

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2011-12 STAFF BUDGET BRIEFING
DEPARTMENT OF REVENUE**

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

**Prepared By:
David Meng, JBC Staff
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For Further Information Contact:

Joint Budget Committee Staff
200 E. 14th Avenue, 3rd Floor
Denver, Colorado 80203
Telephone: (303) 866-2061
TDD: (303) 866-3472

**FY 2011-12 BUDGET BRIEFING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE**

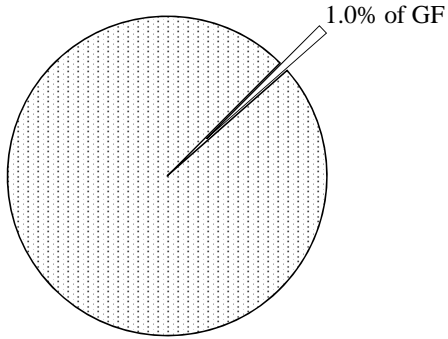
DEPARTMENT OF REVENUE

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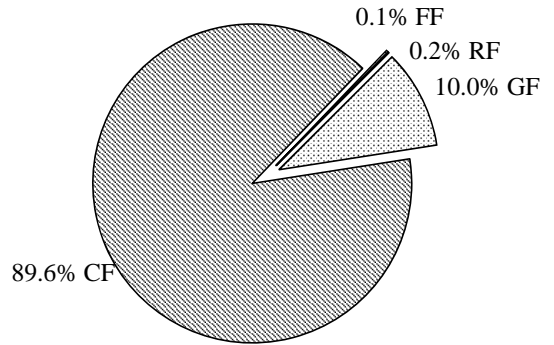
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**FY 2011-12 Joint Budget Committee Staff Budget Briefing
 Department of Revenue
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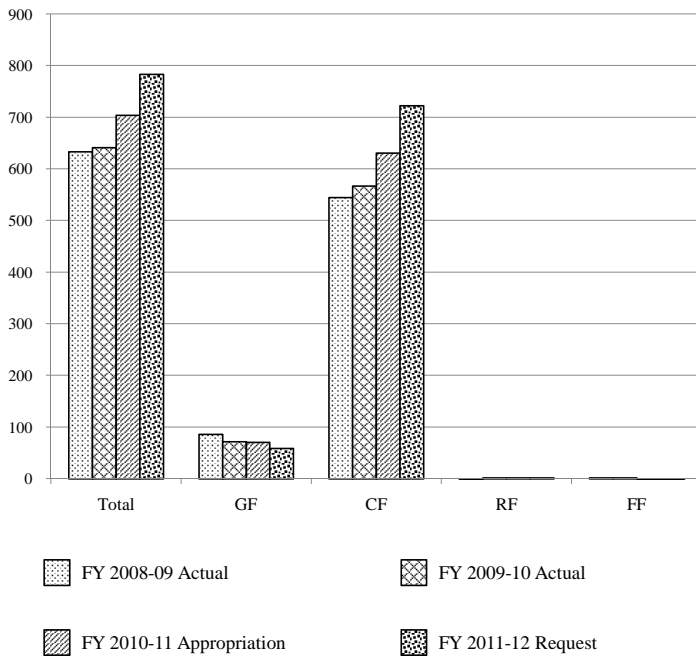
Department's Share of Statewide General Fund



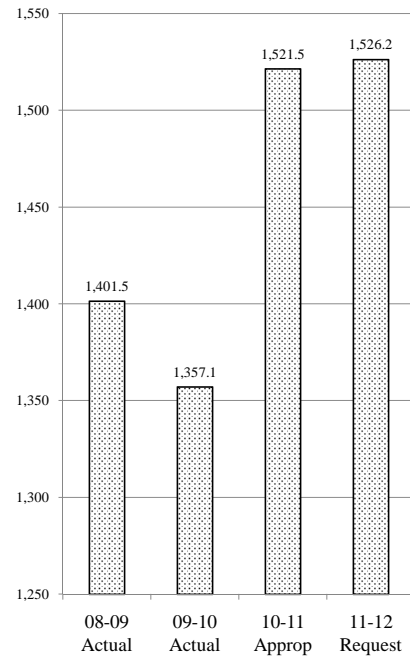
Department Funding Sources



**Budget History
 (Millions of Dollars)**

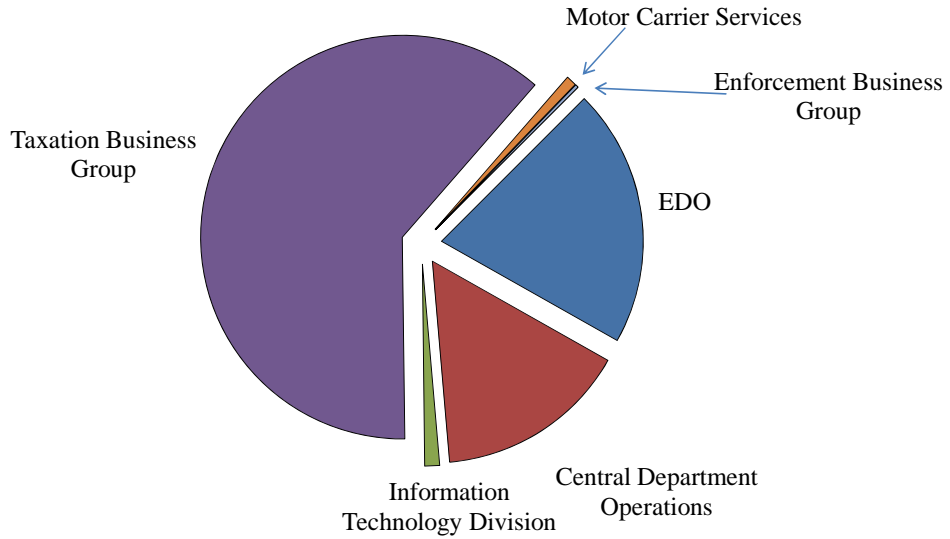


FTE History

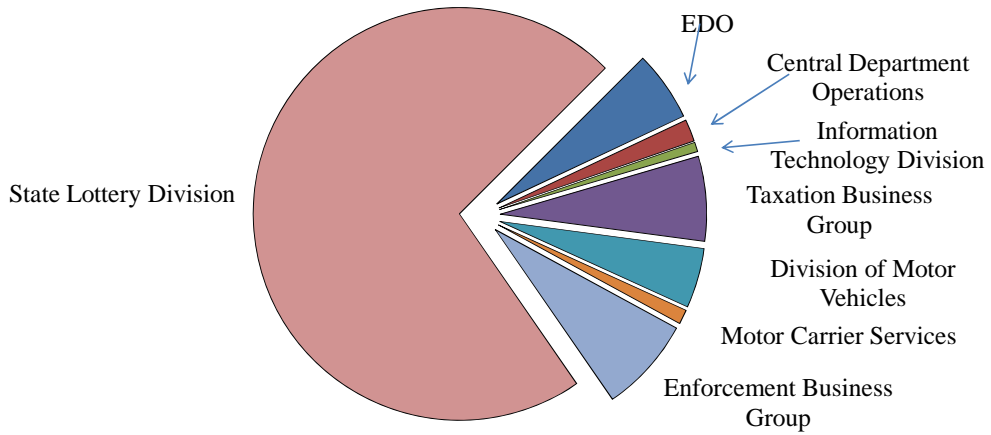


Unless otherwise noted, all charts are based on the FY 2010-11 appropriation.

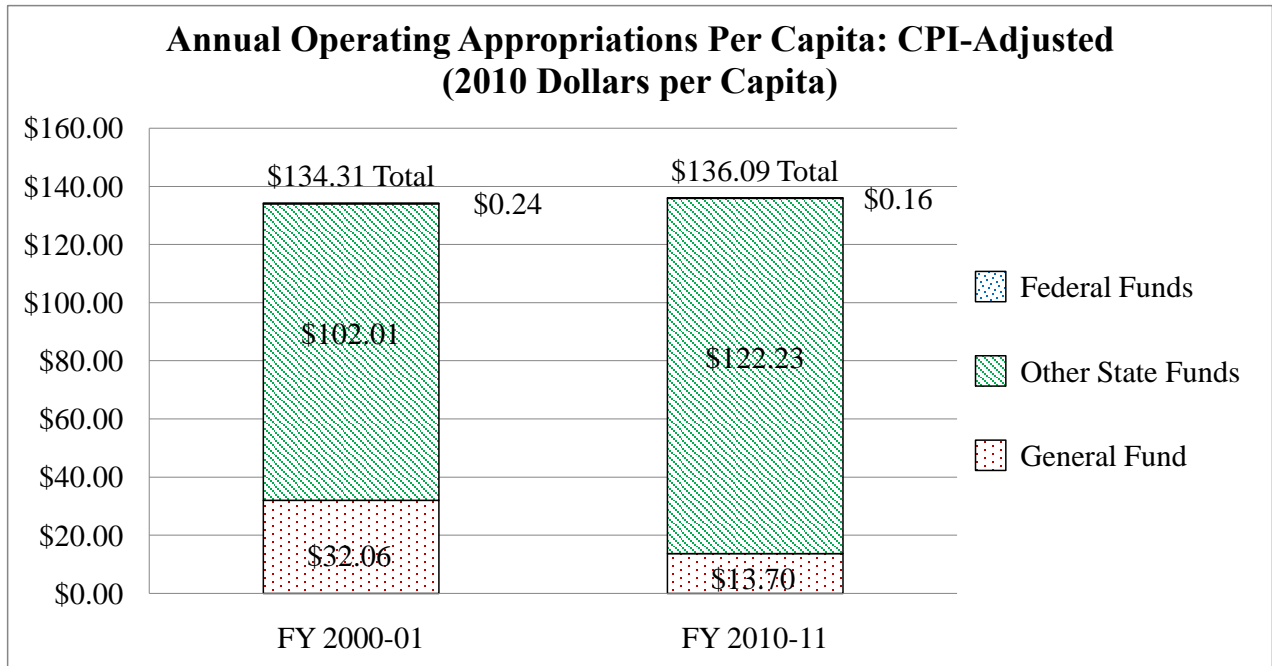
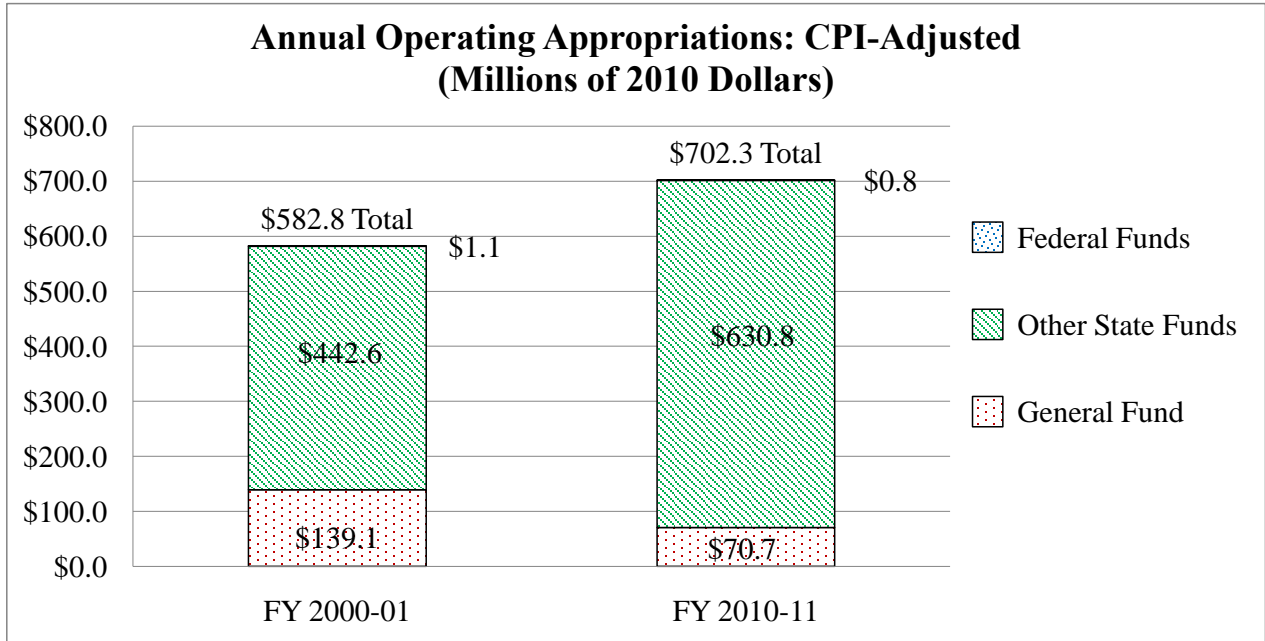
Distribution of General Fund by Division



Distribution of Total Funds by Division



FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue
COMPARISON OF FY 2000-01 AND FY 2010-11 APPROPRIATIONS

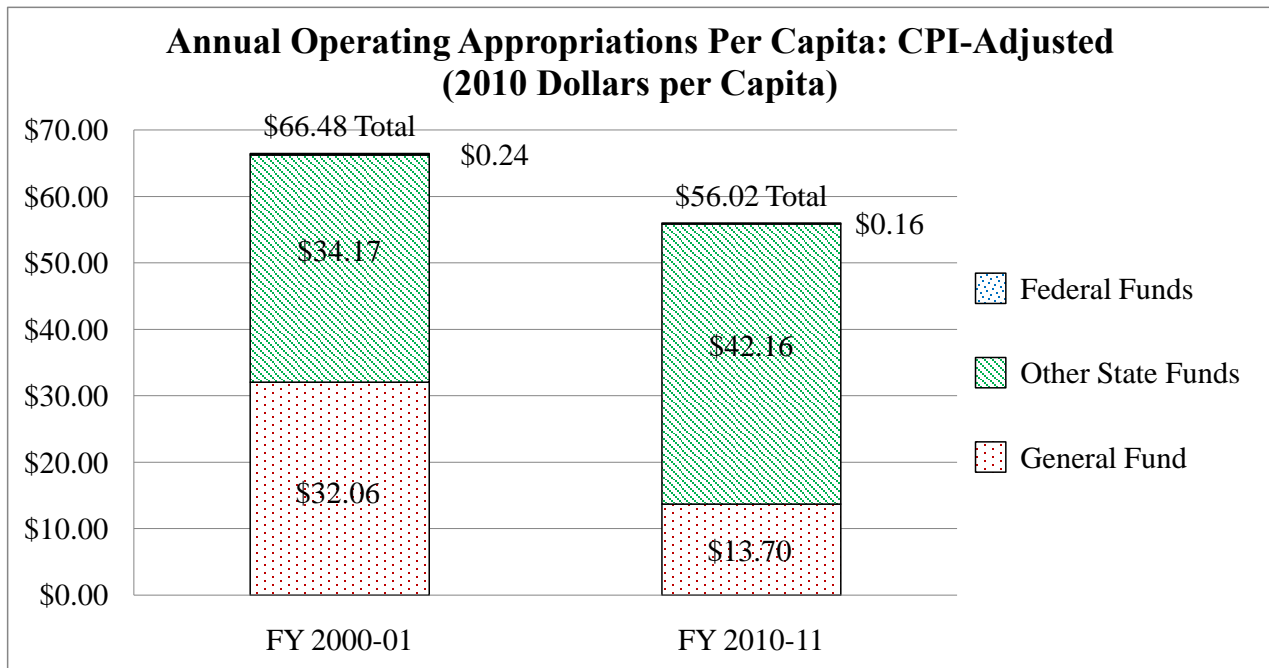
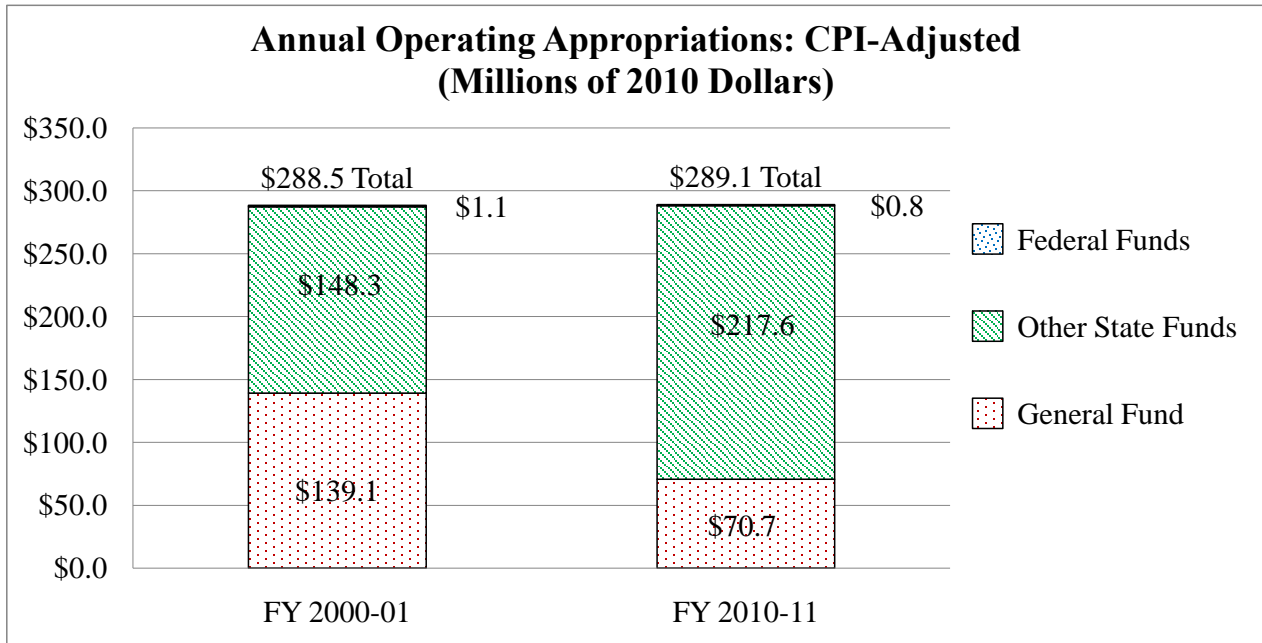


NOTES: (1) All appropriations above *exclude* duplicate appropriations (i.e., these appropriations exclude reappropriated funds for FY 2010-11 and, for FY 2000-01, exclude amounts that would have been classified as reappropriated funds). For this department, these excluded amounts reflect department transfers for indirect cost recoveries and funds reappropriated from federal funds sources for the Mineral Audit Program and the Motor Carrier Safety Assistance Program.

(2) For the purpose of providing comparable figures, FY 2000-01 appropriations are adjusted to reflect changes in the Denver-Boulder-Greeley consumer price index (CPI) from 2000 to 2010. Based on the Legislative Council Staff September 2010 Economic and Revenue Forecast, the CPI is projected to increase 21.9 percent over this period.

(3) In the per capita chart, above, appropriations are divided by the Colorado population (for 2000 and 2010, respectively). Based on the Legislative Council Staff September 2010 Economic and Revenue Forecast, Colorado population is projected to increase by 18.9 percent over this period.

FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue
 (Excludes Lottery Prizes)
COMPARISON OF FY 2000-01 AND FY 2010-11 APPROPRIATIONS



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**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

DEPARTMENT OVERVIEW

Key Responsibilities

- ▶ Collect, administer, and enforce the following taxes and license fees.
 - Income tax, including withholding
 - Sales and use tax
 - Gasoline and special fuel tax
 - Tobacco and cigarette tax
 - Severance tax
 - Conservation Easements
 - Driver's licences, ID cards, and vehicle titling fees
 - Automobile dealers, commercial driving schools, vehicles and traffic
 - Fermented malt beverages and alcoholic beverage taxes

- ▶ Conduct audits of oil, gas, and mineral rents and royalties, the mill levy revenue from oil and gas production, and severance taxes accruing from federal, state, and private lands.

- ▶ Administers the following state programs:
 - The Cigarette Tax Rebate
 - The Amendment 35 Distribution to Local Governments
 - The Old Age Heat and Fuel and Property Tax Assistance Grant
 - The Alternative Fuels Rebate

- ▶ Oversees the Colorado State Titling and Registration System (CSTARS), which is the state's centralized system for titling of vehicles, and the distribution of registration taxes between the state, the counties, and the Highway Users Tax Fund (HUTF).

- ▶ Oversees the state's vehicle emission testing program, the motorist insurance identification database program, and the motor vehicle dealer licensing board.

- ▶ Operates the Hearings Division, which conducts hearings for drivers license suspensions, revocations, habitual traffic offenders, probationary licenses, cancellation or denial of medical and physical disability, horse and dog racing licenses, and other actions that affect the licensing rights of citizens.

- ▶ Operates the Motor Carrier Services Division, which operates the Port of Entry Station and administers the International Registry Program.

- ▶ Operates the Liquor Enforcement Division, the Tobacco Enforcement Program, and the Division of Racing Events.

- ▶ The Limited Gaming Division, under the auspices of the Limited Gaming Control Commission, is located in the Department. The State Constitution gives power over appropriations to the Limited Gaming Control Commission and appropriations shown in the Department are for informational purposes.
- ▶ Provides enforcement of medical marijuana dispensaries, cultivation facilities and medical marijuana infused product manufacturing facilities.
- ▶ Operates the State Lottery.

Factors Driving the Budget

The Department's primary budget drivers are the state tax structure, population levels, business activity in regulated industries, and technological capabilities.

The Department is organized into three functional groups: Taxation, Motor Vehicles, and Enforcement. The Department also administers the Motor Carrier Services Division and the State Lottery Division. These functional areas are supported by the Executive Director's Office, Central Department Operations, and the Information Technology Division.

In addition, the Department operates the State Lottery. Including prizes, the Lottery accounts for almost three-fourths of the Department's total budget.

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. The Taxation Business Group includes an Administration section, the Taxation and Compliance Division (which includes the Mineral Audit Program), the Taxpayer Service Division, the Tax Conferee, and a Special Purpose Division.

Electronic tax filing, in which taxpayers enter their own data onto an online form, and other associated electronic transactions, reduces forms processing and data entry expense. The Department has promoted electronic filing through many communication channels, resulting in higher levels of electronic transactions. The table below shows the number of electronically filed individual income tax returns, the number of refunds processed electronically and the estimated savings to the State for those returns.

	2008		2009		2010 (YTD)	
	Number	Pct	Number	Pct.	Number	Pct.
<u>Method of Filing Taxes</u>						
Tax Returns Filed on Paper	1,067,350	44.4%	948,313	39.8%	827,161	35.9%
Tax Returns Filed Electronically	<u>1,334,357</u>	55.6%	<u>1,436,171</u>	60.2%	<u>1,479,284</u>	64.1%
Total	2,401,707		2,384,484		2,306,445	
Savings per Document (Data entry and imaging) /1	<u>\$0.95</u>		<u>\$0.95</u>		<u>\$0.95</u>	
Total Savings to State	\$1,267,639		\$1,364,362		\$1,405,320	
<u>Method of Receiving Refund</u>						
Warrants Issued	703,543	46.1%	907,704	55.8%	464,092	29.8%
Direct Deposit	<u>821,049</u>	53.9%	<u>718,181</u>	44.2%	<u>1,091,799</u>	70.2%
Total	1,524,592		1,625,885		1,555,891	
Saving per warrant /1	<u>\$0.53</u>		<u>\$0.53</u>		<u>\$0.53</u>	
Total Savings to State	\$435,156		\$380,636		\$578,653	

/1 The savings rate per document for data entry and imaging and for the issuance of warrants is based on the latest data provided by the Department. Numbers for data entry and imaging costs have fluctuated and may have been higher in previous years, but represent a close approximation of costs avoided by the state through electronic filing of documents.

In the 2010 session, the General Assembly appropriated \$1.1 million General Fund and 3.7 FTE in FY 2010-11 to the Department to address a backlog in conservation easements. The backlog in cases dates back to 2002. The funds were appropriated for five years, by which time the backlog is expected to have been resolved. The total value of the claims pending is \$121.2 million, not including penalties and interest.

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 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.

