would be measured. |
| R-4 | Executive Director's Office Realignment | (1) Customer Service - Be respectful to customers by providing processes that are clear, simple, timely, and convenient. (2) Fiduciary Responsibility - Provide responsible financial, resource, and project management that builds a sustainable foundation utilizing a high standard of care. | The Department did not provide performance measures by which the success of this request would be measured. |
| R-5 | Underage Drinking Grant Funding Restoration | (1) Statutory Responsibility - Promote fairness and consistency in the application of the law. (2) Public Confidence - Maximize public trust through responsible stewardship and transparent processes. The Department seeks to deliver this oversight effectively by completing duties within statutory timeframes and adherence to departmental or federal requirements. It actively identifies methods to achieve its goals by enhancing productivity and educating both providers and consumers in affected industries. | The Department did not provide performance measures by which the success of this request would be measured. |