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

The Tax Conferee conducts formal administrative hearings to dispute tax assessments or refund denials. The tax conferee is an intermediary in the hearing process and acts as an official designee to the Executive Director of the Department. If the tax conferee can not resolve the case, then a formal hearing, with the Executive Director of the Department presiding, is conducted. Failing these steps at resolution, either of the parties to the case may move to the judicial system.

The Taxation Business Group is responsible for the administration of the distribution of moneys for the Cigarette Tax Rebate (\$11.5 million), the Amendment 35 Distribution to Local Governments (\$1.5 million), the Old Age Heat and Fuel and Property Tax Assistance Grants (\$8.5 million), and the Alternative Fuels Rebate (\$310,000). Administrative costs for these programs are minimal and absorbed within the Taxpayer Business Group Administration. These programs are constitutionally or statutorily authorized and the appropriations determined by the forecasts of Legislative Council staff.

DIVISION OF MOTOR VEHICLES

This division is responsible for issuing driver's licenses and state identification cards; issuing titles and registering motor vehicles; regulating commercial driving schools; enforcing interstate trucking laws through the Ports of Entry system in Motor Carrier Services; enforcing the state's auto emissions program; overseeing the Motorist Insurance Identification Database, and implementing the ignition interlock program for people convicted of drunk driving.

Driver and Vehicle Services

This section administers drivers licensing and records management, motor vehicle registration, the regulation of commercial driving schools, and ordering and distribution of license plates for all county and state offices. This section operates 37 drivers license offices and oversees 17 county drivers license offices statewide. The offices also perform non-driver related tasks, including registering voters, sending file information to the U.S. Selective Service System for prospective registrants, verifying social security numbers with the Social Security Administration, registering organ and tissue donors, and soliciting donations for the Donor Awareness Council.

The Driver Control Program maintains the official records of all drivers in the state; records administrative sanctions against drivers; takes administrative action revoking driving privileges when information is received from courts, law enforcement agencies, or other appropriate agencies; and investigates fraud.

To address General Fund revenue shortfalls in FY 2008-09 and FY 2009-10, legislation was passed to allow HUTF "off-the-top" funding of Driver and Vehicle Services (Driver's License offices) in addition to the Ports of Entry in the Department of Revenue. This was used to offset General Fund in the Division of Motor Vehicles, Driver and Vehicle Services.

House Bill 10-1387 extended the refinance of driver's license offices from the Highway Users Tax Fund "off-the-top" moneys for one year and from the Licensing Services Cash Fund for two years. For FY 2010-11 and FY 2011-12, General Fund will not be used to fund and operate driver's license offices in the State.

Vehicle Emissions

This unit conducts inspections of emissions stations to ensure compliance with vehicle emissions testing standards under the Automobile Inspection and Readjustment (AIR) program. Staff is responsible for licensing all emissions stations and inspectors, and overseeing station operations to prevent fraud and abuse. All funding for the program is from the Automobile Inspection and Readjustment (AIR) Account, a subaccount of the Highway Users Tax Fund.

Titles

The Titles program is responsible for the issuance of legal, negotiable certificates of title to prove vehicle ownership and protect the public when purchase motor vehicles. Program staff reviews all high-risk title applications to verify that the assignment of ownership has been properly made. The program 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 title records. The program is funded through the Colorado State Titling and Registration (CSTARS) Account, a sub-account of the Highway Users Tax Fund.

Motorist Insurance Identification Database Program

This program helps law enforcement officials verify owner compliance with motor vehicle insurance requirements and authorizes administrative suspension of driver's licenses that are held by motorists suspected of being uninsured. The \$0.50 motorist insurance identification fee is charged upon registration of the vehicle and is credited to the Motorist Insurance Identification Database (MII) Account, a special purpose account within the Highway Users Tax Fund (HUTF). All funding for the program is from the MII Account.

Ignition Interlock Program

This is a new program, established by H.B. 08-1194, that oversees the ignition interlock program, which was created to require first-time drunk-driving offenders to install ignition interlocks in their vehicles as a condition of regaining their driving privileges. The majority of the funding for the program is to subsidize those drivers who cannot afford the ignition interlocks. The funding for the program comes from the First-Time Drunk Driving Offender Account.

MOTOR CARRIER SERVICES DIVISION

The Motor Carrier Services Division, which is administered by the Division of Motor Vehicles, registers motor carriers, collects fuel taxes, collects registration fees from fuel distributors, petroleum storage companies, and interstate carriers, operates the state's ports of entry, and enforces laws governing owners and operators of motor carriers. Funding for the Division is primarily from the HUTF off-the-top moneys.

Highway Users Tax Fund "Off-the-Top" Appropriation

Section 18 of Article X of the State Constitution requires that "the proceeds from the imposition of any license, registration fee, or other charge with respect to the operation of any motor vehicle upon any public highway in this state and the proceeds from the imposition of any excise tax on gasoline or other liquid motor fuel except aviation fuel used for aviation purposes shall, except for the costs of administration, be used exclusively for the construction, maintenance, and supervision of the

public highways of this state." Supervision of the public highways includes the State Patrol in the Department of Public Safety and the Ports of Entry section. For FY 2008-09 through FY 2010-11, the General Assembly has permitted use of these moneys to operate driver's license offices in the Division of Motor Vehicles in the Department of Revenue. As late as 1997, approximately one-half of the expenses of the Division of Motor Vehicles came from the HUTF (though not from the off-the-top moneys).

Pursuant to Section 43-4-201 (3) (a) (I) (B), the portion of the Highway Users Tax Fund (HUTF) appropriated to the Department of Revenue for the operations of the Ports of Entry program in the Motor Carrier Services Division, as well as for the Colorado State Patrol in the Department of Public Safety shall not be more than six percent more than the prior year appropriation. This "off-the-top" appropriation is permitted to grow by six percent each year regardless of the growth of overall HUTF collections. As the name implies, these moneys are appropriated from the HUTF before the statutory distributions to cities, counties and the State Highway Fund. In each year since FY 2008-09, special bills have expanded the use of off-the-top moneys in the Division of Motor Vehicles.

Recent HUTF off-the-top appropriations and requests are detailed in the table below.

Highway Users Tax Fund Recent "Off-the-top" Appropriation History				
Fiscal Year	6% Growth of "Off-the-top" Appropriation	"Off-the-top" Appropriation/ Request	Under/(Over)	"Off-the-top" Annual Growth Percentage
2007-08 Total Appropriated	\$96,932,326	\$96,932,326	\$0	6.0%
2008-09 Total Appropriated	102,748,266	102,748,266	0	6.0%
FY 2009-10 Total Appropriated	108,913,162	108,913,162	0	6.0%
FY 2010-11 Total Appropriated	115,447,952	111,835,458	3,612,494	2.7%
<i>FY 2011-12 6 percent growth <a></i>	<i>122,374,829</i>	<i>120,709,560</i>	<i>0</i>	<i><a></i>

<a> Assumes that a supplemental increases the FY 2010-11 appropriation to the maximum permitted increase of 6 percent over the previous year's appropriation.

The next table details the appropriations of HUTF "Off-the-top" moneys.

Highway Users Tax Fund "Off-the-top" Appropriation by Category						
Fiscal Year	Public Safety (CSP)	Revenue (Ports of Entry)	Revenue (Driver and Vehicle Services)	Capital Construction	Implement H.B. 10-1113	Total
2007-08						
Appropriated	\$87,229,897	\$9,184,023	\$0	\$518,406	\$0	\$96,932,326
2008-09						
Appropriated	92,484,755	9,614,130	649,381	0	0	102,748,266
2009-10						
Appropriated	93,666,003	9,614,601	4,414,839	1,217,719	0	108,913,162
2010-11						
Appropriated	96,889,092	9,659,717	2,702,602	2,329,036	255,011	111,835,458
Supplemental Request	0	0	1,149,174	0	0	1,149,174
2010-11						
Appropriated and Requested	96,889,092	9,659,717	3,851,776	2,329,036	255,011	112,984,632
2011-12						
Request	99,772,001	9,787,937	11,149,622	0	0	120,709,560

House Bill 10-1113

During the 2010 session, the General Assembly passed H.B. 10-1113, which transferred the Motor Carrier Safety Assistance Program to the Department of Public Safety, Colorado State Patrol. The program is largely federal funded, with 9.0 FTE funded by the Federal Government, and 1.0 FTE funded by the Nuclear Materials Transportation Fund and Highway Users Tax Fund off-the-top appropriation.

The act requires the Departments of Public Safety (the lead agency), Revenue, and Transportation to collaborate on a study to ultimately determine the best place for the Ports of Entry Section to be located. The study is due to be presented to the House and Senate Transportation Committees no later than June 1, 2011.

ENFORCEMENT BUSINESS GROUP

The Enforcement Business Group regulates the medical marijuana, liquor, tobacco, racing, gambling (except for games of chance operated for charity) and automobile sales industries.

Limited Gaming Division

In 1991, the Colorado Constitution was amended to allow limited stakes gaming in three Colorado cities: Black Hawk, Central City, and Cripple Creek. Gaming taxes, fees, and other revenues are paid into the Limited Gaming Fund. The Limited Gaming Control Commission approves the Division's annual budget and oversees the regulation of the casinos. Funding for the Division is

from the Limited Gaming Fund. The Commission also approves budget requests for gaming-related purposes for the Department of Public Safety. By Constitutional provision (Article XVIII, Section 9 (5) (b) (I)), the Limited Gaming Control Commission approves the budget for the Division and the figures in the Long Bill are for informational purposes.

For FY 2009-10, gaming tax revenues were \$109.8 million, an increase of \$12.4 million from FY 2008-09, but still below the peak year of FY 2006-07, when gaming taxes were \$116.0 million.

According to the State Constitution, the proceeds, net of the Division's expenses, from pre-Amendment 50 limited gaming are distributed as follows: 28 percent goes to the State Historical Society; 12 percent goes to limited gaming counties (Gilpin and Teller); and 10 percent to limited gaming cities (Black Hawk, Central City, Cripple Creek). The remaining 50 percent goes to the General Fund or to such funds as may be determined by the General Assembly. Currently, 13 percent of the 50.0 percent is transferred to the Local Government Impact Fund. If General Fund revenues permit, the remainder is transferred to the following funds: the Colorado Tourism Promotion Fund; the New Jobs Incentives Fund; the State Council on the Arts Fund; the Film Incentives Fund; the Bioscience Discovery Evaluation Fund; the Innovative Higher Education Research Fund; and the Clean Energy Fund, each according to statutory formulas.

In 2008, voters approved Amendment 50 which expanded limited gaming. Amendment 50 allowed, subject to approval of local voters, increasing the maximum bet from \$5 to \$100, increasing the number of games allowed, and increasing the casino hours of operation. After expenses for the Limited Gaming Division, 78 percent of the *additional* revenues from the expansion of gaming go to the State's community colleges, with 10 percent going to the gaming cities and 12 percent going to the gaming counties. In FY 2009-10, the distribution to the state's community colleges was \$6.2 million.

State Limited Gaming Revenues, Expenses, and Distributions are detailed in the following table.

Limited Gaming Revenues, Expenses, and Distributions					
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Limited Gaming Revenue	\$108,017,575	\$116,034,393	\$112,074,885	\$97,445,021	\$109,823,600
Commission/Division Expenses	<u>(8,701,436)</u>	<u>(9,012,969)</u>	<u>(10,318,448)</u>	<u>(11,251,725)</u>	<u>(12,372,539)</u>
Available for Distribution	\$99,316,139	\$107,021,424	\$101,756,437	\$86,193,296	\$97,451,061
Distributions					
State Historical Society	\$28,041,290	\$29,779,880	\$28,165,675	\$23,878,704	\$24,867,360
State's Community Colleges	0	0	0	0	6,185,713
Gilpin County	9,616,921	10,317,452	9,773,892	8,196,195	9,499,717
Teller County	2,400,775	2,445,354	2,297,112	2,037,536	2,109,371
City of Black Hawk	7,110,170	7,530,055	7,172,188	6,056,663	7,097,989

Limited Gaming Revenues, Expenses, and Distributions					
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Central City	903,931	1,067,821	972,722	773,499	818,441
City of Cripple Creek	2,400,646	2,037,795	1,914,260	1,697,946	1,757,809
General Fund	17,464,148	6,547,293	0	2,811,210	16,200,000
Local Government Gaming Impact Fund	6,509,585	6,913,186	6,538,460	5,543,271	3,772,780
Department of Transportation	0	5,259,411	14,292,757	10,127,274	0
Travel and Tourism Promotion Fund	19,000,000	19,676,799	20,107,662	15,578,699	14,208,015
State Council on the Arts Cash Fund	1,500,000	1,553,432	1,587,447	1,200,026	1,121,726
Film Incentives Cash Fund/ Colorado Film Commission	600,000	621,373	634,979	180,011	407,998
New Jobs Incentives Cash Fund	3,000,000	3,106,863	3,174,894	1,400,052	1,291,231
Bioscience Discovery Evaluation Grant Program	2,000,000	2,500,000	0	4,500,000	5,500,000
Clean Energy Fund	0	7,000,000	3,959,650	0	0
Office of Economic Development Film Commission	0	0	0	300,000	0
Innovative Higher Ed Research Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>	<u>1,904,251</u>
Total Distributions	\$100,547,466	\$106,356,714	\$100,591,698	\$85,281,086	\$96,742,402

Liquor Enforcement Division/Tobacco Enforcement Program

The Liquor Enforcement Division is responsible for enforcing the laws prohibiting serving and selling to minors and underage consumption, and includes licensing of liquor dealers statewide. Funding is from the Liquor Enforcement Division and State Licensing Authority Cash Fund. The Division also manages the Tobacco Enforcement Program which enforces laws prohibiting sales to minors. Funding is from the General Fund and the Tobacco Education Programs Fund and the Reduced Cigarette Ignition Propensity Standards and Firefighter Protection Act Enforcement Fund.

Division of Racing Events

The first major function of the Division of Racing Events and the Colorado Racing Commission is to promote racing. The Department oversees the racing operations of greyhound and horse racetracks. The Division is entirely cash funded, primarily from the Racing Cash Fund, which is funded by pari-mutual taxes.

On June 28, 2008, the last greyhound track in the state with live racing ceased operations. In response, the Division requested a base reduction for FY 2009-10 that reduced the Division's appropriation by \$332,823 cash funds and 6.8 FTE. There are no known entities with plans to reintroduce live greyhound racing in the state at this time. This leaves the division regulating the one horse racetrack (Arapahoe) and two off-track betting parlors.

Motor Vehicle Dealer Licensing Board

The Motor Vehicle Dealer Licensing Board is responsible for the oversight of the automobile sales industry, including licensing dealers and sales persons, and investigating complaints about them. In FY 2008-09, the Board issued or renewed 20,269 licenses of dealers, wholesalers, and sales persons. This represents a decrease of 3,177 from the peak in FY 2006-07, a decline of 13.6 percent. Funding for the Board is from the Auto Dealer License Fund.

Hearings Division

This division conducts hearings in a variety of areas including drivers license suspensions, revocations, probationary licenses, cancellation or denial of medical and physical disability, habitual traffic offenders, horse and dog racing licenses, and other actions that affect the licensing rights of citizens. The division also provides computer support and data analysis for public awareness programs related to traffic safety. Funding for the Division is provided by the Drivers License Administrative Revocation Account, a sub-account of the Highway Users Tax Fund.

Medical Marijuana Enforcement

In 2000, the voters approved an initiative to amend the Colorado Constitution to authorize the use of medical marijuana for "debilitating medical conditions". Due to a recent proliferation of medical marijuana dispensaries opening around the state, the General Assembly, in the 2010 session, passed H.B. 10-1284, to regulate medical marijuana caregivers, dispensaries, cultivation facilities, and medical marijuana infused-products manufacturing facilities. When enacted, H.B. 10-1284 created the Medical Marijuana State Licensing Authority in the Department of Revenue to enforce the law and to promulgate and enforce regulations regarding medical marijuana facilities.

Bingo-Raffle Enforcement

Senate Bill 10-141 referred to voters a question about whether bingo-raffle enforcement should be moved to the Department of Revenue. The Department requested funding for enforcement should the voters approve the measure. Since the measure was not approved, this line will be eliminated either by a Department of Revenue budget amendment or by JBC staff at figure setting.

STATE LOTTERY DIVISION

The State Lottery Division is responsible for operations of the State Lottery, which includes scratch games and jackpot games, which includes Cash 5, Lotto, and the multi-state PowerBall games. Total Lottery sales and distributions for the last six years are shown in the table below.

State Lottery Division Total Sales and Distributions to State Recipients (Millions)						
Fiscal Year	Total Sales	Distributions				
		Conservation Trust Fund	Great Outdoors Colorado /a	Parks & Outdoors Recreation	Schools /a	Total
2004-05	\$417.0	\$41.5	\$50.1	\$10.4	\$1.7	\$103.7
2005-06	468.0	50.2	50.2	12.6	12.6	125.6
2006-07	455.7	47.6	51.3	11.9	8.2	119.0
2007-08	505.8	48.9	53.1	12.2	8.1	122.3
2008-09	493.4	54.3	47.8	12.0	5.5	119.6
2009-10	501.2	45.2	56.4	11.3	0.1	113.0

/a Moneys in excess of \$35 million in 1992, adjusted for inflation, is directed to the General Fund, or such fund as the General Assembly designates. Over the years, the "overflow" distribution has gone to a variety of school funds. Under current statute, the excess funds are distributed to the Public School Capital Construction Assistance Fund, created in Section 42-43-7-104, C.R.S.

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DECISION ITEM PRIORITY LIST

Decision Item	GF	CF	RF	FF	Total	FTE
1	180,065	0	0	0	180,065	0.0
Remittance Processing System Software Upgrade						
Central Department Operations and Information Technology Division. Upgrade to the software operating the remittance processing system. <i>Statutory authority: Section 24-35-106, C.R.S.</i>						
2	121,991	0	0	0	121,991	0.0
Sales Tax Delinquency Billings						
Central Department Operations. Expands the number of billings sent to delinquent sales tax accounts. Projections show that this would increase General Fund revenue by \$2.2 million in FY 2011-12 and \$2.7 million in FY 2012-13. <i>Statutory authority: Section 24-35-108 (1) (a), C.R.S. and Section 39-21-114 (8), C.R.S.</i>						
3	0	1,373,272	0	0	1,373,272	0.0
Driver's License Document Line Increase						
Division of Motor Vehicles. Increase in line to support increased issuance of driver's licenses. Increased funding from the Licensing Services Cash Fund and the Identification Security Fund. <i>Statutory authority: Sections 42-1-114.5, 42-1-220, 42-2-201 (1), and 42-2-302 (1) (a) (I), C.R.S.</i>						
4	0	0	0	0	0	0.0
Funding Driver and Vehicle Services						
Division of Motor Vehicles. Refinances \$11.1 million in Driver and Vehicle Services with Highway Users Tax Fund (HUTF) "Off-the-Top" funding, freeing up Licensing Services Cash Fund (LSCF) for both an increase in spending authority of \$1.3 million due to increased driver's license workload and to allow a \$9.8 million cash fund transfer from LSCF to the General Fund. <i>Statutory authority: Requires changes to Section 43-4-201 (3) (a) (III) (C), C.R.S., to allow HUTF "Off-the-Top" to be used in Driver and Vehicle Services in FY 2011-12. Also requires change to Section 42-2-114.5, C.R.S. to allow a transfer of moneys from the LSCF to the General Fund.</i>						
5	0	95,000	0	0	95,000	0.0
National Motor Vehicle Title Information System Operating Expenses						
Division of Motor Vehicles. Reflects an increase in operating expenses charged to the Department by the American Association of Motor Vehicle Administrators The State will be charged a pro-rata share of the expenses of the National Motor Vehicle Title Information System (system). Previous funding for the system was provided by the U.S. Department of Justice, which has discontinued funding. <i>Statutory authority: Section 42-6-101, et seq., C.R.S.</i>						

Decision Item	GF	CF	RF	FF	Total	FTE
6	0	38,062	0	0	38,062	0.0
County Office Improvements						
Information Technology Division. Funding is requested to support the opening of an additional office in the San Miguel County Town of Norwood. Request has been approved by the Colorado State Titling and Registration System (CSTARS) Advisory Committee. Funding is provided by the Colorado State Titling and Registration Account of the Highway Users Tax Fund. <i>Statutory authority: Sections 42-1-210 (2) and 42-1-211 (1), (1) (a), (4) (a), and (4) (a) (I), C.R.S.</i>						
NP-1	(585,930)	0	0	0	(585,930)	0.0
Two percent personal services reduction						
Multiple divisions . Statewide decision item.						
NP-2	(4,545)	(7,011)	0	0	(11,556)	0.0
Pro-rated benefits						
Executive Director's Office. Statewide decision item.						
NP-3	(563,224)	(1,170,493)	(15,562)	0	(1,749,279)	0.0
Statewide PERA contribution rate change						
All divisions and subdivisions with personal services. Statewide decision item.						
NP-4	(4,634)	15,492	0	0	10,858	0.0
Annual fleet vehicle replacement						
Executive Director's Office. Statewide decision item.						
NP-5	5,286	0	0	0	5,286	0.0
Printing of statewide warrants and mainframe documents						
Executive Director's Office. Statewide decision item.						
Total	(850,991)	344,322	(15,562)	0	(522,231)	0.0

BASE REDUCTION LIST

Decision Item	GF	CF	RF	FF	Total	FTE
1	(11,700,000)	0	0	0	(11,700,000)	0.0
Cigarette Tax Rebate Reduction						
Taxation Business Group/Special Purpose Division. Request for legislation that would suspend for FY 2011-12 and FY 2012-13 the Cigarette Tax Rebate distribution to local governments. <i>Statutory authority: Requires changes to Section 39-22-622 (1) (a) (II) (A), C.R.S.</i>						
Total	(11,700,000)	0	0	0	(11,700,000)	0.0

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OVERVIEW OF NUMBERS PAGES

The following table summarizes the total change, in dollars and as a percentage, between the Department's FY 2010-11 appropriation and its FY 2011-12 request. The column titled HUTF, (Highway Users Tax Fund) breaks out the appropriation for the HUTF "Off-the-top" appropriation, which is included in the Cash Funds column.

Total Requested Change, FY 2010-11 to FY 2011-12 (millions of dollars)

Category	GF	CF	RF	FF	Total	HUTF	FTE
FY 2009-10 Appropriation	\$70.7	\$630.7	\$1.5	\$0.8	\$703.8	\$12.3	1,521.5
FY 2011-12 Request	58.9	722.3	1.4	0.7	783.3	20.9	1,526.5
Increase / (Decrease)	(\$11.8)	\$91.6	(\$0.2)	(\$0.1)	\$79.5	\$8.6	5.0
Percentage Change	(16.7)%	14.5%	(11.5)%	(11.3)%	11.3%	69.9%	0.3%

The following table highlights the individual changes contained in the Department's FY 2011-12 budget request, as compared with the FY 2009-10 appropriation. For additional detail, see the numbers pages in Appendix A.

**Requested Changes, FY 2010-11 to FY 2011-12
Department Overview**

Category	GF	CF	RF	FF	Total	HUTF	FTE
Limited Gaming Commission adjustment	\$0	\$90,344,019	\$0	\$0	\$90,344,019	\$0	0.0
DI #3 - Driver's license document workload increase	0	1,373,272	0	0	1,373,272	0	0.0
Total compensation base adjustments	431,735	319,332	0	0	751,067	134,499	0.0
Operating common policy base adjustments	227,680	393,235	0	0	620,915	42,198	0.0

Category	GF	CF	RF	FF	Total	HUTF	FTE
Transfer Bingo regulation from Department of State to Department of Revenue	0	441,159	0	0	441,159	0	6.0
Annualize 2010 legislation (includes restoration of PERA contribution shift in S.B. 10-146)	148,957	409,060	(108,564)	(95,369)	354,084	(2,524,207)	(2.1)
DI #1 - Remittance processing system software upgrade	180,065	0	0	0	180,065	0	0.0
DI #2 - Sales tax delinquency billings	121,991	0	0	0	121,991	0	0.0
DI #5 - National Motor Vehicle Title Information System Operating Expenses	0	95,000	0	0	95,000	0	0.0
DI #6 - County office improvements	0	38,062	0	0	38,062	0	0.0
SW DI - Annual fleet vehicle replacement	(4,634)	15,492	0	0	10,858	6,024	0.0
SW DI - Printing of statewide warrants and mainframe documents	5,286	0	0	0	5,286	0	0.0
Federal funding adjustment	0	0	0	3,451	3,451	0	0.0
DI #4 - Funding Driver and Vehicle Services	0	0	0	0	0	11,149,622	0.0
Statewide indirect costs	(31,132)	41,285	(10,153)	0	0	(5,576)	0.0
BRI #1 - Suspend cigarette tax rebate to local governments	(11,700,000)	0	0	0	(11,700,000)	0	0.0
SW DI - Extend temporary 2.5 % PERA employer contribution adjustment	(563,224)	(1,170,493)	(15,562)	0	(1,749,279)	(149,580)	0.0

Category	GF	CF	RF	FF	Total	HUTF	FTE
SW DI - Statewide 2% personal services reduction	(585,930)	0	0	0	(585,930)	0	0.0
Information technology common policy base adjustments	200,852	(374,973)	11,343	0	(162,778)	(19,453)	0.0
Annualize 2010 decision items	(43,921)	(91,740)	0	0	(135,661)	0	0.8
Change in September 2010 economic forecast	(100,000)	0	0	0	(100,000)	0	0.0
Department indirect cost	(107,119)	97,689	(53,361)	0	(62,791)	(17,892)	0.0
SW DI - Pro-rate benefits	(4,545)	(7,011)	0	0	(11,556)	0	0.0
Total	(\$11,823,939)	\$91,923,388	(\$176,297)	(\$91,918)	\$79,831,234	\$8,615,635	4.7

**Requested Changes, FY 2010-11 to FY 2011-12
Overview by Division**

Category	GF	CF	RF	FF	Total	HUTF	FTE
Executive Director' Office							
Total compensation base adjustment	431,735	319,332	0	0	751,067	134,499	0.0
Operating common policy base adjustment	227,680	393,235	0	0	620,915	42,198	0.0
Statewide annual fleet vehicle replacements	(4,634)	15,492	0	0	10,858	6,024	0.0
Statewide printing of warrants and mainframe documents	\$5,286	\$0	\$0	\$0	5,286	\$0	0.0
Statewide indirect costs	(16,738)	27,651	(10,913)	0	0	(5,560)	0.0
Department indirect costs	(53,700)	88,712	(35,012)	0	0	(17,837)	0.0
Annualize 2010 legislation	(307,866)	159,119	(102,668)	0	(251,415)	(1,865,609)	0.0

Category	GF	CF	RF	FF	Total	HUTF	FTE
OIT common policy base adjustment	200,852	(374,973)	11,343	0	(162,778)	(19,453)	0.0
Extend temporary 2.5 % PERA employer contribution adjustment	(20,896)	(52,892)	(11,878)	0	(85,666)	(8,479)	0.0
Statewide 2% personal services reduction	(24,486)	0	0	0	(24,486)	0	0.0
Annualize 2010 decision items	0	(14,180)	0	0	(14,180)	0	0.0
Statewide pro-rated benefits adjustment	(4,545)	(7,011)	0	0	(11,556)	0	0.0
Subtotal	\$432,688	\$554,485	(\$149,128)	\$0	\$838,045	(\$1,734,217)	0.0
Central Department Operations							
Annualize 2010 legislation	\$98,231	\$92,838	\$1,784	\$0	\$192,853	(\$241,344)	1.0
DI #1 - Remittance processing system software upgrade	145,000	0	0	0	145,000	0	0.0
DI #2 - Sales tax delinquency billings	121,991	0	0	0	121,991	0	0.0
Statewide indirect costs	(14,394)	13,634	760	0	0	(16)	0.0
Department indirect costs	(49,358)	46,753	2,605	0	0	(55)	0.0
Extend temporary 2.5 % PERA employer contribution adjustment	(88,097)	(13,994)	(1,685)	0	(103,776)	(2,017)	0.0
Statewide 2% personal services reduction	<u>(93,235)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(93,235)</u>	<u>0</u>	<u>0.0</u>
Subtotal	\$120,138	\$139,231	\$3,464	\$0	\$262,833	(243,432)	1.0
Information Technology Division							
DI #6 - County office improvements	\$0	\$38,062	\$0	\$0	\$38,062	\$0	0.0

Category	GF	CF	RF	FF	Total	HUTF	FTE
DI #1 - Remittance processing system software upgrade	35,065	0	0	0	35,065	0	0.0
Annualize 2010 legislation	0	(311,813)	0	0	(311,813)	0	(0.8)
Annualize FY 2010-11 decision items	(6,242)	(11,150)	0	0	(17,392)	0	0.0
Statewide 2% personal services reduction	<u>(2,110)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,110)</u>	<u>0</u>	<u>0.0</u>
Subtotal	\$26,713	(\$284,901)	\$0	\$0	(\$258,188)	0	(0.8)
<u>Taxation Business Group</u>							
Annualize 2010 legislation	\$343,196	\$4,142	\$0	\$0	\$347,338	\$0	0.0
Federal funding adjustment	0	0	0	3,451	3,451	0	0.0
Department indirect costs	174	(174)	1,156	0	1,156	0	0.0
BRI #1 - Suspend cigarette tax rebate	(11,700,000)	0	0	0	(11,700,000)	0	0.0
Statewide 2% personal services reduction	(454,748)	0	0	0	(454,748)	0	0.0
Extend temporary 2.5 % PERA employer contribution adjustment	(439,474)	(2,174)	0	0	(441,648)	0	0.0
Change in September 2010 economic forecast	(100,000)	0	0	0	(100,000)	0	0.0
Annualize FY 2010-11 decision items	<u>(37,679)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(37,679)</u>	<u>0</u>	<u>0.8</u>
Subtotal	(\$12,388,531)	\$1,794	\$1,156	\$3,451	(\$12,382,130)	0.0	0.8
Division of Motor Vehicles							
DI #3 - Driver's license documents line increase	\$0	\$1,373,272	\$0	\$0	\$1,373,272	\$0	0.0

Category	GF	CF	RF	FF	Total	HUTF	FTE
DI #5 - Titles operating expenses	0	95,000	0	0	95,000	0	0.0
Annualize 2010 legislation	0	277,383	0	0	277,383	(551,653)	(1.1)
DI #4 - Driver's license office refinance	0	0	0	0	0	11,149,622	0.0
Extend temporary 2.5 % PERA employer contribution adjustment	0	(426,515)	0	0	(426,515)	(3,988)	0.0
Annualize FY 2010-11 decision items	<u>0</u>	<u>(71,250)</u>	<u>0</u>	<u>0</u>	<u>(71,250)</u>	<u>0</u>	<u>0.0</u>
Subtotal	\$0	\$1,247,890	\$0	\$0	\$1,247,890	10,593,981	(1.1)
Motor Carrier Services Division							
Annualize 2010 legislation	\$12,045	\$143,183	(\$10,480)	(\$95,369)	\$49,379	134,399	(1.2)
Extend temporary 2.5 % PERA employer contribution adjustment	(11,747)	(137,333)	0	0	(149,080)	(135,096)	0.0
Statewide 2% personal services reduction	<u>(11,351)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(11,351)</u>	<u>0</u>	<u>0.0</u>
Subtotal	(\$11,053)	\$5,850	(\$10,480)	(\$95,369)	(\$111,052)	(697)	(1.2)

Category	GF	CF	RF	FF	Total	HUTF	FTE
Enforcement Business Group							
Limited Gaming Commission approved adjustment	\$0	\$90,344,019	\$0	\$0	\$90,344,019	0	0.0
Transfer bingo enforcement to Department of Revenue	0	441,159	0	0	441,159	0	6.0
Annualize FY 2010-11 decision items	0	4,840	0	0	4,840	0	0.0
Extend temporary 2.5 % PERA employer contribution adjustment	(3,010)	(362,278)	(1,999)	0	(367,287)	0	0.0
Annualize 2010 legislation	3,351	(134,611)	2,800	0	(128,460)	0	0.0
Department indirect costs	(4,235)	(2,936)	(22,110)	0	(29,281)	0	0.0
Subtotal	(\$3,894)	\$90,290,193	(\$21,309)	\$0	\$90,264,990	\$0	6.0
State Lottery Division							
Annualize 2010 legislation	\$0	\$178,819	\$0	\$0	\$178,819	0	0.0
Extend temporary 2.5 % PERA employer contribution adjustment	0	(175,307)	0	0	(175,307)	0	0.0
Department indirect costs	<u>0</u>	<u>(34,666)</u>	<u>0</u>	<u>0</u>	<u>(34,666)</u>	<u>0</u>	<u>0.0</u>
Subtotal	\$0	(\$31,154)	\$0	\$0	(\$31,154)	0.0	0.0
Total Change	(\$11,823,939)	\$91,923,388	(\$176,297)	(\$91,918)	\$79,831,234	8,615,635	4.7

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
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BRIEFING ISSUE

ISSUE: Significant Actions Taken from FY 2007-08 to FY 2010-11 to Balance the Budget

Total appropriations to the Department of Revenue have increased since FY 2007-08 due primarily to increased appropriations to the State Lottery which reflect increased sales of lottery tickets, as well a decision item that increased expenditures for advertising. Since the most recent economic downturn started in 2008, the General Assembly has taken several actions to reduce General Fund expenditures in this department. As a result, the General Fund appropriation to the Department of Revenue decreased by \$24.6 million (25.8 percent) from FY 2007-08 to FY 2010-11.

SUMMARY:

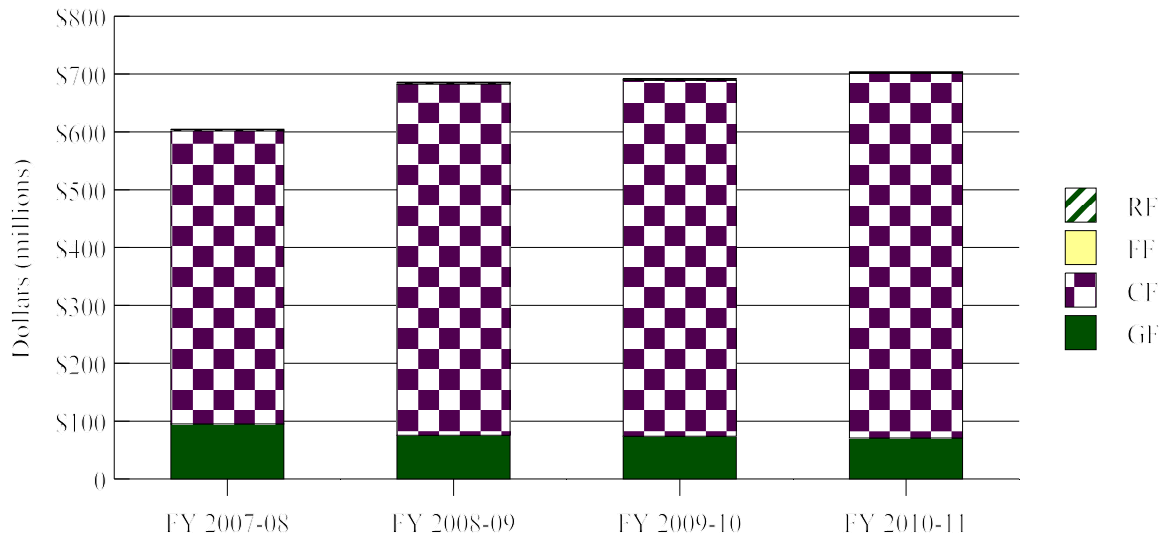
- ❑ The General Assembly has taken a series of actions during the 2009 and 2010 sessions that reduced General Fund appropriations by \$19.6 million in FY 2008-09, \$21.5 million in FY 2009-10, and \$24.6 million in FY 2010-11, from the General Fund appropriation in FY 2007-08.
- ❑ The General Assembly has taken a series of actions, through the various Long Bills, Supplemental Bills, and special bills that increased state General Fund revenues by \$21.1 million in FY 2008-09, \$168.6 million in FY 2009-10, and \$305.8 million in FY 2010-11.

DISCUSSION:

From FY 2007-08 to FY 2010-11, total appropriations to the Department of Revenue increased by approximately 16.1 percent (\$97.4 million). Most of this increase was the result of increases in lottery expenditures (including prizes). General Fund decreased by 25.8% (\$24.6 million), offset by an increase in cash funds of 24.1% (\$122.4 million). The General Fund decrease was primarily the result of a refinancing of driver's license offices in the Division of Motor Vehicles with cash funds. The Cash Funds increase was primarily the result of increases in Lottery expenses, as well as the refinance of driver's license offices.

Appropriations to the Department of Revenue for FY 2007-08 through FY 2010-11 are illustrated in the bar chart and detailed in the table below.

Department Appropriations FY 2007-08 to FY 2010-11



Department of Revenue Appropriations FY 2007-08 to FY 2010-11					
	Total Funds	General Fund	Cash Funds	Federal Funds	Reappropriated Funds
FY 2007-08 /a	\$604,476,068	\$95,291,960	\$506,385,003	\$1,546,214	\$1,252,891
FY 2008-09	685,860,440	75,719,920	607,205,180	1,525,374	1,409,966
FY 2009-10	692,073,355	73,749,339	615,399,703	1,525,374	1,398,939
FY 2010-11	703,854,663	70,714,586	630,786,977	815,619	1,537,481
Increase/(Decrease.) /b	\$99,378,595	(\$24,577,374)	\$124,401,974	(\$730,595)	\$284,590
Percent Change /b	16.4%	(25.8)%	24.6%	(47.3)%	22.7%

a/ FY 2007-08 Appropriations have been adjusted to reflect the same "cash funds" and "reappropriated funds" format implemented in FY 2008-09. Source: Page496 of the FY 2008-09 Appropriations Report, plus 2009 legislation affecting FY 2007-08 appropriations (S.B. 09-200)

b/ Increase/(Decrease) and Percent Change compare FY 2007-08 and FY 2010-11.

As illustrated in the bar chart above, appropriations to the Department have risen to their highest levels in FY 2010-11. General Fund appropriations have decreased by \$24.6 million, while cash funds have increased by \$124.4 million over these four years. The overwhelming majority of the increase comes from increases in the State Lottery, which increased by \$85.1 million. The Lottery dominates the Department, accounting for 73.2% of the Department's appropriation in FY 2010-11. The refinance of driver's license offices increased cash funds by \$20.0 million.

To illustrate the dominance of the Lottery over the Department's budget, the table below compares total appropriations for the Department, Lottery appropriations, and the percentage of the Department's budget that the Lottery represents.

Percent of Department of Revenue Appropriation from the State Lottery			
Fiscal Year	Lottery Appropriation	Total Department Appropriation	Percent of Appropriation in Lottery
2007-08	\$422,213,903	\$604,476,068	69.8%
2008-09	494,242,360	687,174,978	71.9%
2009-10	507,287,312	692,073,355	73.3%
2010-11	507,327,752	703,854,663	72.1%
Four-Year Increase	85,113,849	99,378,595	85.6%

Major Budget Balancing Actions from FY 2007-08 to FY 2010-11

Beginning in January of 2009 and continuing through the 2010 Session, the General Assembly has taken a number of actions to reduce General Fund expenditures to this department. These actions are discussed in more detail below.

The following table details the actions that have been taken in the Department of Revenue to balance the budget during the current economic downturn. Each action in the table is described in the paragraphs following the table.

Major Budget Balancing Actions General Fund Only FY 2008-09 through FY 2010-11				
Action Taken	FY 2008-09 Long Bill Appropriation	FY 2008-09 Reduction /1	FY 2009-10 Reduction /1	FY 2010-11 Reduction /1
Personal Services				
Savings from hiring freeze	\$43,151,113	(\$135,257)	\$0	\$0
Savings from furloughs	43,151,113	0	(249,665)	0
Savings from PERA contribution shift	43,151,113	0	0	(622,501)
<i>Proposed 1% Across the Board Personal Services Reduction</i>	43,151,113	0	0	(291,194)
Refinance driver's license office funding with moneys from Licensing Services Cash Fund and Highway Users Tax Fund "Off-the-top" moneys	19,961,127	0	(16,184,758)	(19,961,127)

Major Budget Balancing Actions General Fund Only FY 2008-09 through FY 2010-11				
Action Taken	FY 2008-09 Long Bill Appropriation	FY 2008-09 Reduction /1	FY 2009-10 Reduction /1	FY 2010-11 Reduction /1
Refinance Driver Control with Driver's License Administrative Revocation Account moneys	2,021,590	(1,865,928)	(2,021,590)	(2,021,590)
Permanent elimination of FTE throughout Department	43,151,113	0	(989,405)	(1,137,910)
Elimination of cashiering services at Capitol Annex	132,993	0	(85,231)	(132,993)
Elimination of security contract at Capitol Annex	41,600	0	(35,200)	(41,600)
Pueblo Data Entry Center reduction	1,789,495	0	(70,649)	(70,649)
Document Storage and Imaging reduction	383,187	0	(50,805)	(50,805)
Tax Policy and Analysis reduction	N/A	0	(22,355)	(33,533)
Elimination of temporary staffing in Motor Carrier Services	623,589	0	(10,000)	(20,862)
Eliminate overtime in Central Department Operations	40,333	0	(40,333)	0
Total	101,482,374	(2,001,185)	(19,759,991)	(24,384,764)

/1 Reductions taken in each of the fiscal years identified are from the baseline budget in the FY 2008-09 Long Bill.

1. *Hiring freeze, furloughs, and PERA contribution shift.* The General Assembly reduced General Fund in personal services throughout the Department by \$135,257 in FY 2008-09 with a hiring freeze; by \$249,665 through employee furloughs; and by \$622,501 through the Public Employees Retirement Association contribution shift (S.B. 10-146), which shifted 2.5 percentage points of the 10.15 percent of employee's salary that the state was funding to employees. An additional \$291,194 in savings has been proposed for FY 2010-11 from a 1.0 percent personal services reduction associated with vacancy savings.

2. *Refinance driver's license offices General Fund with Licensing Services Cash Fund (LSCF) and Highway Users Tax Fund (HUTF) "Off-the-top" moneys.* The General Assembly passed S. B. 09-274 which diverted driver's license fees that had been credited to the HUTF to the LSCF. Moneys in the LSCF were then used to partially refinance driver's license offices, saving \$16,184,758 General Fund in FY 2009-10. House Bill 10-1387 extended the diversion and refinance for two additional years, saving \$20.0 million in FY 2010-11. The additional savings in FY 2010-11 reflect the ability to fully refinance centrally-appropriated line items in the Executive Directors Office.

3. *Refinance the Driver Control section of Driver and Vehicle Services with funding from the Drivers License Administrative Revocation Account (DLARA).* The General Assembly passed S.B. 09-200 (Department of Revenue Supplemental) which refinanced the driver control section, which administers driver restraints, with funding from the DLARA. This saved the General Fund \$1,865,928 in FY 2008-09, and \$2,021,590 in FY 2009-10 and FY 2010-11.
4. *Permanent elimination of FTE throughout the Department.* The General Assembly eliminated mostly vacant positions throughout the Department, reducing the Department's FTE appropriation by 20.4 FTE. The elimination of FTE saved \$989,405 General Fund in FY 2009-10 and \$1,137,910 General Fund in FY 2010-11.
5. *Elimination of cashiering services at Capitol Annex.* The General Assembly eliminated cashiering services at the Capitol Annex, which reduced FTE by 2.0, and saved \$85,231 General Fund in FY 2009-10 and \$132,993 General Fund in FY 2010-11.
6. *Elimination of security contract at Capitol Annex.* The General Assembly eliminated the security contract for the Capitol Annex saved \$35,200 General Fund in FY 2009-10 and \$41,600 General Fund in FY 2010-11.
7. *Pueblo Data Entry Center Reduction.* The General Assembly approved a rate reduction from the Department of Personnel and Administration that saved \$70,649 General Fund in FY 2009-10 and FY 2010-11. The Department did not change the amount of data captured from tax returns and other forms.
8. *Document Imaging and Storage.* The General Assembly reduced appropriations for this line item. This reduction has two components. First, the Department of Personnel and Administration reduced the rate it charges for imaging documents, resulting in a savings of \$5,236 General Fund in FY 2009-10 and FY 2010-11. Secondly, the Department reduced the number of business tax documents imaged and discontinued imaging documents for the Motor Carrier Services Division, Human Resources employee leave documents, and Taxation Business Group estate tax and real estate related documents, retaining the hard copies in storage. Reducing the number of documents imaged saved \$45,659 General Fund in both fiscal years.
9. *Tax Policy and Analysis Program Reduction.* The General Assembly reduced the program's assigned FTE from 2.0 to 1.5, saving \$22,355 General Fund in FY 2009-10 and \$33,533 General Fund in FY 2010-11.
10. *Elimination of temporary staffing in Motor Carrier Services.* The General Assembly eliminated one of two program assistants who support the International Registry Program. Saves \$10,000 General Fund in FY 2009-10 and \$20,862 General Fund in FY 2010-11.

11. *Elimination of overtime in Central Department Operations.* The General Assembly eliminated overtime in Central Department Operations for FY 2009-10, saving \$40,333 General Fund. The overtime is used primarily in peak processing times to handle the receipt of incoming checks and documents.

Actions Taken to Increase Available State Revenues

Beginning in January of 2008 and continuing through the 2010 Session, the General Assembly has taken a number of actions to increase General Fund revenues. Since most of these actions were tax increases, the Department of Revenue was required to implement them. These actions are detailed in the following table and discussed in the paragraphs following the table.

General Assembly Actions to Increase Revenue Estimated Increase in General Fund Revenue FY 2008-09 through FY 2010-11				
Action	Bill #	FY 2008-09	FY 2009-10	FY 2010-11
Fund increased out-of-state travel for Colorado based auditors	HB 08-1375 (Long Bill)	\$5,600,000	\$22,200,000	\$22,200,000
Temporarily reduced sales tax vendor fee	SB 09-212	12,900,000	37,500,000	23,800,000
Transfer cash funds from Licensing Services Cash Fund to General Fund	SB 09-279	2,589,894	0	0
Reduced tax incentives for fuel efficient vehicles	HB 09-1331	0	1,800,000	5,200,000
Suspend cigarette sales tax exemption	HB 09-1342	0	31,000,000	32,000,000
Eliminate Colorado capital gains income tax modification	HB 09-1366	0	7,100,000	15,800,000
Enhanced out-of-state tax law compliance and enforcement	SB 09-259 (Long Bill)	0	3,500,000	16,830,000
Suspend sales tax vendor fee	SB 09-275	0	25,500,000	42,800,000
DOR fees for 3 rd party collectors, increases General Fund collections	HB 10-1055	0	1,500,000	3,000,000
Repeal sales tax exemption for direct mail	HB 10-1189	0	200,000	800,000
Suspend sales tax exemption for industrial energy use	HB 10-1190	0	7,200,000	37,600,000
Repeal sales tax exemption for candy and soda	HB 10-1191	0	1,400,000	18,000,000
Repeal sales tax regulation for software	HB 10-1192	0	4,600,000	23,700,000
Require notifications by out-of-state vendors selling to Colorado residents	HB 10-1193	0	20,000	12,500,000

General Assembly Actions to Increase Revenue Estimated Increase in General Fund Revenue FY 2008-09 through FY 2010-11				
Action	Bill #	FY 2008-09	FY 2009-10	FY 2010-11
Repeal sales tax exemption for non-essential food containers	HB 10-1194	0	400,000	2,000,000
Suspend sales tax exemption for agricultural products	HB 10-1195	0	900,000	4,600,000
Modify tax incentives for fuel efficient vehicles	HB 10-1196	0	0	270,000
Limit conservation easement tax credits	HB 10-1197	0	0	18,500,000
Modify deduction for net operating loss	HB 10-1199	0	0	8,200,000
Limit enterprise zone investment tax credit	HB 10-1200	0	0	4,000,000
Tax code compliance initiatives (2010 Supplemental)	HB 10-1314	0	15,425,000	4,900,000
Treasury offset program	HB 10-1376 (Long Bill)	0	4,200,000	4,200,000
Delinquency billings	HB 10-1376 (Long Bill)	0	4,196,000	4,870,000
Total		\$21,089,894	\$168,641,000	\$305,770,000

1. *Fund increased out-of-state travel for senior auditors.* The 2008 Long Bill provides funding that allows senior auditors based in Colorado to travel eight weeks out-of-state to audit out-of-state corporations with a Colorado presence.
2. *Temporarily reduce sales tax vendor fee.* Reduced the vendor fee (the fee a retailer may keep for collecting sales taxes for the State) to 1.35 percent.
3. *Cash fund transfer to General Fund.* Transferred \$2.6 million from the Licensing Services Cash Fund (LSCF) to the General Fund. Replaced the LSCF funds with funding from the Highway Users Tax Fund and the Motorist Insurance Identification Account, as well as reduced appropriations from the LSCF in Driver and Vehicle Services.
4. *Reduced tax incentives for fuel efficient vehicles.* Changes the types of vehicles that qualify for the existing state income tax credit for the purchase of alternative fuel vehicles, conversion of existing vehicles to allow for the use of alternative fuels, or replacement of a vehicle's power source with a power source that uses an alternative fuel. Also changes the tax credit amount for certain types of alternative fuel vehicles.
5. *Suspend cigarette sales tax exemption.* Temporarily eliminates the sales tax exemption for the sale of cigarettes.

6. *Eliminate Colorado capital gains income tax modification.* Eliminates the Colorado-source capital gains subtraction for gains on stock and ownership interests.
7. *Enhanced out-of-state tax law compliance and enforcement.* The 2009 Long Bill provided resources to expand existing out-of-state tax auditing offices and add new offices.
8. *Suspend vendor fee.* Temporarily eliminated the vendor fee (the fee a retailer may keep for collecting sales taxes for the State).
9. *DOR fees paid to 3rd party debt collectors.* Allowed the Department of Revenue to add the fee that a debt collector charges to the total debt owed by debtor to the state, allowing the State to increase General Fund revenue.
10. *Repeal sales tax exemption for direct mail materials.*
11. *Suspend the sales tax exemption for industrial energy use.*
12. *Repeal sales tax exemption for candy and soda.*
13. *Repeal sales tax regulation for software.* Sales tax will be charged for software installed on computers or downloaded over the internet.
14. *Sales tax changed out-of-state retailers.* Requires a mail order or internet retailer that is part of a controlled group of corporations that has another component corporation with a presence in the state to remit state and local sales taxes for items sold to Colorado residents. Requires a retailer without a presence in the state and who does not collect sales taxes for the state to notify purchasers that the State of Colorado requires purchasers to file a use tax return for all items that they have not paid sales tax on. Requires that retailer to notify both the purchaser and the State of the total amount of purchases upon which a use tax return must be filed. Provide penalties for retailers that fail to comply with the law.
15. *Repeals sales tax exemption for non-essential food containers.* Repeals the exemption for food sellers for packaging that are not essential to the sale of a food item.
16. *Suspend sales tax exemption for agricultural products.*
17. *Modify tax incentives for fuel efficient vehicles.* Reduces the number of years in which the purchase of certain types of alternative fuel vehicles are eligible for a state income tax credit from both the 2010 and 2011 tax years to only 2010.
18. *Limit conservation easement credits.* Caps the aggregate amount of conservation easements that may be claimed to \$26 million for tax years 2011, 2012, and 2013.

19. *Modify deduction for net operating loss.* Limits the amount of net operating loss that a taxpayer may carry forward to \$250,000 for each of tax years 2011, 201, and 2013. Defers the carryforward with interest to tax year 2014.
20. *Limit enterprise zone investment tax credit.* For tax years 2011, 2012, and 2013, limits the amount of the investment tax credit that a taxpayer can claim to \$500,000 and defers any portion of the credit that exceeds \$500,000, to tax year 2014. This bill also allows taxpayers that defer claiming any credit in excess of \$500,000, to carry forward the credit for 12 income tax years after the year the credit was initially allowed, plus one additional year for each year the taxpayer defers claiming the credit in excess of \$500,000.
21. *Tax code compliance initiatives.* Provides the Department of Revenue with funding to (1) identify, investigate and pursue overdue accounts, primarily those where taxpayers overclaimed estimated tax accounts or who have unbilled balance due return accounts; (2) attempt to match 1099 forms for taxpayers who have not filed a return but for whom the State has income information; and (3) initiate a voluntary compliance program to attempt to collect taxes due from tax payers who have received small dollar 1099 forms.
22. *Treasury offset program.* Provides resources that allows the Department to intercept federal tax refunds of taxpayers in Colorado who owe the state taxes.
23. *Delinquency billings.* Provides resources to the Department to increase the number of billings of delinquent taxpayers before they are sent out for collection.

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE

INFORMATIONAL ISSUE: Revenues generated by 2010 bills that suspended, eliminated or modified sales tax exemptions, and modified income tax deductions.

During the 2010 session, the General Assembly passed 11 bills that eliminated or suspended several sales tax exemptions, modified the responsibility of out-of-state retailers for collecting sales and use taxes, modified regulations regarding software sales, or modified income tax provisions. All bill except one (H.B. 10-1200) included a provision requiring the Department of Revenue to track, to the extent possible, the revenue increase from each bill and report the increase in revenues on a quarterly and cumulative basis to the General Assembly.

SUMMARY:

- Seven of the bills enacted were expected to increased revenues in FY 2009-10 General Fund revenues by \$14,680,300 in FY 2009-10. Actual revenue increases were estimated by the Department at \$11,788,000.
- The Department did not report on one bill that was projected to have a FY 2009-10 impact (H.B. 10-1193 - Changes in sales tax collections for out-of-state retailers).
- The projected increase in revenue from all the bills for FY 2010-11 is \$120.3 million, and \$166.4 in FY 2011-12.

DISCUSSION:

The table below details the Department of Revenue's estimates for the amount of revenue raised by the bills impacting sales tax exemptions, repeal of a Department of Revenue regulation and modifications to sales and use tax reporting requirement for out of state retailers. There were also several bills affecting income tax that do not go into effect until January 1, 2011, thereby affecting FY 2011-12.

2010 Laws affecting Sales Tax Exemptions and Regulations Projected Revenues and Estimated Actual Revenues 4th Quarter FY 2009-10			
Bill	Provision	FY 2009-10 Forecast Revenue	FY 2009-10 Estimated Revenue
HB 10-1189	Repeals the sales tax exemption for direct marketing materials	\$160,300	\$93,000
HB 10-1190	Suspends sales tax exemption for industrial energy use	7,200,000	3,522,000
HB 10-1191	Repeals sales tax exemption for candy and soda sales	1,400,000	5,506,000
HB 10-1192	Repeals the DOR regulation regarding sales of software	4,600,000	1,237,000
HB 10-1194	Repeals the sales tax exemption for non-essential food containers	400,000	142,000
HB 10-1195	Suspends sales tax exemption for agricultural products	900,000	1,288,000
	Totals	\$14,660,300	\$11,788,000

The Department of Revenue has attempted to comply with reporting requirements in each of the bills enacted by the General Assembly, however it has pointed out the problems with coming up with accurate numbers. The biggest problem is that retailers are required to report aggregate taxable sales, so it is difficult to attribute any increase in sales tax collected and reported to the repeal or suspension of the exemption.

The Department points out, in its report, the difficulties involved with the elimination of candy and soda exemption. The Department can identify increased sales tax collections from a retailer, but can only estimate the amount attributable to the change in exemptions. The Department identifies other factors that can affect sales tax collections.

- Changes in the economy such as business cycles, employment variables, inflation, new businesses).
- Previously passed legislation that became effective during this reporting period.
- Regulatory changes.
- Inability to identify and isolate all businesses that may have been impacted.
- Commodity price changes.
- Sales within particular industry code classification may include taxable items that are not specific to the legislation.

The Department has provided the information about the increased revenues in a letter to the leadership of the General Assembly. The letter includes a discussion of the difficulties associated with tracking the increased revenue and the assumptions behind the estimates. The letter is attached as Appendix D to this document, starting on page 97.

House Bill 10-1193, which attempts to collect sales and use tax from out-of-state retailers and consumers purchasing products from out-of-state retailers, has not yet had a measurable effect on

revenues. The provision that requires retailers that do not collect sales taxes for Colorado requires notification to consumers and the Department by January 31 of the year following the year in which the purchase is made of the total purchases made by the consumer during that year. The deadline for the first notification under the law is January 31, 2011.

The remaining four tax bills affect income tax deductions and credits which will not be known to the Department till after income tax returns are filed with the state for income tax year 2010.

**FY 2011-12 JBC Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE:

INFORMATIONAL ISSUE: Effectiveness of increased appropriations for audits of out-of-state companies doing business in Colorado.

For FY 2008-09, the General Assembly approved an increase in the appropriation for out-of-state travel for Colorado-based auditors. The Department estimated that audit production would increase by \$22.2 million, resulting in increased General Fund revenues of \$8.9 million in FY 2008-09. Actual audit production increased by \$18.0 million, resulting in additional General Fund revenues of \$7.2 million.

SUMMARY:

- The General Assembly provided \$180,234 General Fund to the Department in FY 2008-09 to increase the Department out-of-state audit presence by allowing senior auditors to travel eight weeks per year. The Department projected that General Fund revenue would increase by \$8.9 million in FY 2008-09.
- Estimated revenue generated by the decision item in FY 2008-09 was \$7.2 million and \$13.7 million in FY 2009-10.
- The General Assembly provided \$957,418 General Fund and 10.1 FTE in FY 2009-10 to expand out-of-state audits by expanding the three current out-of-state offices and opening three new out-of-state offices. This proposal annualized to \$1.8 million and 20 FTE in FY 2010-11. The Department projected increased revenues of \$3.5 million in FY 2009-10, \$12.0 million in FY 2010-11, and \$17.8 million in FY 2011-12 and thereafter.
- Because of delays in implementing the decision item, no additional revenue was generated in FY 2009-10.

DISCUSSION:

The Joint Budget Committee, through a letter to the Governor, requested information from the Department regarding the effectiveness of both decision items. Both reports were received September 30, 2010.

Out-of-State Travel by Colorado Based Senior Auditors (FY 2008-09 Decision Item #1)

In the 2008 legislative session, the General Assembly approved full funding of the Department of Revenue policy of having senior tax auditors, based in Colorado, travel out-of-state to conduct audits of businesses headquartered out-of-state who conduct business operations in the State. The General

Assembly provided an appropriation for this purpose of \$180,234 General Fund for FY 2008-09. The Department estimated that General Fund revenues would be enhanced by \$8.9 million per year.

Reported Increase in Revenue from FY 2008-09 Decision Item to Increase Funding for Auditors to Travel Out-of-State					
	FY 2008-09			FY 2009-10	
	Baseline	Reported	Increase over Baseline	Reported	Increase over Baseline
Audit Production	\$27.4	\$45.5	\$18.1	\$61.6	\$34.2
Increased Revenue	11.0	18.2	7.2	24.6	13.7

Based on the numbers reported by the Department, the revenues generated as a result of the increased funding for out-of-state travel justify the expenditure. When the Department made its projections in 2007, the economy was booming, unemployment was low, and corporate profits were robust. We have since entered a very deep recession which represents, in staff's opinion, a valid reason for the revenue projections to have been higher than the actual results.

Out of State Tax Law Compliance and Enforcement (FY 2009-10 Decision Item #1)

During the 2009 session, the General Assembly approved a two-year request to expand out-of-state auditing offices in the New York City metro area, Dallas, and Los San Francisco, and to open new offices in Houston, Chicago, and Los Angeles. Total staffing of out-of-state based auditors will grow from three in FY 2008-09, to a total of 19 in FY 2010-11. There would also be an out-of-state audit program manager, and an administrative assistant for the out-of-state auditors. Table 1 shows the increased appropriation for hiring the new auditors and the projected General Fund increases anticipated by the Department.

Table 1 Projection of Increased Revenue from FY 2009-10 Decision Item: Out-of-State Tax Law Compliance and Enforcement				
Fiscal Year	General Fund Appropriation	FTE	Projected Increased Revenue	Benefit/Cost Ratio
2009-10	\$957,418	10.1	\$3,460,758	3.6
2010-11	1,765,637	20.0	11,972,352	6.8
2011-12	1,765,637	20.0	17,771,460	10.1

As part of the JBC requests for information from Department, the Department was requested to provide a report detailing the amount of additional revenue generated realized in FY 2009-10 by the General Assembly's funding of an expanded out-of-state tax compliance and enforcement program. The Department provided the required report on September 30, 2010.

In its report, the Department states that because of delays, including the FY 2008-09 hiring freeze and general uncertainty about the budget delayed action on this initiative until January 2009. The Department reports that it opened the Houston office and expanded the Dallas office by March 2010; opened the Los Angeles office in June. The Department states that it opened the Los Angeles office in July 2010, in FY 2010-11. It has moved to recruit staff, but because of the delays mentioned above, the Department did not experience an increase in audit production for FY 2009-10 due to the General Assembly's approval of the decision item.

The decision item as approved included increases for FY 2009-10 in the following line items that are detailed in the table below.

FY 2009-10 Decision Item #1 Out-of-State Tax Law Compliance and Enforcement Approved Appropriations				
	Appropriated for Decision Item	Total Line Appropriation	Total Expenditures	Reversion
Leased Space (EDO)	\$80,000	\$518,820	\$518,820	\$0
Personal Services (Taxation and Compliance)	730,040	14,616,778	14,605,441	11,337
Operating Expenses (Taxation and Compliance)	147,378	968,168	901,056	67,112

The Department stated that they used the funds that were appropriated for the decision item to fund a shortage in Health, Life, and Dental insurance payments for FY 2009-10.

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE

ISSUE: Colorado State Titling and Registration Account

Current projections show that the Colorado State Titling and Registration (CSTAR) Account will be insolvent by the end of FY 2012-13. Titling fees were reduced in FY 2007-08 by \$2.30 to coincide with the planned end of the CSTAR system re-write project, and in the last several years, the amount of titling activity has fallen by about 10 percent with the economic downturn. The Account has received a two-year infusion of funds from the Motorist Insurance Identification Account, which has allowed the account to remain solvent until FY 2012-13.

SUMMARY:

- Fee income for the Colorado State Titling and Registration (CSTAR) Account, has dropped by more than 10 percent in the last two years, as auto sales have been reduced during the current recession.
- The Account was projected to be insolvent in FY 2010-11, as expenditures would have exceeded the revenues and reserves in the Account.
- During the 2010 session, the General Assembly passed H.B. 10-1341, which postponed the insolvency for two year by transferring excess funds from the Motorist Insurance Identification Account (MIIA) to the CSTAR Account for FY 2010-11 and FY 2011-12. Prior to passage of this bill, the CSTAR Account was projected to be insolvent by the end of FY 2011-12.

RECOMMENDATION:

Staff recommends that the JBC consider sponsoring legislation either this year or next that would increase the CSTAR fee by \$0.50, while decreasing the MIIA fee by \$0.40, raising fees to the CSTAR account by \$2.5 million per year, and decreasing the MIIA by \$2.0 million per year. This would, for the near term, stabilize the CSTAR revenues with expenditures.

DISCUSSION:

The Colorado State Titling and Registration Account is a sub-account of the Highway Users Tax Fund, established in Section 42-1-211 (2), C.R.S. It is used to fund the operations of the Colorado State Titling and Registration System (CSTARS), also established by Section 42-1-211, C.R.S. CSTARS is a statewide system to coordinate the management of vehicle registration and titling. This coordination goes between the State and the County Clerks, who handle most transactions with customers who are registering or titling vehicles.

As the economy has worsened since the current recession started, the fee income to the CSTAR account has fallen. According to the Department, fee revenue has fallen about \$900,000 from FY 2007-08. This reduction in income is primarily the result of fewer new vehicles being titled in the State. In addition, during FY 2006-07, the fee was reduced as a result of the planned end of the CSTARS re-write project, which was eventually cancelled prior to implementation.

Table 1 shows actual revenues and expenditures for FY 2008-09 and FY 2009-10, as well as the estimated revenues and expenditures (based on the appropriation) for the current fiscal year (FY 2010-11) and projections for FY 2011-12 and FY 2012-13. The table shows that the account will have a negative fund balance by the end of FY 2012-13. The table shows the positive effect from transfers from the MIIA in FY 2010-11 and FY 2011-12.

Table 1					
Changes in Fund Balance (Actual and Projected)					
Colorado State Titling and Registration Account					
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
	Actual	Actual	Estimated	Projected	Projected
Beginning Fund Balance	\$6,116,183	\$4,206,618	\$3,606,265	\$825,943	(\$1,749,463)
Revenues	8,327,935	8,030,022	8,105,512	8,046,944	7,989,105
Expenditures	(10,237,500)	(8,630,375)	(10,885,834)	(10,622,350)	(10,718,383)
Ending Fund Balance (Before MIIA Transfer)	4,206,618	3,606,265	825,943	(1,749,463)	(4,478,741)
Transfer from MIIA	0	0	2,122,231	2,119,252	0
Ending Fund Balance (After MIIA Transfer)	\$4,206,618	\$3,606,265	\$2,948,174	\$2,492,020	(\$237,258)
Title Application Fee /a	\$7.20	\$7.20	\$7.20	\$7.20	\$7.20
Portion of Title Application Fee to CSTAR Account	\$3.20	\$3.20	\$3.20	\$3.20	\$3.20

/a Title Application fee is split between the state and the office issuing the title (usually a county clerk). This fee is the primary source of income for the CSTAR Account.

The account is funded through fees charged to people who register and title motor vehicles (and manufactured homes) in the State. When paid at an authorized agent, the fees credited to the Account are as follows:

- \$0.10 of the fee charged to furnish any specified record (Section 42-1-206 (2), C.R.S.).
- \$0.50 of the Specific Ownership Tax (Section 42-3-107 (22), C.R.S.).
- \$1.15 of each additional fee collected from the purchaser of a special license plate (Section 42-3-213 (1) (b) (IV), C.R.S.).
- \$3.20 of the fee charged for an application for title to a motor vehicle or manufactured home, recording of a mortgage (Section 42-6-138 (1) (a), C.R.S.).

- \$1.70 of the fee charged for a copy of a recorded certificate of title (Section 42-6-138 (2) (a), C.R.S.).
- \$1.00 of the fee charged for assignment of a new identifying number to a motor vehicle or manufactured home (Section 42-6-138 (2) (b)). When the Department issues such number, the entire fee (\$3.50) shall be credited to the Account.
- The entire fee of \$25.00 paid by a motor vehicle dealer who applies to receive a certificate of title within one working day after application.

Most of the fee income for the Account is from a portion of the Title Application Fee, which is charged to citizens wishing to title vehicles. The total fee is \$7.20, with \$3.20 of the fee being credited to the CSTAR account. According to the Department, two-thirds of the total fees for the Account come from this source.

In 2001, the General Assembly passed a temporary fee increase for the funding of the CSTARS system re-write project. The fee increase was \$2.30, and was set to expire on September 1, 2006. The expiration of the fee increase was set to coincide with the expected completion of the re-write project. For reasons that have been discussed in previous years, the CSTARS re-write project was terminated prior to completion in 2007.

When the re-write project was terminated, the Account had a fund balance of \$9.1 million at the start of FY 2006-07, well in excess of the statutorily required level of 16.5 percent of appropriations, which is about \$1.8 million. However, the account was being drawn down by about \$2 million per year, which would have left the account insolvent in FY 2010-11.

After the projections for the future of the Account were identified, the Department took several measures which reduced expenditures in FY 2009-10. Among the measures taken was deferring replacement of IT equipment in the CSTAR system and reduced capital expenditures for county office improvements. Savings were also realized from statewide actions, including the elimination of salary survey and performance-based pay awards. Overall one-time savings achieved in FY 2009-10 reduced the deficit in that fiscal year to \$600,352, but those saving were not sustainable.

The Department of Revenue's appropriations that are supported by the CSTAR Account are detailed in the table below. The table shows FY 2009-10, which is before the OIT consolidation, and FY 2010-11, which includes the OIT consolidation.

Colorado State Titling and Registration System Appropriations		
	FY 2009-10 Actual	FY 2010-11 Estimated
<u>Executive Director's Office</u>		
Employee benefits (includes employer contributions for health, life, and dental insurance, short-term disability insurance, extra payments for employee pensions, and workers compensation)	\$471,434	\$248,029

Colorado State Titling and Registration System Appropriations		
	FY 2009-10 Actual	FY 2010-11 Estimated
Other centrally appropriated line items (includes capital outlay, variable vehicle payments, legal services, payments to risk management and property funds, vehicle lease payments, and capitol complex leased space)	1,692,345	1,739,292
Office of Information Technology Costs (includes purchase of services from computer center, multi-use network payments, and management and administration of OIT)	<u>0</u>	<u>2,230,395</u>
Total Executive Director's Office	\$2,163,779	\$4,217,716
<u>Information Technology Division</u>		
Legislative Programming	108,512	159,942
CSTARS Personal Services	2,023,143	449,429
FTE (transferred to OIT in FY 2010-11 and charged to Department in EDO)	28.4	0.0
CSTARS Operating Expenses (Funds information technology contracts as they relate to the CSTAR system. FY 2009-10 includes a one-time upgrade to the server and operating system)	1,457,163	2,617,535
County Office Asset Maintenance (Funds the replacement of IT assets in county vehicle registration and titling offices, on a replacement cycle of 4 years)	0	568,230
County Office Improvements (Funds the expansion of county registration and titling offices by purchasing CSTARS equipment for those offices)	<u>25,232</u>	<u>40,000</u>
Total Information Technology Division	\$3,614,050	\$3,835,136
<u>Division of Motor Vehicles</u>		
Driver and Vehicle Service Personal Services	327,333	327,600
Titles Personal Services	1,503,546	1,639,881
FTE	32.8	34.5
Titles Operating Expenses	<u>181,607</u>	<u>281,824</u>
Total Division of Motor Vehicles	\$2,012,486	\$2,249,305
Division and Department Indirect Costs	773,255	388,882
Other Costs (mainly postage)	194,795	194,795
Total CSTAR Account	\$8,758,365	\$10,885,834

As can be seen in the table above, \$6.1 million of the total appropriation of \$10.9 million goes to fund the CSTARS infrastructure, while the remainder is primarily used to processing and producing titles for vehicle purchasers.

During the 2010 session, the General Assembly passed H.B. 10-1341, which, for FY 2010-11 and FY 2011-12, transfers the fund balance in the Motorist Insurance Identification Account (MIIA), a sub-account of the Highway Users Tax Fund (HUTF), to the Colorado State Titling and Registration Account (CSTARA), also a sub-account of the HUTF. Under existing law prior to FY 2010-11, the excess in the MIIA was transferred to the HUTF at the end of the fiscal year. This will transfer more than \$2 million to the CSTARA in each of the next two years, which is enough to stabilize the CSTARA for the two years during which the transfer occurs. After that, the CSTARA will become insolvent in FY 2012-13 if no action is taken.

The Motorist Insurance Identification Account is established by Section 42-3-304 (18) (d), C.R.S. to cover the costs of administration and enforcement of the Motorist Insurance Identification Database program (MIIDP). In FY 2006-07, the program had an appropriation of \$1,614,024 cash funds and 8.0 FTE to administer the program. However, from FY 2007-08 on, the program was contracted out, with an appropriation of approximately \$350,000 cash funds from the MIIA. The savings resulted in increased moneys to the Highway Users Tax Fund.

The MIIDP program is funded from a fee paid at the time of registration, which the statute sets at a maximum of \$0.50. The fee has never been adjusted downward (though the statute gives the Department the authority to set the fee annually based upon the appropriation to the Department for the operation of the fund. Excess funds are transferred from the MIIA to the HUTF at the end of each fiscal year. The MIIA fee brings in revenues of approximately \$2.5 million per year, which when combined with expenditures for the program of \$350,000 per year, leaves an excess of a little more than \$2.1 million in the fund each year.

Staff's recommendation is that legislation be introduced to decrease the fee for the MIIDP by \$0.40, while increasing the CSTARS fee by \$0.50. Legislation was introduced, but not enacted, during the 2009 session, to increase the CSTARS fee by \$0.60, which would have raised \$3 million per year. The increase of \$0.50 recommended by staff would raise \$2.5 million in revenue for the CSTAR account, stabilizing the account.

Combining the two actions would result in a net increase of \$0.10, or about \$500,000 per year for Colorado vehicle owners. It would provide sufficient revenues to fund the CSTAR system for the immediate future. However, it would reduce the moneys going to the HUTF annually by about \$2 million per year. It should be noted that other than the temporary fee increase to support the re-write project, the fee for CSTARS has not been increased since 2001.

It should also be noted that the County Clerks may get in line for an increase in the amount of the title application fees that they are permitted to keep as well.

**FY 2009-10 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE

ISSUE: Programming Costs for Session Legislation in the Department of Revenue

There is a line item in the Department of Revenue called "Programming Costs for Session Legislation, which accounts for the programming costs for legislation during the session. Staff recommends the Joint Budget Committee take action to either continue or discontinue the policy of appropriating the programming costs of implementing legislation in the Long Bill.

SUMMARY:

- ❑ Current JBC policy for the Department of Revenue is that the Department will submit with its annual budget a request for the estimated costs incurred for the programming costs for session legislation. The Department will then submit a supplemental bill for the difference between the estimated costs and the actual costs. This policy has been in effect for ten years.
- ❑ The basis for the policy is that there are so many bills affecting programming costs in the Department of Revenue. The JBC considered the issue in 2001 and again in 2009 and decided on the current policy. As this is a new Session of the General Assembly, staff believes that the Committee should revisit the issue and make a determination at this time for the next two legislative years.

RECOMMENDATION:

Staff recommends that the Joint Budget Committee take formal action to continue or discontinue the policy of including a Programming Costs for Session Legislation in the Long Bill. Staff is asking that the action be taken now so that the fiscal notes staff at Legislative Council can be notified if the policy is going to change for legislation proposed this year. **Staff's recommends that the JBC approve the policy as currently formulated regarding programming costs for session legislation.**

DISCUSSION:

A relatively large number of special bills that apply to the Department of Revenue involve programming costs to implement. For example, if the bill alters the tax system, changes or adds a special license plate, the bill will have programming costs.

Prior to about 1998, the Department had a long-standing policy of absorbing up to 900 hours of programming costs for special legislation. At that time, a new Director was appointed and began indicating that the Department would no longer absorb the programming costs. Bills with the smallest programming costs would require fiscal notes for the costs of programming. This resulted

in the need for an appropriation. Each bill had to be considered on its own merits and cost, even though there might be economies of scale from similar bills. For example, if there are two license plate bills, the programming costs might only be one and one-half times the expense, rather than two times for each bill individually.

Since most of the bills at that time were funded from the General Fund, this meant that bills would now have to compete for the small amount of set-asides that were left after the budget was submitted. Bills were now dying in the Appropriations Committees because there was no money available to fund the programming costs. General Assembly Members complained to the Joint Budget Committee Members at the time about the bills dying for a relatively small amount of money and programming hours. Around 2000, the JBC asked staff to come up with a solution that would eliminate the need for fiscal notes on special legislation affecting the Department.

At about the same time, a targeted base review at the Department revealed that they had three programmers on staff who were assigned to implement new legislation. Together the three programmers cost about \$250,000.

Two solutions were presented to the JBC. The first, and the one ultimately adopted, was to add a line item to the Department's Information Technology Division to the 2001 Long Bill called Programming Costs for 2001 Session Legislation and to eliminate the funding for the three programmers. If the costs differed from the estimate that was put in the bill, the Department was expected to present a supplemental bill for the difference. The major problem identified with this approach was that bills were not required to undergo fiscal scrutiny to determine if the merits of a bill outweigh the estimated costs. The JBC considered the arguments for and against and approved the recommendation for implementation in the 2001 Long Bill.

The second option presented would have had the Department submit a supplemental request for any costs it could not absorb. The Committee would then have the option to approve or deny the request exercising its discretion whether or not the costs are reasonable. The Department's problem with this approach was that there may not have been any funds left over to fund the supplementals.

In each year since the adoption of this line item, in addition to the appropriation line in the Long Bill, there has been a supplemental submitted to reflect the true costs of implementing legislation from the session. These supplementals have either increased or decreased the annual appropriation. The history of this appropriation line and supplementals is shown in the following table:

History of Programming Costs for Session Legislation Appropriations and Actual Expenditures							
	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Budgeted
Long Bill							
General Fund	\$16,744	\$16,744	\$16,744	\$66,846	\$66,846	\$66,846	\$73,088
Cash Funds							
Exempt	<u>78,951</u>	<u>78,951</u>	<u>78,951</u>	<u>159,942</u>	<u>159,942</u>	<u>159,942</u>	<u>171,092</u>
Total	95,695	95,695	95,695	226,788	226,788	226,788	244,180
Supplemental Bill							
General Fund	4,816	63,052	50,102	19,930	57,234	65,470	N/A *
Cash Funds / Cash Funds							
Exempt	<u>7,922</u>	<u>28,619</u>	<u>80,991</u>	<u>(93,505)</u>	<u>(81,996)</u>	<u>66,509</u>	<u>N/A *</u>
Total	12,738	91,671	131,093	(73,575)	(24,762)	131,979	N/A *
Long + Supplemental Bills							
General Fund	21,560	79,796	66,846	86,776	124,080	132,316	73,088
Cash Funds							
Exempt	<u>86,873</u>	<u>107,570</u>	<u>159,942</u>	<u>66,437</u>	<u>77,946</u>	<u>226,451</u>	<u>171,092</u>
Total FY Appropriation	\$108,433	\$187,366	\$226,788	\$153,213	\$202,026	\$358,767	\$244,180

* FY 2010-11 Supplemental has not been submitted yet

In years past, there have been issues raised about the equity of this approach. Bills requiring programming costs that affect other departments must have appropriations clauses to cover those costs. Some of those bills died because of the lack of available funds for programming costs. In 2001, the JBC's rationale for the "special" treatment of bills with programming costs was that so many of the bills that impact the Department have programming costs. The same rationale was approved by the JBC for the 2009 and 2010 General Assembly sessions.

The Department of Revenue's main concern is that it receives the funding to implement the changes in its information technology systems. If the current policy is discontinued, economies of scale for programming similar bills will not be identified in the appropriations process. The Department would continue to use the supplemental process to account for duplicated work that can not be accounted for in the fiscal notes process.

If the current policy is discontinued, JBC staff will communicate this to Legislative Council Staff so required appropriations can be included in fiscal notes and subsequent appropriations clauses.

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE

ISSUE: Funding Driver and Vehicle Services

The Department has submitted a request to refinance \$11.1 million cash funds to the Licensing Services Cash Fund (LSCF) from the Highway Users Tax Fund (HUTF) "Off-the-top" moneys. This will mitigate funding shortfalls in Driver and Vehicle Services (DVS) that have resulted from lower than expected renewals of driver's licenses, and enable the transfer of \$9.8 million from the LSCF to the General Fund in FY 2011-12 to address revenue shortfalls in the General Fund.

SUMMARY:

- In FY 2009-10, the General Assembly refinanced \$16.2 million General Fund with funding from driver's license fees that were diverted from the HUTF to the LSCF, as well as \$4.1 million in moneys from the HUTF off-the-top appropriation.
- In FY 2010-11, the General Assembly refinanced \$20.0 million General Fund with funding from driver's license fees that were diverted from the HUTF to the LSCF, as well as \$2.7 million in moneys from the HUTF off-the-top appropriation.
- Due to fewer driver's licenses being issued that projected, the revenue from driver's license fees are insufficient to fully cover Driver and Vehicle Services appropriations. The Department requests \$1.1 million in unappropriated funds from the HUTF off-the-top appropriation in FY 2010-11,

RECOMMENDATION:

Staff recommends that the JBC consider sponsoring legislation to allow the use of HUTF off-the-top moneys in Driver and Vehicle Services for FY 2011-12. The legislation will give the driver's license offices stable funding as a bridge to FY 2012-13, when funding from the LSCF will return to its former levels and General Fund will have to be used to replace the cash funding for driver's license offices.

DISCUSSION:

Background

From 1997 to 2007, the funding of driver's license offices was funded primarily from the General Fund, while fees paid by driver's license applicants went to the Highway Users Tax Fund (HUTF). During the economic downturn in the early part of the last decade, due to General Fund shortfalls, a number of driver's license offices were closed by the State. In the 2007 session, the General Assembly passed S.B. 07-241 which increased the fee for driver's licenses. The increased fee was

credited to the Licensing Services Cash Fund (LSCF) which was created in the bill. The LSCF could be used for the expenses of operating driver's license offices. The fee increase raised an additional \$6.9 million in FY 2007-08. The increased revenues allowed the Department to open three new offices on the front range (northeast Denver, Lakewood/Golden, and Loveland), as well as increase staffing at other offices around the State.

At the start of the current downturn, which began in FY 2008-09, General Fund revenues again dropped, which caused the General Assembly to look for ways to decrease General Fund expenditures. For FY 2008-09, the Department of Revenue supplemental (S.B. 09-200) refinanced \$1.1 million of General Fund expenses in the Division of Motor Vehicles with cash funds from the Driver's License Administrative Revocation Account. These General Fund expenses were in the driver control section, which administers driver restraints.

The General Assembly also passed S.B. 09-274, which refinanced cash funds, using \$765,000 from the Motorist Insurance Identification Account and \$649,381 from the HUTF off-the-top moneys to reduce LSCF appropriations. These refinance appropriations from the LSCF, along with unused fund balance and decreased appropriations to the Department from the LSCF, enabled the General Assembly to transfer \$2,589,894 to the General Fund.

Senate Bill 09-274, also reduced General Fund expenses in FY 2009-10. For FY 2009-10, the bill diverted to the LSCF driver's license fees which had been deposited into the HUTF. The diversion allowed the Department refinance \$16.2 million of General Fund with cash funds of \$17.0 million cash funds (the difference is due to the pay-date shift for General Fund employees). The cash funds were \$4.1 million from unappropriated funds in the HUTF off-the-top moneys, and \$12.9 million from the LSCF.

For FY 2010-11, H.B. 10-1387 continued the refinance that occurred in S.B. 09-274, and expanded it to cover all centrally appropriated expenditures in the Executive Director's Office. The total reduction in General Fund was \$20.0 million, with \$2.7 million from the HUTF off-the-top and \$17.3 million from the LSCF.

The table below details the history of appropriations for Driver and Vehicle Services since FY 2008-09.

Division of Motor Vehicles - Driver and Vehicle Services Appropriation and Funding History			
	FY 2008-09 Appropriation	FY 2009-10 Appropriation	FY 2010-11 Appropriation
Appropriations			
EDO Central Appropriations	\$4,694,860	\$7,066,370	\$3,402,474
Division of Motor Vehicles Administration	786,707	820,565	828,647

Division of Motor Vehicles - Driver and Vehicle Services Appropriation and Funding History			
	FY 2008-09 Appropriation	FY 2009-10 Appropriation	FY 2010-11 Appropriation
Driver and Vehicle Services	<u>26,820,969</u>	<u>29,450,332</u>	<u>27,363,393</u>
Total	\$32,302,536	\$37,337,267	\$31,594,514
Funding Sources			
General Fund	\$17,051,253	\$3,265,091	\$0
Highway Users Tax Fund "Off-the-Top"	649,381	4,064,839	2,702,602
Licensing Services Cash Fund	6,021,776	16,416,048	22,489,444
Driver's License Administrative Revocation Account	1,440,112	2,423,563	2,255,137
Colorado State Titling and Registration Account	350,773	338,033	338,084
Identification Security Fund	649,586	2,497,783	644,550
First Time Drunk Driving Offender Account	0	1,107,851	0
License Plate Cash Fund	5,979,756	6,580,143	6,550,560
Other Cash Funds	<u>159,899</u>	<u>643,916</u>	<u>(3,385,863)</u>
Total	\$32,302,536	\$37,337,267	\$31,594,514

Fiscal Year 2010-11 Request

The Department is requesting a supplemental for FY 2010-11, and a decision item for FY 2011-12. The supplemental request is to increase by \$1,149,174 the use of HUTF off-the-top moneys in Driver and Vehicle Services. Because H.B. 10-1387 authorized the use of HUTF off-the-top moneys for the costs of running driver's licenses offices in FY 2010-11, no statutory change is required. The HUTF off-the-top is under appropriated by \$3,612,494, so adequate funding authority exists to approve this supplemental. The HUTF off-the-top appropriation would be used to reduce the appropriation from the LSCF.

In FY 2009-10, the Department reports that driver's license and identification document issuance was significantly lower than expected, leading to a shortfall in revenues in the LSCF. Also compounding the problem was the transfer of \$2.6 million from the LSCF to the General Fund. While \$1.4 million of the transfer was refinanced moneys, \$1.2 million came from the fund balance of the LSCF. To avoid overspending the account in FY 2009-10, the Department initiated some short-term cost savings measures, including holding vacancies open longer, restricting office hours in some locations, restricting operational expenditures, laying off temporary employees and delaying the implementation of system upgrades. These actions will not be sustainable in future years.

Starting in FY 2010-11, the funding shortfall will be mitigated by a sharp increase in the number of documents issued by the Department. This is related to the change from ten-year licenses issued to

five-year licenses issued starting in 2005. In 2000, the General Assembly passed S.B. 00-011, which increase driver's license renewal period from five to ten years, thus decreasing the number of documents issued annually, starting in 2005.

Just as the decrease in documents issued was beginning to kick in, the General Assembly passed S.B. 05-004, which returned the document renewal period back to five years, effective May 27, 2005. The return to a five year renewal was in large part a result of the need to improve identification document security that resulted from the attacks of September 11, 2001.

As a result of this change, about a month before the end of the 2009-10 fiscal year, the Department began seeing an increase in documents issued as a result of this change. The increased activity will continue from that point forward as those who had been issued ten-year renewal license's will combine with those who had been issued five-year renewal to dramatically increase the department's issuance of driver's licenses and identification cards.

The table below details the actual and expected fund balances for the LSCF starting in FY 2009-10 and continuing through FY 2012-13.

Licensing Services Cash Fund				
Actual/Appropriated/Projected Expenditures				
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
	Actual	Estimated	Requested	Projected /c
Beginning Fund Balance	\$1,389,079	\$2,064,747	\$0	\$701,309
Actual/Projected fee collections	17,106,570	21,075,493	25,848,871	10,741,038
Other revenues /a	1,275,289	0	0	0
Actual/appropriated/projected cash expenditures	(17,921,393)	(23,675,704)	(25,521,622)	(8,400,000)
Other uses of cash /b	215,203	0	0	0
DI #3: Driver's license document line increase	0	(613,710)	(1,373,272)	(1,400,298)
DI #4: Funding Driver and Vehicle Services	0	1,149,174	11,149,622	0
Statewide PERA adjustment	0	0	391,462	0
Pro-rated benefits	0	0	2,079	2,079
Annual fleet vehicle replacement	0	0	4,169	4,169
Transfer funds to General Fund	<u>0</u>	<u>0</u>	<u>(9,800,000)</u>	<u>0</u>
Total	\$2,064,747	\$0	\$701,309	\$1,648,297

/a Non cash assets converted to cash, including sales of capital assets, sales of investments, collections of loans, etc.

/b Accounting adjustment (net of prior year and current year liabilities)

/c Revenues drop under current statute, because the fee the is credited to the LSCF in FY 2012-13 reverts to \$5.20, with the remainder of the fee for a driver's license credited to the HUTF

In the table, note that the fund balance in the LSCF at the end of FY 2010-11, even with the allocation of HUTF off-the-top moneys is \$0. This will require the Department to carefully manage the appropriation so as not to overspend the cash fund. Even with allocation of HUTF off-the-top moneys for a second year, at the end of FY 2011-12, the fund balance in the LSCF is only \$700,000, well below the approximately \$4.25 million that should be in the fund's reserve.

Fiscal Year 2011-12 Request

The Department is requesting an extension of the authorization to use HUTF off-the-top moneys for Driver and Vehicle Services for an additional year. This request requires a statutory change to Section 43-4-201 (3) (a) (III) (C), C.R.S. The Department's proposal is to refinance \$11,149,622 cash funds in Driver and Vehicle Services, reducing funding from the LSCF and increasing funding from the HUTF off-the-top.

The request has two components. The first component is to alleviate funding concerns in the short-term for the Driver and Vehicle Services Section. This would allocate \$1,349,622 to increase funding to cover any shortfalls in the LSCF, which is projected to start the year with a \$0 balance. Even with the requested appropriation from the HUTF off-the-top moneys, the fund balance at the end of FY 2011-12 is projected to be only \$701,309, which is well below the approximately \$4.25 million that should be in the fund's reserve.

The second component is to transfer \$9.8 million from the LSCF to the General Fund to assist with balancing the General Fund. This element is part of the Governor's balanced budget presented to the General Assembly for FY 2011-12. Since the refinancing occurs out of the HUTF off-the-top appropriation, no loss of funds to road building constituencies would occur, assuming that the off-the-top appropriation is fully funded in each of FY 2010-11 and FY 2011-12.

Because Section 43-4-201 (3) (a) (III) (C), C.R.S. already permits the use of HUTF off-the-top moneys in Driver and Vehicle Services in the Division of Motor Vehicles, no statutory change is required for the JBC to approve the refinancing requested for FY 2010-11. The statute would have to be amended to allow the use of HUTF off-the-top funding for FY 2011-12.

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE

ISSUE: Limited Gaming Commission Appropriation to Gaming Cities and Counties

The Limited Gaming Commission approved an adjustment to the Distribution to Gaming Cities and Counties of \$89,377,364 cash funds from the Limited Gaming Fund. Normally, this would be reflected in the Long Bill, as the JBC normally does. This large increase in the Gaming Commission's appropriation deserves further consideration by the JBC.

SUMMARY:

- The General Assembly has been appropriating the line item "Distribution to Gaming Cities and Counties" in the Long Bill at the level commensurate with the actual distributions to the cities and counties.
- In the State's accounting systems, however all distributions to the funds that receive gaming moneys are counted as expenditures in this line item.
- Except for the distribution to gaming cities and counties, all other expenditures of gaming moneys in the State are appropriated and expended as cash funds in other departments.
- If the State continues to account for gaming distributions in the current manner, the appropriation line discussed herein should be changed to reflect the amount of the distributions and all other appropriations should be shown as reappropriated funds.

DISCUSSION:

For the past several years, this line item has been budgeted at \$23,788,902 cash funds, however this year, the Limited Gaming Commission approved an adjustment to increase the line by \$89,377,364 for FY 2011-12. Section 9 (5) (b) (I) of Article XVIII of the Colorado Constitution grants the Limited Gaming Commission the authorization to pay all ongoing expenses of the Commission and any other state agency related to the administration of Limited Gaming. "Such payment shall not be conditioned upon any appropriation of the General Assembly. The JBC has always "reflected" the appropriation from the Limited Gaming Commission in the Long Bill. However, with the Commission's decision to increase the line by \$89.4 million, staff believes that the issue should be considered by the Committee.

While the line is titled "Distribution to Gaming Cities and Counties" it has been used in the state's accounting system to account for all distributions of Limited Gaming Fund moneys, including those distributions to the State Historical Society and the General Fund (including the funds that the General Assembly diverts General Fund moneys to, such as the Local Government Gaming Impact

Fund, the State Transportation Fund, the Travel and Tourism Promotion Fund, the State Council on the Arts Cash Fund, the Film Incentives Cash Fund/Colorado Film Commission, New Jobs Incentives Cash Fund, Bioscience Discovery Evaluation Grant Program, the Clean Energy Fund, Office of Economic Development Film Commission, and the Innovative Higher Ed Research Fund).

The state appropriations to each of these funds from Limited Gaming moneys are accounted for as cash funds in each of the Departments where these appropriation are located. The only state funds that are not accounted for elsewhere are the distributions to gaming cities and counties. To also account for these appropriations in the Department of Revenue would be to cause a double count of these appropriations.

Staff believes there are two approaches the JBC could take with regard to this appropriation. The first would be to accept the Gaming Commission's adjustment, but rename the line item to "Distributions from Gaming Fund" and then go into each of the other departments where gaming moneys are appropriated and reclassify those appropriations from Cash Funds to Reappropriated Funds. The second approach would be to revise the appropriation to only include distributions to gaming cities and counties, as the name dictates, to eliminate the double count of these appropriations.

Staff has contacted the Controller's Office to see how this could be handled. They are considering this issue and will contact staff. Any finding they make would be presented by staff to the JBC at figure setting.

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

BRIEFING ISSUE

ISSUE: Including Lottery Prizes in the Budget

With the ongoing discussion about the size of state government, two line items in the Department of Revenue stand out as distorting state spending. These are: (1) Lottery prizes and (2) Powerball prize variance. In FY 2010-11, these two line items totaled \$413 million cash funds.

SUMMARY:

- Section 24-35-210 (1) explicitly states that "Expenses" do not include amounts expended for lottery prizes. Prizes for the Lottery shall be paid only from the Lottery fund or from moneys collected from the sale of lottery tickets or shares."
- Lottery prizes have increased by more than 70.0 percent over the last ten fiscal years, from \$241 million in FY 2000-01 to \$413 million in FY 2010-11.
- Lottery prizes currently constitute 59.6 percent of total Department of Revenue appropriations, increasing each year and distorting the perception (which tends to focus on the bottom line) of spending in the Department.

RECOMMENDATION

Staff recommends that the Joint Budget Committee consider, at figure setting, eliminating the appropriation for Lottery Prizes and the Powerball Prize Variance.

DISCUSSION:

As staff was preparing to present graphs (in the Graphical Overview) about state spending over the last ten years, one area that stood out in the Department of Revenue (Department) was expenses for the state Lottery. Appropriations for the Lottery are 73.2 percent of total appropriations for the Department in FY 2010-11, an increase from 64.3 percent in FY 2000-01. In spending terms, this represents an increase of almost \$200 million over those ten years.

Of the total lottery expenses, the largest component is prizes. Please see the Table 1 below for the appropriations for FY 2000-01 and FY 2010-11. In the second column, the 2000-01 appropriations are adjusted to 2010 dollars.

Table 1. Comparison of Lottery Appropriations FY 2000-01 to FY 2010-11				
Line Item	FY 2000-01	FY 2000-01 (2010 Dollars)	FY 2010-11	Percentage Increase
Personal Services	\$6,877,428	\$8,878,760	\$8,931,192	0.6%
FTE	128.0	128.0	126.0	(1.6)%
Operating Expenses	2,036,902	2,629,640	1,203,156	(54.2)%
Centrally Appropriated Expenses	1,556,351	2,009,249	61,620	(96.9)%
Travel	119,941	154,844	113,498	(26.7)%
Payments to Other State Agencies	173,688	224,231	239,410	6.8%
Marketing & Communication	9,160,352	11,826,014	14,700,000	24.3%
Multi-state Lottery Fees	0	0	177,433	n/a
Vendor Fees	8,425,861	10,877,787	12,376,154	13.8%
Prizes	241,354,411	311,588,545	400,264,560	28.5%
Powerball Prize Variance	0	0	12,960,000	n/a
Retailer Compensation	33,796,740	43,631,591	49,290,600	13.0%
Ticket Costs	4,327,577	5,586,902	6,284,000	12.5%
Information Technology Reengineering Project	250,000	322,750	0	(100.0)%
Research	0	0	250,000	n/a
Indirect Cost Assessment	<u>282,770</u>	<u>365,056</u>	<u>537,749</u>	<u>47.3%</u>
Total Lottery Appropriation	\$308,362,021	\$398,095,369	\$507,389,372	27.5%

To display the effect of lottery prizes and sales expenses, in Table 2 below, those lines are removed to give a view of how they affect the lottery sales, and ultimately the Department's total appropriations.

Table 2. Comparison of Lottery and Department of Revenue Appropriations with Lottery Prizes and Variable Sales Expenses Removed				
	FY 2000-01	FY 2000-01 (2010 Dollars)	FY 2010-11	Percentage Increase
Total Lottery Appropriations	\$308,362,021	\$398,095,369	\$507,327,752	27.4%
Less: Prizes /1	<u>241,354,411</u>	<u>311,588,545</u>	<u>413,224,560</u>	<u>32.6%</u>
Lottery Appropriations less Prizes	67,007,610	86,506,824	94,103,192	8.8%

/1 Prizes include Powerball Prize Variance, which relates to prizes for the multi-state PowerBall game.

/2 Variable Sales Expenses includes expenses which vary with sales, such as vendor fees, retailer compensation, and ticket costs.

Section 24-35-210 (1), C.R.S. creates the State Lottery Fund and authorizes the payment of expenses from the fund. The section explicitly states "For the purposes of this section and Section 24-35-208 [creates the Lottery Commission and gives it powers], 'expenses' do not include amounts expended for lottery prizes. Prizes for the lottery shall be paid only from the lottery fund or from moneys collected from the sale of lottery tickets or shares."

To show the effect of including Lottery prizes as expenses, the following table shows the Department of Revenue budget including Lottery prizes and excluding prizes. The table compares FY 2000-01 appropriations with FY 2010-11 appropriations.

Comparison of Department of Revenue Appropriations FY 2000-01 to FY 2010-11				
	Including Lottery Prizes		Excluding Lottery Prizes	
	FY 2000-01	FY 2010-11	FY 2000-01	FY 2010-11
Total Appropriation for Department of Revenue	\$422,515,446	\$703,854,663	\$181,161,035	\$290,630,103
Percentage Growth (FY 2000-01 to FY 2010-11)		66.6%		60.4%

In FY 2010-11, the Lottery accounted for 73.2 percent of the Department of Revenue's total appropriation, and prizes account for 81.5 percent of the Lottery appropriation. In fact, prizes account for a total of 59.6 percent of the Department's total annual appropriation. This appropriation distorts the perception of the size of the appropriation for the Department of Revenue.

There are limited benefits to counting lottery prizes as expenditures. Appropriations are generally considered as the method to control expenditures. In fact, the only way the General Assembly can control the expenditures of lottery prizes is to restrict the sale of lottery tickets. The General Assembly has generally appropriated a large cushion to allow for additional sales over projections.

Continuing to appropriate lottery prizes in the Long Bill makes the State's total appropriation larger by \$400 million than it really is. Staff will make a recommendation to the Committee for figure setting. Staff also recommends having the Department address the ramifications of any change at the Department's hearing.

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BRIEFING ISSUE

INFORMATIONAL ISSUE: Status of Colorado Integrated Tax Architecture Project

The Colorado Integrated Tax Architecture (CITA) project is an information technology (IT) project to replace the Department of Revenue's aging tax systems and infrastructure. At \$56.4 million, it is one of the most expensive IT projects the State has ever undertaken. The project is scheduled to be completed in five phases, over a five year period.

SUMMARY:

- ❑ Phase 1 included the Estate Tax, Severance Tax, and Property Tax Credit modules. It was successfully completed and implemented on time in November 2008.
- ❑ Phase 2 included the Income Tax module. It was successfully completed and implemented on time in November 2009.
- ❑ Phases 3 includes the Sales and Use Tax module, Wage Withholding module, and the International Registry Program module. It was successfully completed and implemented on time between August and November 2010.
- ❑ Phase 4 includes the Fuel and Vehicle Tax modules, Taxpayer Access Point, Discovery, and Bankruptcy modules. The module is scheduled to be implemented in September 2011. The project is funded with \$10.2 million Capital Construction Fund moneys in FY 2010-11 to complete this module.
- ❑ Phase 5 includes the Food Service, Gaming, Tobacco, Alcohol, Public Utilities Commission, and Off-Highway modules. The Department has requested \$8.6 million capital construction funds to complete and implement this phase. The module is scheduled to be implemented in June 2012 and will require an appropriation in FY 2011-12 to complete.

DISCUSSION:

In FY 2006-07, the Department of Revenue requested authority to move forward with a new information technology system to replace the existing tax system. The existing system consisted of a number of discrete and stand-alone tax systems that had been developed over a 40 year period. In 1994, the Department attempted to develop an in-house program, however, the program could not meet its deadlines and was cancelled in 1998 after the expenditure of \$12 million. The existing systems' continuing inadequacies prompted the funding of a feasibility study completed in 2005, which recommended the purchase of Commercial-Off-the-Shelf/Modify-Off-the-Shelf Solution.

The advantage of this proposed solution was that it would be purchasing a system already in use in other states, thus reducing the risk that the system would not work as projected. When the project was bid, the winning vendor was GenTax software from Fast Enterprises. The project will cost \$56.4 million when it is completed. At the current time, the project is on time and on budget.

Phase 1

The first phase of the project was successfully completed and implemented as scheduled in November 2008. In the Information Technology Audit conducted by the Office of the State Auditor, and released September 2009, the Auditor found one control deficiency that was quickly corrected, and several significant deficiencies, which the Department is in the process of correcting.

The control deficiency was that the same person could initiate and approve a tax return. The deficiency was identified on March 4, 2009 and involved about 20 returns. It was corrected by March 11, 2009, and the Department has not identified any indication of error or fraud. The other deficiencies that were identified by the audit regarded data migration, the risks to the project's success, and general computer controls. The audit identified these findings as moderate risk controls and the Department, and the Department of Revenue, the Governor's Office of Information Technology (OIT), and Colorado Office of Cyber Security (OCS) agreed with all but one recommendation and began implementing those recommendations.

The one element of the auditor's recommendation that the Department of Revenue did not agree with regarded not accepting future phases from the contractor until the recommended changes have been made. The recommended changes would require OCS to certify the security of the underlying IT infrastructure, including servers and network components. The Department stated it will work with OCS to ensure that the servers meet required standards, but that it can not refuse to accept future phases if the contractor has met its contractual obligations.

Phase 2

The Department reports that Phase 2, the Income Tax module, was successfully completed and implemented in November, 2009, on time. The Department reports that this module is working as expected. It is already paying dividends as the Department reports a number of initiatives have been made possible to collect moneys owed the state and to identify taxpayers who have not reported income to the State. The previous system was unable to identify those taxpayers.

Phase 3

The Department reports that Phase 3, which is primarily the sales and use tax module, was successfully implemented by November, 2010, several weeks earlier than projected. While it is still early, the Department's early experience with this phase is that the module is working as expected.

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	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Appropriation	FY 2011-12 Request	Change Requests
DEPARTMENT OF REVENUE					
Roxy Huber, Executive Director					
(1) Executive Director's Office					
Provides administrative, accounting, budgeting, auditing, planning, and research support for the Department, and is comprised of the following programs: Administration, Policy Analysis and Financial Services, Internal Auditor, Office of Human Resources, and Office of Research and Analysis. Major cash funds sources include the Highway Users Tax Fund (HUTF), the Colorado State Titling and Registration Account, the Licensing Services Cash Fund, the Driver's License Administrative Revocation Account, the Auto Dealers License Fund, the Limited Gaming Fund, the Liquor Enforcement Division and State Licensing Authority Cash Fund, the Racing Cash Fund, the State Lottery Fund, and the Department of Revenue subaccount of the Automobile Inspection and Readjustment Account. The reappropriated funds sources are the State Lottery Fund and the Limited Gaming Fund.					
Personal Services	3,836,529	3,827,403	4,169,524	3,836,647	
FTE	44.4	42.8	47.8	47.8	
General Fund	2,150,214	1,989,204	1,335,628	931,080	NP-1, NP-3
Cash Funds	841,991	873,475	866,648	1,974,609	
HUTF	418,445	411,465	1,379,601	387,762	
Reappropriated Funds	425,879	553,259	587,647	543,196	
Health, Life, and Dental	<u>6,799,391</u>	<u>6,070,227</u>	<u>7,800,682</u>	<u>8,099,173</u>	NP-2
General Fund	4,021,098	3,027,692	2,545,983	2,753,548	
Cash Funds	2,098,897	2,255,896	4,603,722	4,634,716	
HUTF	679,396	786,639	650,977	710,909	
Short-term Disability	<u>96,514</u>	<u>105,467</u>	<u>105,990</u>	<u>122,922</u>	
General Fund	58,495	46,242	42,905	45,933	
Cash Funds	30,677	51,010	54,680	67,241	
HUTF	7,342	8,215	8,405	9,748	
S.B. 04-257 Amortization Equalization Disbursement	<u>1,168,037</u>	<u>1,201,520</u>	<u>1,750,266</u>	<u>1,952,509</u>	
General Fund	699,439	616,134	640,794	734,606	
Cash Funds	373,125	477,352	979,223	1,063,690	
HUTF	95,473	108,034	130,249	154,213	

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S.B. 06-235 Supplemental Amortization Equalization					
Disbursement	<u>534,011</u>	<u>852,760</u>	<u>1,270,933</u>	<u>1,568,980</u>	
General Fund	319,123	376,505	464,876	590,309	
Cash Funds	174,257	410,013	711,026	854,750	
HUTF	40,631	66,242	95,031	123,921	
Salary Survey and Senior Executive Service	<u>2,970,519</u>	<u>0</u>	<u>0</u>	<u>0</u>	
General Fund	1,801,622	0	0	0	
Cash Funds	918,801	0	0	0	
HUTF	250,096	0	0	0	
Performance-based Pay Awards	<u>1,151,316</u>	<u>0</u>	<u>0</u>	<u>0</u>	
General Fund	688,768	0	0	0	
Cash Funds	373,808	0	0	0	
HUTF	88,740	0	0	0	
Shift Differential	<u>187,287</u>	<u>133,215</u>	<u>146,474</u>	<u>165,320</u>	
General Fund	48,105	14,494	4,686	2,900	
Cash Funds	25,367	41,699	47,117	46,597	
HUTF	113,815	77,022	94,671	115,823	
Workers' Compensation	<u>733,857</u>	<u>562,242</u>	<u>570,362</u>	<u>870,553</u>	
General Fund	452,719	228,206	220,431	307,934	
Cash Funds	220,674	289,314	303,788	490,894	
HUTF	60,464	44,722	46,143	71,725	
Operating Expenses	<u>954,585</u>	<u>982,016</u>	<u>1,369,412</u>	<u>1,242,979</u>	NP-5
General Fund	496,337	454,157	481,434	486,720	
Cash Funds	341,588	433,568	653,156	637,575	
HUTF	116,660	94,291	118,802	118,684	
Reappropriated Funds	0	0	116,020	0	

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	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Appropriation	FY 2011-12 Request	Change Requests
Legal Services for 16,565 hours	<u>813,059</u>	<u>805,671</u>	<u>1,526,742</u>	<u>1,509,742</u>	
General Fund	450,445	449,981	754,627	734,627	
Cash Funds	350,883	343,915	760,340	763,340	
HUTF	11,731	11,775	11,775	11,775	
Administrative Law Judge Services - CF	7,238	8,808	14,756	4,114	
Purchase of Services from Computer Center	3,627,411	3,539,291	9,283,229	9,554,426	NP-3
FTE	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>	<u>1.0</u>	
General Fund	3,624,283	3,536,239	5,353,974	5,505,027	
Cash Funds	3,128	3,052	2,443,621	3,363,351	
HUTF	0	0	1,105,624	295,317	
Reappropriated Funds	0	0	380,010	390,731	
Multiuise Network Payments	<u>2,670,532</u>	<u>2,669,376</u>	<u>3,515,734</u>	<u>3,070,927</u>	
General Fund	642,797	100,185	330,544	364,604	
Cash Funds	1,976,728	2,518,210	2,893,817	2,485,646	
HUTF	51,007	50,981	265,722	195,026	
Reappropriated Funds	0	0	25,651	25,651	
Management and Administration of OIT	<u>423,337</u>	<u>381,749</u>	<u>1,032,231</u>	<u>1,053,864</u>	
General Fund	423,337	381,749	750,950	766,689	
Cash Funds	0	0	183,914	233,946	
HUTF	0	0	67,673	22,913	
Reappropriated Funds	0	0	29,694	30,316	
Payment to Risk Management and Property Funds	<u>273,165</u>	<u>177,414</u>	<u>57,560</u>	<u>207,890</u>	
General Fund	148,997	66,176	18,138	67,171	
Cash Funds	92,346	89,794	32,008	122,221	
HUTF	31,822	21,444	7,414	18,498	

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	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Appropriation	FY 2011-12 Request	Change Requests
Vehicle Lease Payments	<u>389,471</u>	<u>444,815</u>	<u>709,215</u>	<u>720,073</u>	NP-4
General Fund	100,409	92,671	95,389	90,755	
Cash Funds	247,995	305,476	565,737	575,205	
HUTF	41,067	46,668	48,089	54,113	
Leased Space	<u>2,434,150</u>	<u>2,517,173</u>	<u>3,437,846</u>	<u>3,437,846</u>	
General Fund	1,315,622	518,820	512,451	512,451	
Cash Funds	1,118,528	1,998,353	2,925,395	2,925,395	
HUTF	0	0	0	0	
Capitol Complex Leased Space	<u>1,676,337</u>	<u>1,664,071</u>	<u>1,621,366</u>	<u>1,801,129</u>	
General Fund	1,301,729	1,106,163	1,055,065	1,154,926	
Cash Funds	348,692	532,921	542,149	619,428	
HUTF	25,916	24,987	24,152	26,775	
Communication Services Payments	<u>63,557</u>	<u>63,557</u>	<u>65,346</u>	<u>66,619</u>	
General Fund	19,321	19,321	19,865	11,148	
Cash Funds	39,660	39,660	40,776	47,857	
HUTF	4,576	4,576	4,705	7,614	
Utilities	<u>203,490</u>	<u>199,337</u>	<u>247,119</u>	<u>247,119</u>	
General Fund	85,037	2,369	0	0	
Cash Funds	16,849	94,688	143,703	143,703	
HUTF	101,604	102,280	103,416	103,416	
					<i>Request v.</i>
					<i>Appropriation</i>
SUBTOTAL - (1) EXECUTIVE DIRECTOR'S OFFICE	31,013,793	26,206,112	38,694,787	39,532,832	2.2%
FTE	<u>44.4</u>	<u>42.8</u>	<u>48.8</u>	<u>48.8</u>	0.0%
General Fund	18,847,897	13,026,308	14,627,740	15,060,428	3.0%
Cash Funds	9,601,232	10,767,204	18,765,576	21,054,278	12.2%
HUTF	2,138,785	1,859,341	4,162,449	2,428,232	-41.7%
Reappropriated Funds	425,879	553,259	1,139,022	989,894	-13.1%

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	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Appropriation	FY 2011-12 Request	Change Requests
(2) CENTRAL DEPARTMENT OPERATIONS			18,765,576		
Provides centralized departmental support for mail processing, forms development, transaction processing and identification			0		
Identification Security Fund, the Colorado State Titling and Registration Account, the Outstanding Judgment and Warrants Account, the Licensing Services Cash Fund, the Driver's License Administrative Revocation Account, and the Auto Dealers License Fund. The sources of reappropriated funds are the State Lottery Fund and the Limited Gaming Fund.					
Personal Services	5,300,202	5,231,513	5,269,169	5,219,326	NP-3
FTE	<u>106.7</u>	<u>99.4</u>	<u>103.6</u>	<u>104.6</u>	
General Fund	4,886,543	4,847,963	4,563,510	4,416,657	NP-1
Cash Funds	206,543	215,011	276,162	613,140	
HUTF	102,646	101,285	346,692	103,260	
Reappropriated Funds	104,470	67,254	82,805	86,269	
Seasonal Tax Processing - General Fund	375,029	397,545	397,545	397,545	
Operating Expenses	<u>1,165,323</u>	<u>1,165,396</u>	<u>1,200,821</u>	<u>1,365,601</u>	
General Fund	1,028,494	1,028,545	1,055,001	1,217,644	DI-1, DI-2
Cash Funds	136,829	136,851	145,820	147,957	
Postage	<u>2,364,881</u>	<u>2,633,336</u>	<u>2,961,347</u>	<u>3,090,752</u>	
General Fund	2,134,475	2,381,067	2,639,800	2,744,148	DI-2
Cash Funds	216,993	238,360	307,638	332,695	
HUTF	13,413	13,909	13,909	13,909	
Pueblo Data Entry Center Payments	<u>1,669,560</u>	<u>1,674,840</u>	<u>1,892,091</u>	<u>1,910,582</u>	
General Fund	1,669,560	1,666,815	1,875,719	1,875,719	
Cash Funds	0	8,025	16,372	34,863	

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Document Imaging and Storage - General Fund	383,187	394,290	394,290	394,290	<i>Request v. Appropriation</i>
SUBTOTAL - (1) CENTRAL DEPARTMENT OPERATIONS					
	11,258,182	11,496,920	12,115,263	12,378,096	2.2%
FTE	<u>106.7</u>	<u>99.4</u>	<u>103.6</u>	<u>104.6</u>	1.0%
General Fund	10,477,288	10,716,225	10,925,865	11,046,003	1.1%
Cash Funds	560,365	598,247	745,992	1,128,655	51.3%
HUTF	116,059	115,194	360,601	117,169	-67.5%
Reappropriated Funds	104,470	67,254	82,805	86,269	4.2%

(3) INFORMATION TECHNOLOGY

(A) Systems Support

Systems Support is responsible for the maintenance of Department systems for three business groups and the Executive Director's Office. Major cash fund sources include the Colorado State Titling and Registration Account, the Highway Users Tax Fund, the Licensing Services Cash Fund, the Driver's License Administrative Revocation Account, the Auto Dealers License Fund, the Liquor Enforcement Division and State Licensing Authority Cash Fund, the Racing Cash Fund, and the Department of Revenue Subaccount of the Automobile Inspection and Readjustment Account of the HUTF. The reappropriated funds sources are the Limited Gaming Fund and the State Lottery Fund.

Personal Services	6,079,488	5,828,912	306,579	167,978	
FTE	<u>75.9</u>	<u>70.6</u>	<u>0.8</u>	<u>0.0</u>	
General Fund	4,026,540	4,167,933	105,484	112,174	DI-1, NP-1
Cash Funds	1,113,516	915,486	178,668	33,377	
HUTF	465,580	349,249	9,654	9,654	
Reappropriated Funds	473,852	396,244	12,773	12,773	
Operating Expenses	<u>723,970</u>	<u>644,034</u>	<u>847,111</u>	<u>800,222</u>	
General Fund	723,970	644,034	659,759	686,024	DI-1
Cash Funds	0	0	187,352	114,198	

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Programming Costs for Session Legislation	118,103	246,086	361,086	226,788	
FTE	<u>1.3</u>	<u>0.0</u>	<u>2.2</u>	<u>2.2</u>	
General Fund	81,024	132,316	73,088	66,846	
Cash Funds	37,079	113,770	287,998	159,942	
Reappropriated Funds	0	0	0	0	
					<i>Request v. Appropriation</i>
SUBTOTAL - (A) Systems Support	6,921,561	6,719,032	1,514,776	1,194,988	-21.1%
FTE	<u>77.2</u>	<u>70.6</u>	<u>3.0</u>	<u>2.2</u>	-26.7%
General Fund	4,831,534	4,944,283	838,331	865,044	3.2%
Cash Funds	1,150,595	1,029,256	654,018	307,517	-53.0%
HUTF	465,580	349,249	9,654	9,654	0.0%
Reappropriated Funds	473,852	396,244	12,773	12,773	0.0%
(B) Colorado State Titling and Registration System					
The Colorado State Titling and Registration System is the State's centralized database for the distribution of registration taxes between the State, all its counties, and the Highway Users Tax Fund (HUTF). Cash funds are from the Colorado State Titling and Registration Account of the HUTF (Prior to FY 2008-09, the fund was classified as cash funds exempt).					
Personal Services - Cash Funds	20,081,449	2,023,144	449,429	449,429	
FTE	27.9	28.4	0.0	0.0	
Operating Expenses - Cash Funds	2,366,374	1,457,163	2,617,535	2,617,535	DI-6
County Office Asset Maintenance - Cash Funds	410,569	0	568,230	568,230	
County Office Improvements - Cash Funds	100,750	25,232	40,000	78,062	DI-6
					<i>Request v. Appropriation</i>
SUBTOTAL - (B) Colorado State Titling and Registration System - Cash Funds	22,959,142	3,505,539	3,675,194	3,713,256	1.0%
FTE	27.9	28.4	0.0	0.0	0.0%

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					<i>Request v. Appropriation</i>
SUBTOTAL - (3) INFORMATION TECHNOLOGY					
DIVISION	29,880,703	10,224,571	5,189,970	4,908,244	-5.4%
FTE	<u>105.1</u>	<u>99.0</u>	<u>3.0</u>	<u>2.2</u>	-26.7%
General Fund	4,831,534	4,944,283	838,331	865,044	3.2%
Cash Funds	24,109,737	4,534,795	4,329,212	4,020,773	-7.1%
HUTF	465,580	349,249	9,654	9,654	0.0%
Reappropriated Funds	473,852	396,244	12,773	12,773	0.0%
 (4) TAXATION BUSINESS GROUP					
The Taxation Business Group is charged with the collection, administration, auditing, and enforcement responsibilities for all taxes, fees, bonds, and licenses covered under Colorado tax laws. This group includes and administrative section, the Taxation and Compliance Division, the Taxpayer Service Division, the Tax Conferee, and a Special Purpose Section. All divisions but Special Purpose carry out programmatic functions.					
 (A) Administration					
Personal Services	553,547	545,641	553,319	550,491	NP-3
FTE	<u>6.2</u>	<u>6.0</u>	<u>6.0</u>	<u>6.0</u>	
General Fund	547,526	539,619	548,110	545,478	
Cash Funds	6,021	6,022	5,209	5,013	
Operating Expenses - General Fund	14,998	14,108	14,050	14,050	
					<i>Request v. Appropriation</i>
SUBTOTAL (A) - Administration	568,545	559,749	567,369	564,541	-0.5%
FTE	<u>6.2</u>	<u>6.0</u>	<u>6.0</u>	<u>6.0</u>	0.0%
General Fund	562,524	553,727	562,160	559,528	-0.5%
Cash Funds	6,021	6,022	5,209	5,013	-3.8%

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(B) Taxation and Compliance Division					
Provides auditing services and enforces compliance with Colorado tax laws. The Division maintains five section and six district offices throughout Colorado and conducts audits of individual and corporate tax returns. The Mineral Audit Program audits royalties associated with oil, gas, and mineral mining activity of federal, state, and private land. The Reappropriated Funds sources are from the Mineral Audit Program, the State Land Board Administrative Fund, and indirect cost recoveries transferred from the Department of Natural Resources					
Personal Services	13,646,904	14,709,271	15,917,916	15,500,665	NP-3
FTE	<u>204.1</u>	<u>191.5</u>	<u>241.4</u>	<u>241.9</u>	
General Fund	13,548,691	14,580,829	15,756,185	15,344,443	NP-1
Cash Funds	1,269	1,237	59,548	52,883	
Reappropriated Funds	96,944	127,205	102,183	103,339	
Operating Expenses	<u>789,660</u>	<u>891,439</u>	<u>1,082,488</u>	<u>1,054,468</u>	
General Fund	789,660	891,439	1,072,022	1,044,002	
Cash Funds	0	0	10,466	10,466	
Joint Audit Program - General Fund	131,244	131,244	131,244	131,244	
Mineral Audit Program	659,323	697,857	786,250	789,701	
FTE	<u>7.3</u>	<u>11.0</u>	<u>11.0</u>	<u>11.0</u>	
Reappropriated Funds	55,410	44,974	66,000	66,000	
Federal Funds	603,913	652,883	720,250	723,701	
					<i>Request v.</i>
					<i>Appropriation</i>
SUBTOTAL (B) - Taxation and Compliance Division	15,227,131	16,429,811	17,917,898	17,476,078	-2.5%
FTE	<u>211.4</u>	<u>202.5</u>	<u>252.4</u>	<u>252.9</u>	0.2%
General Fund	14,469,595	15,603,512	16,959,451	16,519,689	-2.6%
Cash Funds	1,269	1,237	70,014	63,349	-9.5%
Reappropriated Funds	152,354	172,179	168,183	169,339	0.7%
Federal Funds	603,913	652,883	720,250	723,701	0.5%

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(C) Taxpayer Service Division					
Assists individual and business taxpayers through regional service centers and a call center; issues tax licenses and permits to businesses; collects local sales taxes for many cities, counties, and special districts; 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. The primary sources of cash funds are the Highway Users Tax Fund (exempt from the 6% limit), the Aviation Fund, and Private Letter Rulings.					
Personal Services	4,431,631	4,518,471	4,680,705	4,538,247	NP-3
FTE	<u>76.5</u>	<u>72.1</u>	<u>80.4</u>	<u>80.4</u>	
General Fund	4,411,169	4,494,771	4,590,101	4,438,161	NP-1
Cash Funds	20,462	23,700	90,604	100,086	
Operating Expenses	<u>390,973</u>	<u>389,147</u>	<u>402,035</u>	<u>402,035</u>	
General Fund	390,973	389,147	401,535	401,535	
Cash Funds	0	0	500	500	
Fuel Tracking System - Cash Funds	472,133	472,888	485,386	484,559	NP-3
FTE	1.5	1.3	1.5	1.5	
					<i>Request v. Appropriation</i>
SUBTOTAL (C) - Taxpayer Service Division	5,294,737	5,380,506	5,568,126	5,424,841	-2.6%
FTE	<u>78.0</u>	<u>73.4</u>	<u>81.9</u>	<u>81.9</u>	0.0%
General Fund	4,802,142	4,883,918	4,991,636	4,839,696	-3.0%
Cash Funds	492,595	496,588	576,490	585,145	1.5%

(D) Tax Conferee

Resolves protests to tax adjustments, review issues related to "home rule" city sales taxes and city and county sales and use taxes.

Personal Services - General Fund	883,400	828,677	1,490,775	1,515,258	NP-3
FTE	8.3	8.0	11.7	12.0	
Operating Expenses - General Fund	21,750	20,817	43,284	24,604	

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SUBTOTAL (D) - Tax Conferee - General Fund	905,150	849,494	1,534,059	1,539,862	0.4%
FTE	8.3	8.0	11.7	12.0	2.6%
(E) Special Purpose					
Distributes applicable percentage of gross cigarette taxes to counties, cities, and towns; distributes grants to low-income, disabled, and elderly citizens; provides moneys to entities with alternative fuel programs. All funds are continuously appropriated by constitutional or statutory provisions.					
Cigarette Tax Rebate - General Fund	12,114,946	11,639,906	11,300,000	0	BRI-1
Amendment 35 Distribution to Local Governments - Cash Funds	1,409,292	1,336,086	1,341,000	1,341,000	
Old Age Heat & Fuel & Property Tax Assistance - General Fund	5,264,129	7,581,317	8,200,000	7,700,000	
Alternative Fuels Rebate - Cash Funds	329,032	352,638	310,601	310,601	
					<i>Request v. Appropriation</i>
SUBTOTAL (E) - Special Purpose	<u>19,117,399</u>	<u>20,909,947</u>	<u>21,151,601</u>	<u>9,351,601</u>	-55.8%
General Fund	17,379,075	19,221,223	19,500,000	7,700,000	-60.5%
Cash Funds	1,738,324	1,688,724	1,651,601	1,651,601	0.0%
					<i>Request v. Appropriation</i>
SUBTOTAL (4) - TAXATION BUSINESS GROUP	41,112,962	44,129,507	46,739,053	34,356,923	-26.5%
FTE	<u>303.9</u>	<u>289.9</u>	<u>352.0</u>	<u>352.8</u>	0.2%
General Fund	38,118,486	41,111,874	43,547,306	31,158,775	-28.4%
Cash Funds	2,238,209	2,192,571	2,303,314	2,305,108	0.1%
Reappropriated Funds	152,354	172,179	168,183	169,339	0.7%
Federal Funds	603,913	652,883	720,250	723,701	

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(5) DIVISION OF MOTOR VEHICLES					
(A) Administration					
The Division is responsible for licensing drivers and issuing identification documents, administering driver records and administrative sanctions, titling and registering motor vehicles traveling on Colorado's roadways, enforcing the state's vehicle emissions testing program, and administering the Motorist Insurance Identification database program and the Ignition Interlock Subsidy program. Major cash funds sources are detailed in each division.					
Personal Services	801,661	905,359	909,201	909,470	NP-3
FTE	<u>9.2</u>	<u>10.5</u>	<u>11.0</u>	<u>11.0</u>	
General Fund	404,036	185,514	0	0	
Cash Funds	202,364	192,246	200,475	722,981	
HUTF	195,261	527,599	708,726	186,489	
Operating Expenses	<u>50,349</u>	<u>35,088</u>	<u>54,250</u>	<u>54,250</u>	
General Fund	27,465	14,635	0	0	
Cash Funds	11,647	10,383	9,717	43,121	
HUTF	11,237	10,070	44,533	11,129	
					<i>Request v. Appropriation</i>
SUBTOTAL (A) - Administration	852,010	940,447	963,451	963,720	0.0%
FTE	<u>9.2</u>	<u>10.5</u>	<u>11.0</u>	<u>11.0</u>	0.0%
General Fund	431,501	200,149	0	0	0.0%
Cash Funds	214,011	202,629	210,192	766,102	264.5%
HUTF	206,498	537,669	753,259	197,618	-73.8%

(B) Driver and Vehicle Services

Driver and Vehicle Services administers driver's licensing and records management, vehicle registration, 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, the Outstanding Judgments and Warrants Account, and the Penalty Assessment Account. Pursuant to S.B. 09-275, for fiscal years 2008-09 and 2009-10 only, the Highway User's Tax Fund (Off-the-top) appropriation is permitted to be used in this section.

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	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Change
	Actual	Actual	Appropriation	Request	Requests
Personal Services	16,367,648	16,055,723	16,714,739	16,573,074	DI-4, NP-3
FTE	<u>362.8</u>	<u>346.7</u>	<u>379.5</u>	<u>378.4</u>	
General Fund	9,260,606	808,717	0	0	
Cash Funds	7,107,042	11,666,785	16,714,739	5,423,452	
HUTF	0	3,580,221	0	11,149,622	
Operating Expenses	<u>1,458,742</u>	<u>1,217,301</u>	<u>1,682,474</u>	<u>1,684,157</u>	
General Fund	1,172,812	0	0	0	
Cash Funds	285,930	829,675	1,682,474	1,684,157	
HUTF	0	387,626	0	0	
Driver's License Documents	<u>2,309,381</u>	<u>2,424,999</u>	<u>2,437,320</u>	<u>3,810,592</u>	DI-3
General Fund	1,690,039	292,807	0	0	
Cash Funds	619,342	2,132,192	2,437,320	3,810,592	
HUTF	0	0	0	0	
License Plate Ordering - Cash Funds	5,979,714	4,185,258	6,568,860	6,518,776	
					<i>Request v.</i>
					<i>Appropriation</i>
SUBTOTAL (B) - Driver and Vehicle Services	26,115,485	23,883,281	27,403,393	28,586,599	4.3%
FTE	<u>362.8</u>	<u>346.7</u>	<u>379.5</u>	<u>378.4</u>	-0.3%
General Fund	12,123,457	1,101,524	0	0	0.0%
Cash Funds	13,992,028	18,813,910	27,403,393	17,436,977	-36.4%
HUTF	0	3,967,847	0	11,149,622	0.0%

(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. Cash funds source is the DOR subaccount of the Automobile Inspection and Readjustment Account.

Personal Services - Cash Funds	921,870	941,867	1,194,476	1,195,152	NP-3
FTE	14.2	14.3	18.3	18.3	

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Operating Expenses - Cash Funds	67,040	52,827	88,725	88,725	<i>Request v. Appropriation</i>
SUBTOTAL (C) - Vehicle Emissions - Cash Funds	988,910	994,694	1,283,201	1,283,877	0.1%
FTE	14.2	14.3	18.3	18.3	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. Ensures uniformity among the State's county clerks. Cash funds source is the Colorado State Titling and Registration Account.					
Personal Services - Cash Funds	1,481,298	1,503,546	1,639,881	1,639,246	NP-3
FTE	32.6	32.8	34.5	34.5	
Operating Expenses - Cash Funds	170,979	181,608	281,824	305,574	DI-5 <i>Request v. Appropriation</i>
SUBTOTAL (D) - Titles - Cash Funds	1,652,277	1,685,154	1,921,705	1,944,820	1.2%
FTE	32.6	32.8	34.5	34.5	0.0%
(E) Motorist Insurance Identification Database Program					
Maintains the database to compare motor vehicle registration records against insured motorist records to authorize the accurate license suspension of uninsured drivers. The cash funds source is the Motorist Insurance Identification Database Account.					
Personal Services - Cash Funds	285,770	267,333	329,048	329,234	NP-3
FTE	1.0	1.0	1.0	1.0	
Operating Expenses - Cash Funds	433	500	500	500	<i>Request v. Appropriation</i>
SUBTOTAL (E) - Motorist Insurance Identification Database Program - Cash Funds	286,203	267,833	329,548	329,734	0.1%
FTE	1.0	1.0	1.0	1.0	0.0%

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(F) Ignition Interlock Program					
Program assists first time drunk driving offenders with obtaining ignition interlock devices to allow those offenders to drive with restrictions. Cash funds source is the First Time Drunk Driving Offender Account.					
Personal Services - Cash Funds	0	0	210,846	211,284	NP-3
FTE	0.0	0.0	5.4	5.4	
Operating Expenses - Cash Funds	0	0	934,842	934,842	<i>Request v. Appropriation</i>
SUBTOTAL (F) - Ignition Interlock Program - CF	0	0	1,145,688	1,146,126	
FTE	0.0	0.0	5.4	5.4	<i>Request v. Appropriation</i>
SUBTOTAL (5) - DIVISION OF MOTOR VEHICLES	29,894,885	27,771,409	33,046,986	34,254,876	3.7%
FTE	<u>419.8</u>	<u>405.3</u>	<u>449.7</u>	<u>448.6</u>	-0.2%
General Fund	12,554,958	1,301,673	0	0	0.0%
Cash Funds	17,133,429	21,964,220	32,293,727	22,907,636	-29.1%
HUTF	206,498	4,505,516	753,259	11,347,240	1406.4%
(6) MOTOR CARRIER SERVICES DIVISION					
Monitors compliance with statutory weight and size restrictions for commercial vehicles and collects fuel taxes and inspects transporters of hazardous materials. The cash funds sources are the Highway Users Tax Fund "off-the-top", the Hazardous Materials Safety Fund, and the Nuclear Materials Transportation Fund.					
Personal Services	6,749,253	7,096,415	6,907,329	6,880,931	NP-3
FTE	<u>125.3</u>	<u>125.0</u>	<u>129.3</u>	<u>129.2</u>	
General Fund	607,691	610,747	555,525	544,472	NP-1
Cash Funds	19,055	27,491	4,168	0	
HUTF	6,054,184	6,382,496	6,337,156	6,336,459	
Reappropriated Funds	68,323	75,681	10,480	0	

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Operating Expenses	432,186	504,402	515,305	515,305	
General Fund	37,736	38,045	38,045	38,045	
Cash Funds	0	0	0	0	
HUTF	394,450	466,357	477,260	477,260	
Fixed and Mobile Ports Maintenance - HUTF	213,597	197,934	221,545	221,545	
Motor Carrier Safety Assistance Program - FF	794,273	739,724	95,369	0	
FTE	8.7	8.9	1.1	0.0	
Hazardous Materials Permitting Program - CF	174,661	142,474	197,258	207,973	NP-3
FTE	3.8	2.2	4.0	4.0	<i>Request v. Appropriation</i>
SUBTOTAL (6) - MOTOR CARRIER SERVICES	8,363,970	8,680,949	7,936,806	7,825,754	-1.4%
FTE	<u>137.8</u>	<u>136.1</u>	<u>134.4</u>	<u>133.2</u>	-0.9%
General Fund	645,427	648,792	593,570	582,517	-1.9%
Cash Funds	193,716	169,965	201,426	207,973	3.3%
HUTF	6,662,231	7,046,787	7,035,961	7,035,264	0.0%
Reappropriated Funds	68,323	75,681	10,480	0	-100.0%
Federal Funds	794,273	739,724	95,369	0	-100.0%
(7) ENFORCEMENT BUSINESS GROUP		7,216,752	7,237,387		
(A) Administration					
Administers the functions of the Enforcement Business Group, which includes limited gaming, liquor and tobacco law enforcement, racing events (horse racing), the Hearings Division, motor vehicle dealer licensing, and medical marijuana enforcement. Cash funds sources are detailed in each division.					
Personal Services	506,406	524,210	608,840	627,172	NP-3
FTE	<u>6.0</u>	<u>6.0</u>	<u>8.0</u>	<u>8.0</u>	
General Fund	46,689	32,313	31,360	27,243	
Cash Funds	349,877	385,926	455,799	498,262	
Reappropriated Funds	109,840	105,971	121,681	101,667	

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Operating Expenses	9,800	10,283	12,780	12,780	
General Fund	0	(14)	524	598	
Cash Funds	7,467	8,073	9,719	10,940	
Reappropriated Funds	2,333	2,224	2,537	1,242	
					<i>Request v.</i>
					<i>Appropriation</i>
SUBTOTAL (A) - Administration	516,206	534,493	621,620	639,952	2.9%
FTE	6.0	6.0	8.0	8.0	0.0%
General Fund	46,689	32,299	31,884	27,841	-12.7%
Cash Funds	357,344	393,999	465,518	509,202	9.4%
Reappropriated Funds	112,173	108,195	124,218	102,909	-17.2%

(B) Limited Gaming Division

Licenses limited gaming establishments. Conducts background investigations on all gaming employees and monitors compliance with State gaming laws. Conducts audits to ensure that tax remittances from gaming facilities are correct. The cash funds source is the Limited Gaming Fund. Line allocations are determined by the Limited Gaming Control Commission and are not subject to appropriation by the General Assembly.

Personal Services - Cash Funds	5,705,604	6,084,986	6,643,998	6,814,235	NP-3
FTE	77.0	83.3	92.0	92.0	
Operating Expenses - Cash Funds	527,947	362,426	613,084	887,228	
Licensure Activities - Cash Funds	130,520	123,096	181,497	181,497	
Investigations - Cash Funds	28,712	64,961	263,964	263,964	
Payments to other State Agencies - Cash Funds	3,027,091	3,200,581	3,338,626	3,853,589	
Distribution to Gaming Cities and Counties - Cash Funds	85,281,086	96,742,402	23,788,902	113,166,266	
Indirect Cost Assessment - Cash Funds	579,221	610,868	705,049	683,537	

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					<i>Request v. Appropriation</i>
SUBTOTAL (B) - Limited Gaming Division - Cash Funds	95,280,181	107,189,320	35,535,120	125,850,316	254.2%
FTE	77.0	83.3	92.0	92.0	0.0%
(C) Liquor Enforcement Division					
Enforces alcohol laws; issues licenses and permits to manufacturers, imports, distributors, and sellers of alcoholic beverages. Cash funds source is the Liquor Enforcement Division and State Licensing Authority Cash Fund.					
Personal Services - Cash Funds	1,358,291	1,464,979	1,662,312	1,655,839	NP-3
FTE	17.7	17.8	21.0	21.0	
Operating Expenses - Cash Funds	50,509	60,105	56,326	56,326	
					<i>Request v. Appropriation</i>
SUBTOTAL (C) - Liquor Enforcement Division - Cash Funds	1,408,800	1,525,084	1,718,638	1,712,165	-0.4%
FTE	17.7	17.8	21.0	21.0	0.0%
(D) Tobacco Enforcement Program					
Enforces laws prohibiting the sale of tobacco to minors. The cash funds sources are the Tobacco Education Programs Fund and the Reduced Cigarette Ignition Propensity Standards and Firefighter Protection Act Enforcement Fund.					
Personal Services	452,645	426,075	495,359	495,878	NP-3
FTE	<u>6.5</u>	<u>5.7</u>	<u>7.5</u>	<u>7.5</u>	
General Fund	127,764	130,462	142,689	142,838	
Cash Funds	324,881	295,613	352,670	353,040	
Operating Expenses	<u>27,473</u>	<u>26,634</u>	<u>31,379</u>	<u>31,379</u>	
General Fund	7,080	6,864	7,201	7,201	
Cash Funds	20,393	19,770	24,178	24,178	

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					<i>Request v. Appropriation</i>
SUBTOTAL (D) - Tobacco Enforcement Program	480,118	452,709	526,738	527,257	0.1%
FTE	<u>6.5</u>	<u>5.7</u>	<u>7.5</u>	<u>7.5</u>	0.0%
General Fund	134,844	137,326	149,890	150,039	0.1%
Cash Funds	345,274	315,383	376,848	377,218	0.1%

(E) Division of Racing Events

Licenses racetracks and individuals in dog and horse racing, allocates race days among racetracks, tests animals for drugs and oversees wagering. The cash funds sources are the Racing Cash Fund and Horse Breeders' and Owners' Awards and Supplement Purse Fund.

Personal Services - Cash Funds	774,349	665,540	1,129,370	1,124,341	NP-3
FTE	10.5	6.8	11.7	11.7	
Operating Expenses - Cash Funds	54,383	55,875	91,385	91,385	
Laboratory Services - Cash Funds	27,875	25,841	104,992	104,992	
Commission Meeting Costs - Cash Funds	1,200	750	1,200	1,200	
Racetrack Applications - Cash Funds	18,274	21,912	25,000	25,000	
Purses and Breeders Awards - Cash Funds	1,052,555	1,381,360	1,106,142	1,106,142	
					<i>Request v. Appropriation</i>
SUBTOTAL (E) - Division of Racing Events - Cash Funds	1,928,636	2,151,278	2,458,089	2,453,060	-0.2%
FTE	10.5	6.8	11.7	11.7	0.0%

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(F) 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 - Cash Funds	1,828,927	1,789,273	2,008,018	2,013,689	NP-3
FTE	27.1	25.6	28.8	28.8	
Operating Expenses - Cash Funds	69,235	59,611	98,938	98,938	<i>Request v. Appropriation</i>
SUBTOTAL (F) - Hearings Division - Cash Funds	1,898,162	1,848,884	2,106,956	2,112,627	0.3%
FTE	27.1	25.6	28.8	28.8	0.0%
(G) Motor Vehicle Dealer Licensing Board					
Licenses automobile dealers, wholesalers, and salespeople, regulates the distribution and sales of motor vehicles, investigates and resolves complaints and legal violations against Board licensees. Cash funds source is the Auto Dealers License Fund.					
Personal Services - Cash Funds	1,553,445	1,677,806	1,789,582	1,790,409	NP-3
FTE	23.5	26.3	28.2	28.2	
Operating Expenses - Cash Funds	77,689	150,617	119,023	119,023	<i>Request v. Appropriation</i>
SUBTOTAL (G) - Motor Vehicle Dealer Licensing Board - Cash Funds	1,631,134	1,828,423	1,908,605	1,909,432	0.0%
FTE	23.5	26.3	28.2	28.2	0.0%
(H) Medical Marijuana Enforcement					
Licenses medical marijuana dispensaries, growing facilities and medical marijuana infused products manufacturing facilities. Investigates complaints and enforces laws and regulations regarding such facilities. Cash funds source is the Medical Marijuana License Cash Fund.					
Medical Marijuana Enforcement - Cash Funds	0	0	7,578,280	7,079,661	NP-3

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FTE	0.0	0.0	106.8	106.8	
<i>Request v. Appropriation</i>					
SUBTOTAL (H) - Medical Marijuana Enforcement - Cash					
Funds	0	0	7,578,280	7,079,661	-6.6%
FTE	0.0	0.0	106.8	106.8	0.0%

(I) Bingo-Raffle Enforcement

Enforces state laws regarding Bingo. Referred question to voters was defeated, this program remains in Department of State.

Bingo-Raffle Enforcement - Cash Funds	0	0	0	434,566	
FTE	0.0	0.0	0.0	6.0	
SUBTOTAL (I) - Bingo-Raffle Enforcement - Cash Funds					
FTE	0.0	0.0	0.0	6.0	

*Request v.
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SUBTOTAL (7) - ENFORCEMENT BUSINESS					
GROUP	103,143,237	115,530,191	52,454,046	142,719,036	172.1%
FTE	<u>168.3</u>	<u>171.5</u>	<u>304.0</u>	<u>310.0</u>	2.0%
General Fund	181,533	169,625	181,774	177,880	58413.2%
Cash Funds	102,849,531	115,252,371	52,148,054	142,438,247	78260.1%
Reappropriated Funds	112,173	108,195	124,218	102,909	-99.8%

(8) STATE LOTTERY DIVISION

Operates the State's Lottery through the sale of scratch tickets and online tickets, including tickets for the multi-state lottery (PowerBall). The source of cash funds is the State Lottery Fund. Prior to FY 2008-09, the Lottery Fund was classified as Cash Funds Exempt.

Personal Services - Cash Funds	7,764,011	8,093,583	8,931,192	8,929,478	NP-3
FTE	115.5	113.1	126.0	126.0	

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	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Appropriation	FY 2011-12 Request	Change Requests
Operating Expenses - Cash Funds	1,181,797	1,000,098	1,203,156	1,203,156	
Payments to Other State Agencies - Cash Funds	141,733	130,188	239,410	239,410	
Travel - Cash Funds	109,457	105,120	113,498	113,498	
Marketing and Communications - Cash Funds	11,664,439	14,599,002	14,700,000	14,700,000	
Multi-state Lottery Fees - Cash Funds	101,002	103,370	177,433	177,433	
Vendor Fees - Cash Funds	8,659,163	9,623,664	12,376,154	12,376,154	
Prizes - Cash Funds	301,506,498	313,919,655	400,264,560	400,264,560	
Powerball Prize Variance - Cash Funds	7,289,207	7,575,512	12,960,000	12,960,000	
Retailer Compensation - Cash Funds	36,480,909	38,146,774	49,290,600	49,290,600	
Ticket Costs - Cash Funds	2,763,037	3,262,844	6,284,000	6,284,000	
Research - Cash Funds	250,000	250,000	250,000	250,000	
Indirect Costs Assessment - Cash Funds	533,305	528,898	537,749	508,309	
					<i>Request v. Appropriation</i>
SUBTOTAL (8) - STATE LOTTERY DIVISION - Cash					
Funds	378,444,558	397,338,708	507,327,752	507,296,598	0.0%
FTE	115.5	113.1	126.0	126.0	0.0%

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	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Change
	Actual	Actual	Appropriation	Request	Requests
					<i>Request v. Appropriation</i>
TOTAL - DEPARTMENT OF REVENUE	633,112,290	641,378,367	703,504,663	783,272,359	11.3%
FTE	<u>1,401.5</u>	<u>1,357.1</u>	<u>1,521.5</u>	<u>1,526.2</u>	0.3%
General Fund	85,657,123	71,918,780	70,714,586	58,890,647	3870465.0%
Cash Funds	535,130,777	552,818,081	618,115,053	701,359,268	5592.0%
HUTF	9,589,153	13,876,087	12,321,924	20,937,559	-70.4%
Reappropriated Funds	1,337,051	1,372,812	1,537,481	1,361,184	-99.8%
Federal Funds	1,398,186	1,392,607	815,619	723,701	-52.9%

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APPENDIX B: SUMMARY OF MAJOR LEGISLATION

- ❑ **S.B. 10-103 (Baumgardner/Sandoval): Colorado State Parks License Plate.** Creates the "Colorado State Parks" special license plate for persons who pay the regular renewal fee, a one-time fee of \$50 split between the Highway Users Tax Fund and the Licensing Services Cash Fund, and who donate at least \$44.00 to the Foundation for Colorado State Parks. Makes an appropriation of \$17,760 cash funds from the License Plate Cash Fund for the purchase of special license plates from Correctional Industries.

- ❑ **S.B. 10-120 (Rice/White): Prepaid Wireless Telephone 911 Surcharge.** Imposes a charge of 1.4 percent on the retail sale of prepaid wireless telephone service to help fund local enhanced 9-1-1 (E911) services. The collected charges will be remitted to local 911 authority boards by a formula established by the Public Utilities Commission. Allows the Department of Revenue to retain up to \$450,000 of the E911 charge to cover the initial startup costs and up to 3.0 percent per year for ongoing administrative expenses. Allows retailers to retain 2.0 percent of the charges collected until July 2, 2011, after which the retailer may retain 3.3 percent of the total charges collected. Makes an appropriation of \$476,195 cash funds and 1.4 FTE to fund startup costs.

- ❑ **S.B. 10-139 (Sonnenberg/Kester): Unwanted Horse Fund Tax Checkoff.** Establishes an income tax form checkoff for voluntary donations to the unwanted horse fund. The income tax deduction checkoff will be established in the first year in which the Executive Director of the Department of Revenue files a certificate stating that there are no more than fourteen other income tax checkoffs for the next income tax year.

- ❑ **S.B. 10-141 (Lambert/King K.): Move Bingo Raffle Regulation to the Department of Revenue.** Transfers, subject to voter approval, responsibility for the regulation of games of chance (bingo/raffle) to the Department of Revenue from the Secretary of State (effective July 1, 2011).

- ❑ **S.B. 10-198 (McKinley/Whitehead): Reduce Late Vehicle Registration Fees.** Reduces the amount of the late fee for the registration of a vehicle without motive power weighing less than 16,000 pounds or a camper or multipurpose trailer regardless of weight to \$10.

- ❑ **H.B. 10-1019 (Frangas/Williams): Reserved Disabled Parking Enforcement.** Creates the Disabled Parking Education and Enforcement Fund to receive moneys from fines, allows the fund to accept donations, and requires the fund to be used to implement the reserved parking program for the disabled and for education about reserved disabled parking. A disabled parking education program is created. Creates new provisions in the administration of reserved parking for the disabled that:

- ▶ Require identification to obtain a license plate or placard;
- ▶ Require the placard to bear a visible expiration date and the last four digits of a person's identification number;
- ▶ Subject the holder of a permanent disability license plate or placard to reverification of the disability every three years;
- ▶ Change to application to contain an eligibility notice and penalties for obtaining a license plate or placard when not eligible;
- ▶ Create a form that a professional signs, under penalty of perjury, when verifying a disability;
- ▶ Require a statement, under penalty of perjury, that the person is eligible to use a reserved parking plate or placard;
- ▶ Allow the department to require another professional to verify a disability upon a complaint or finding reasonable suspicion that a person is not entitled to use reserved parking privileges;
- ▶ Require the Department of Revenue to give peace officers electronic access to disabled parking records; and
- ▶ Limit the validity of placards from another jurisdiction to 90 days after moving to Colorado.

Changes the laws governing enforcement of the reserved parking program for the disabled in the following ways:

- ▶ Prohibits imposing restrictions on the use of reserved parking unless specifically authorized by law and notice is posted;
- ▶ Requires wheelchair unloading areas to be marked with a sign;
- ▶ Increases the fine for misuse of reserved parking from \$100 or \$200 to \$350 for the first offense, \$600 and community service for a second offense, and \$1,000 for subsequent offenses, and doubles the fines for commercial carriers;
- ▶ Authorizes a peace office to confiscate a placard that is being misused;
- ▶ Prohibits the creation of a device that mimics a placard;
- ▶ Prohibits retaliation against an employee for notifying the authorities of a possible reserved parking violation;
- ▶ Authorizes a peace officer or property owner to remove a vehicle that is violating the reserved parking provisions;
- ▶ Prohibits moving a vehicle to avoid time limits on reserved parking spaces;
- ▶ Prohibits using reserved parking for commercial purposes unrelated to transacting business with the person the space is intended to serve; and
- ▶ Prohibits taking adverse action against a person with a disability for using a paid parking space if the method of payment is not reasonably accessible.

Appropriates \$17,918 to the Governor for reserved parking education and \$30,341 to the Department of Revenue for implementation of the provisions of the act.

- ❑ **H.B. 10-1045 (Miklosi/Romer): DOR Electronic Address Change.** Requires the Department of Revenue and the Secretary of State to establish links on each departments' web site to allow individuals to make a change of address notification electronically for the purposes of voter registration, driver's licenses, identification cards, and the state income tax. Appropriates \$63,538 cash funds from the Licensing Services Cash Fund to establish the link between the two departments' web sites.
- ❑ **H.B. 10-1049 (Rice/Romer): Motor Vehicle Dealer Franchise.** Requires a manufacturer that has terminated a motor vehicle or powersports franchise, for any reason other than bad conduct, to reimburse the franchisee for any upgrades required by the manufacturer during the last five years and pay the franchisee for lost goodwill if the termination was due to the manufacturer's insolvency. If a franchise has been terminated due to the manufacturer's insolvency, the dealer is granted the first right of refusal when another franchise is granted in the area, or the dealer may choose to receive compensation for the value of the lost dealership.
- ❑ **H.B. 10-1055 (Kefalas/Steadman): DOR Fees Paid to 3rd Party Debt Collectors.** Requires a debt collection agency or attorney to add fees for the services rendered in the third-party collection of delinquent taxes to the total amount collected. Such fees shall not exceed 20 percent of the total amount collected.
- ❑ **H.B. 10-1058 (Riesberg/Hodge): Civil Penalty for Unstamped Cigarettes.** Extends the authority of the Department of Revenue to impose a civil penalty for the purchase or possession of unstamped cigarettes, regardless of whether the cigarettes have been confiscated. Clarifies the Department's authority to specify that the authority does not apply to cigarettes purchased from a military exchange or commissary, as long as the cigarettes are not for resale in the state. Appropriates \$1,400 cash funds from the Tobacco Tax Enforcement Cash Fund for the implementation of the act.
- ❑ **H.B. 10-1060 (Kagan/Steadman): Penalty for Failing to Withhold Severance Tax.** Requires a person who fails to withhold severance income for taxes to pay, in addition to the interest owed, a penalty of the greater of \$30 or 30 percent of the required payment. A person who withholds the taxes due but fails to file the required report shall pay a penalty of the lesser of 15 percent of the taxes withheld or \$1,500.
- ❑ **H.B. 10-1073 (Roberts/Sandoval): Colorado 2-1-1 Checkoff.** Creates a new income tax checkoff for donations to the Colorado 2-1-1 First Call for Help fund.
- ❑ **H.B. 10-1090 (Waller/Morse): Jail Sentence Driving Under Restraint.** Eliminates the mandatory five-day jail sentence for a person who is convicted of driving a motor vehicle or off-highway vehicle upon any highway of the state with the knowledge that his or her license or privilege to drive is under restraint for any reason other than conviction of driving under the influence (DUI), DUI per se (driving with a blood alcohol level above the legal limit, even if driving is not impaired), driving while ability impaired, habitual user, or underage drinking and driving. Eliminates the requirement that a court require an offender to immediately surrender

his or her driver's licence or instruction permit upon entry of a plea of guilty or nolo contendere to a driving under restraint violation.

- ❑ **H.B. 10-1113 (McFadyen/Hodge): Transfer Ports of Entry from DOR to CSP.** Transfers the Motor Carrier Safety Assistance Program from the Department of Revenue to the Department of Public Safety, Colorado State Patrol, effective August 15, 2010. The transfer includes 10.0 FTE (prorated to 8.8 FTE for FY 2010-11), of which 9.0 FTE are federally funded and 1.0 FTE are cash funded from the Nuclear Materials Transportation Fund and the Highway Users Tax Fund. Delineates the responsibilities of the Ports of Entry and Colorado State Patrol with regard to commercial vehicles. Authorizes the Departments of Public Safety, Revenue and Transportation to solicit a vendor to conduct a performance study of the Ports of Entry to assess the operations, potential cost savings and efficiencies, and which department is best suited to operate the Ports of Entry. The FY 2010-11 appropriation to the Department of Revenue is reduced by \$800,891 total funds and 8.8 FTE, including \$59,946 cash funds, \$73,364 reappropriated funds, and \$667,581 federal funds.
- ❑ **H.B. 10-1139 (Apuan/Heath): Iraq and Afghanistan Veterans Special License Plates.** Creates the "Veteran of Iraq" and "Veteran of Afghanistan" special license plates, available to veterans who served in the armed forces during those conflicts. Appropriates \$17,760 cash funds from the License Plate Cash Fund in FY 2010-11 for the purchase of license plates for sale.
- ❑ **H.B. 10-1161 (Nikkel/Spence): Livery License Plate.** Creates a new "Livery" license plate for vehicles classified by the Public Utilities Commission as luxury limousines. These owners of these vehicles, which currently bear standard license plates, will be issued the new plates upon initial registration or renewal of the registration. Appropriates \$10,064 cash funds from the License Plate Cash Fund in FY 2010-11 for the purchase of "Livery" license plates for issuance.
- ❑ **H.B. 10-1172 (Bradford/Cadman): Mobile Machinery Specific Ownership Tax.** Clarifies the definition and registration requirements of special mobile machinery. Modifies the registration and taxation of special mobile machinery by:
 - ▶ Deeming farm equipment meeting the definition of special mobile machinery to be Class F personal property if the equipment is used for a purpose other than agricultural production for the time it was used for the other purposes;
 - ▶ Prohibiting the use of a prorated registration sticker on such machinery unless the machinery is registered;
 - ▶ Prohibiting the use of such machinery unless it is registered, and grants a credit for taxes paid to the owner who converts a vehicle to special mobile machinery;
 - ▶ Creating and setting the requirements for a demonstration plate to be used by people who sell special mobile machinery;
 - ▶ Requiring a person who sell special mobile machinery to notify the buyer that the owner should register the machinery; and

- ▶ Authorizing owners to obtain a temporary registration similar to the temporary registration for motor vehicles.

Appropriates \$560 cash funds from the License Plate Cash Fund for FY 2010-11 for the purchase of demonstration license plates.

- ❑ **H.B. 10-1189 (Pommer/Heath): Eliminate Sales Tax Exemption for Direct Mail.** Eliminates the sales and use tax exemption for direct mail advertising materials that are distributed in Colorado. The Department of Revenue estimates that this provision will increase General Fund revenues by \$160,000 in FY 2009-10 and by \$800,000 in FY 2010-11. Appropriates 94322 General Fund and 0.9 FTE for implementation. *The appropriation in H.B. 10-1193 is sufficient to implement H.B. 10-1190, H.B. 10-1191, H.B. 10-1192, H.B. 10-1194, and H.B. 10-1195.*
- ❑ **H.B. 10-1190 (Pommer/Heath): Suspend Industrial Fuel Sales and Use Tax Exemption.** Temporarily eliminates the sales and use tax exemption for the sale purchase, storage use, or consumption of electricity, coal gas, fuel oil, steam, coke, or nuclear fuel which is used in processing manufacturing, mining, refining, irrigation, building construction, telegraph, telephone, and radio communication, street transportation services, and all industrial uses. Excludes from the suspension diesel fuel for off-road use, fuels for agricultural purposes or railroad transportation services, and fuels for use in generating electricity. The Department of Revenue estimates that this provision will increase General Fund revenues by \$7.2 million in FY 2009-10 and by \$37.6 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information. Specifies that the suspension does not affect county, municipal, and other local government or political subdivision sales and use tax bases. Prohibits the appropriation of moneys derived from the increase in state revenues resulting from this act to fund additional FTE. The appropriation of \$94,322 General Fund and 0.9 FTE for implementation of the act is eliminated by a provision in the H.B. 10-1376 (the Long Bill).
- ❑ **H.B. 10-1191 (Pommer/Heath): Eliminate Candy and Soda Sales Tax Exemption.** Excludes the purchase of candy and soft drinks, including such purchases through vending machines, from the state sales and use tax exemption for the purchase of food for off-premises consumption. The Department of Revenue estimates that this provision will increase General Fund revenues by \$1.4 million in FY 2009-10 and by \$18.0 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information. Specifies that the suspension does not affect county, municipal, and other local government or political subdivision sales and use tax bases. Prohibits the appropriation of moneys derived from the increase in state revenues resulting from this act to fund additional FTE. The appropriation of \$94,322 General Fund and 0.9 FTE for implementation of the act is eliminated by a provision in the H.B. 10-1376 (the Long Bill).

- ❑ **H.B. 10-1192 (Pommer/Heath): Sales and Use Tax of Standardized Software.** Repeals current regulation on taxable computer software. Specifies that tangible personal property includes standardized software without regard to how such software is acquired by the purchaser (i.e., purchased on discs or downloaded), defines standardized software, and allows the Department of Revenue to promulgate rules regarding multi-state acquisitions of software. The Department estimates that this provision will increase General Fund revenue by \$4.6 million in FY 2009-10 and by \$23.7 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information. Specifies that the suspension does not affect county, municipal, and other local government or political subdivision sales and use tax bases. Prohibits the appropriation of moneys derived from the increase in state revenues resulting from this act to fund additional FTE. The appropriation of \$94,322 General Fund and 0.9 FTE for implementation of the act is eliminated by a provision in the H.B. 10-1376 (the Long Bill).

- ❑ **H.B. 10-1193 (Pommer/Heath): Sales Tax Out-of-State Retailers:** Creates a rebuttable presumption that a retailer that is part of a controlled group of corporations that has a component member with a physical presence in Colorado is doing business in the state, requiring that retailer to collect sales taxes for Colorado purchases. Requires an out-of-state retailer that does not collect Colorado sales tax to:
 - ▶ Notify each Colorado purchaser that Colorado requires the purchaser to file a sales or use tax return;
 - ▶ send each purchaser a separate notification by January 31 of each year showing information on purchases mad in the previous year. The notification must state that Colorado requires a sales or use tax return when tax is not collected by the retailer, and provides the date of purchase(s), the amount of each purchase, and the category of purchases, including, if known, whether the purchase is exempt or not exempt from the sales or use tax; and
 - ▶ file and annual statement by March 1 of each year with the Department of Revenue showing the total amount paid for Colorado purchases for each purchaser during the preceding calendar year.

The Department estimates that this provision will increase General Fund revenue by \$0.9 million in FY 2009-10 and by \$4.7 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information. Specifies that the suspension does not affect county, municipal, and other local government or political subdivision sales and use tax bases. Prohibits the appropriation of moneys derived from the increase in state revenues resulting from this act to fund additional FTE. Appropriates \$161,584 General Fund and 1.0 FTE to the Department of Revenue for implementation. Of those moneys, reappropriates 40,000 to the Department of Law.

- ❑ **H.B. 10-1194 (Ferrandino/Heath): Eliminate Nonessential Articles Sales Tax Exemption.** Narrows the states sales and use tax exemption for sales to retailers of vendors of food, meals, or beverages for articles, containers, and bags that are furnished to the consumer without a separate charge for those articles, containers, and bags that are essential (such as a container for soup). The Department estimates that this provision will increase General Fund revenue by \$400,000 in FY 2009-10 and by \$2 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information. Specifies that the suspension does not affect county, municipal, and other local government or political subdivision sales and use tax bases. Prohibits the appropriation of moneys derived from the increase in state revenues resulting from this act to fund additional FTE. The appropriation of \$94,322 General Fund and 0.9 FTE for implementation of the act is eliminated by a provision in the H.B. 10-1376 (the Long Bill).

- ❑ **H.B. 10-1195 (Ferrandino/Heath): Suspend Agricultural Sales and Use Tax Exemptions.** Suspends from March 1, 2010 through June 30, 2013, the sales and use tax exemptions for the sales or storage, use or consumption of agricultural compounds used in caring for livestock, semen for agricultural and ranching purposes, and pesticides for use in the production of agricultural and livestock products. The Department estimates that this provision will increase General Fund revenue by \$0.9 million in FY 2009-10 and by \$4.6 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information. Specifies that the suspension does not affect county, municipal, and other local government or political subdivision sales and use tax bases. Prohibits the appropriation of moneys derived from the increase in state revenues resulting from this act to fund additional FTE. The appropriation of \$94,322 General Fund and 0.9 FTE for implementation of the act is eliminated by a provision in the H.B. 10-1376 (the Long Bill).

- ❑ **H.B. 10-1196 (Ferrandino/Heath): Income tax credit for purchases of certain efficient motor vehicles.** Effective January 1, 2011, disqualifies a category of vehicle currently eligible for a state income tax credit. The disqualified vehicles are vehicles that get more than 30 but less than 40 miles per gallon. The Department estimates that this provision will increase General Fund revenue by \$2.7 million in FY 2010-11. Requires the Department of Revenue to account for all revenue attributable to the act and make quarterly reports to the General Assembly of such information.

- ❑ **H.B. 10-1197 (Ferrandino/Heath): Limitation of Income Tax Credits for Conservation Easements.** Limits to \$26 million the aggregate amount of state income tax credits that can be claimed by all taxpayers for donating conservation easements for each of the 2011, 2012, and 2013 income tax years. Taxpayers are required to first submit a claim for the tax credit to the Division of Real Estate, and the Division is required to issue certificates in the order the claims were received. Only taxpayers with the certificates may claim the credit. If the claims for certificates exceed \$26 million during an income tax year, the excess claims are placed on a waiting list, and certificates are issued for use in subsequent income tax years.

Authorizes the Division of Real Estate to promulgate rules for the issuance of certificates. The Department estimates that this provision will increase General Fund revenue by \$18.5 million in FY 2010-11. Appropriates \$9,028 cash funds and 0.2 FTE from the Conservation Easement Holder Certification Fund to the Department of Regulatory Agencies, Division of Real Estate to implement the act.

- ❑ **H.B. 10-1199 (Ferrandino/Heath): Temporary Limitation on the Net Operating Loss Deduction.** For each of the next three income tax years, the maximum amount of net operating loss (NOL) that may be carried forward by a corporation is limited to \$250,000. A NOL may be carried forward one additional year for each year that a corporation is prohibited from carrying forward a portion of its NOL because of this cap. A corporation may increase the total amount of its NOL by an amount equal to interest at 3.25 percent on the portion of NOL that was prohibited from being carried forward during the three year period. The Department of Revenue estimates that this provision will increase General Fund revenue by \$8.2 million in FY 2010-11.
- ❑ **H.B. 10-1200 (Hullinghorst/Heath): Temporary Deferral of Investment Tax Credit for Enterprise Zones.** For the 2011, 2012, and 2013 income tax years, the amount of the credit that a taxpayer may claim for a qualified investment during an income tax year in qualified property that is used solely and exclusively in an enterprise zone for at least one year is limited to \$500,000. A taxpayer is required to defer claiming any amount of the credit allowed that exceeds \$500,000 to the 2014 income tax year. A taxpayer that deferred claiming any credit in excess of \$500,000 is allowed to carry forward the credit for 12 income tax year after the year the credit was originally allowed, plus one additional year for each year that the taxpayer had to defer claiming the credit in excess of \$500,000. The Department of Revenue estimates that this provision will increase General Fund revenue by \$11.8 million in FY 2010-11.
- ❑ **H.B. 10-1209 (Balmer/Gibbs): Voluntary Military Driver's License Designation.** Allows an eligible member of the U.S. military to have a special designation placed upon their driver's license signifying the branch of the military that the applicant serves with. Requires a fee of \$15 (in addition to regular driver's license fees) for the designation. Appropriates \$83,088 cash funds from the Highway Users Tax Fund to the Department of Revenue for implementation.
- ❑ **H.B. 10-1211 (Tyler/Williams): Reduce Late Vehicle Registration Penalty.** Effective July 1, 2010, reduces the penalty for late registration of a vehicle without motive power that weighs 2,000 pounds or less from \$25 per month up to \$100 to \$10.
- ❑ **H.B. 10-1212 (Rice/Schwartz): Rules for Exemptions, Reductions, or Waivers from Late Registration Fees.** Requires the Executive Director of the Department of Revenue to promulgate rules that establish circumstances, in addition to circumstances already established in statute, in which a vehicle owner shall be exempted from paying the late fee

for late registration of a motor vehicle. The rules shall apply uniformly throughout the state and include, but not be limited to, exemptions for:

- ▶ Acts of God and weather related delays;
- ▶ Office closures and furloughs;
- ▶ Temporary registration number plates, tags, or certificates that have expired;
- ▶ Medical hardships; and
- ▶ Information technology failures.

The Executive Director is required to consult with the county clerk and recorders in promulgating the rules and is required to promulgate additional rules that allow the Department or an authorized agent of the Department to reduce or waive the late fee for late registration of a trailer that is a commercial or farm vehicle, as part of the normal operation, if the owner can establish, in accordance with the criteria specified in the rules, that the trailer was idled so that it was not operated on any public highway in the state for at least a full registration period.

- **H.B. 10-1214 (McCann/Schwartz): Adopt a Shelter License Plate.** Creates the "Adopt a Shelter Pet" special license plate. There is a charge of \$80 in addition to the regular registration fees. The \$80 fee is apportioned as follows: \$25 to the Highway Users Tax Fund; \$25 to the Licensing Services Cash Fund; and \$30 to the Adopt a Shelter Account in the Pet Overpopulation Fund. The special plate requires an annual renewal fee of \$25 that is also credited to the Account. The act adds a representative of the western slope to the Colorado Pet Overpopulation Authority. Appropriates \$17,760 to the Department of Revenue, Division of Motor Vehicles.
- **H.B. 10-1284 (Massey/Romer): Medical Marijuana Regulations.** Creates the Medical Marijuana State Licensing Authority (SLA) in the Department of Revenue as the medical marijuana licensing authority. The SLA grants, refuses, or renews medical marijuana center license after the state has received local approval. The SLA administers aspects of medical marijuana licensing, including rule-making. Licenses will be issued to operate medical marijuana centers and associated off-premises cultivation facilities and medical marijuana infused products manufacturers and associated off-premises cultivation operations. Describes persons who are prohibited from being licensees and requires applicants to undergo a background check. Limits the areas where a licensed operation may be located. The SLA may set fees for the various types of licenses it issues. These fees are credited to the Medical Marijuana License Cash Fund, created in the act.

Licensing begins August 1, 2010 and all existing operations must apply prior to that date in order to continue to operate until the issuance or denial of a license. A business that applies for a license must certify by September 1, 2010, that it is growing at least 70 percent of the medical marijuana necessary for its operation. Local governments may ban the sale, distribution, cultivation, and dispensing of medical marijuana by a majority vote of its governing board or a majority vote of its citizens.

The licensing provision will sunset July 1, 2015. Prior to that, the Department of Regulatory Agencies must conduct a sunset review of the licensing provisions. The Department of Public Health and Environment (DPHE) shall promulgate rules related to a waiver process to allow a homebound patient to have a primary caregiver transport the patient's medical marijuana from a licensed medical marijuana center and a sales tax exemption for indigent patients. DPHE may also promulgate rules related to what constitutes significant responsibility for managing the well-being of a patient, a primary caregiver registration form, and what constitutes written documentation, and ground for a patient to change his or her primary caregiver. A primary caregiver is limited to serving no more than five patients at one time, unless there is an exceptional circumstance recognized by DPHE.

A patient permitted to use medical marijuana must have a registry identification card in his or her possession at all times when in possession of medical marijuana. Lists various places and situations in which the patient or primary caregiver may not use or possess medical marijuana.

The act captures the first \$2 million in sales tax revenue from the sale of medical marijuana. Half is allocated to the Department of Human Services, for services and treatment for persons with substance abuse disorders and mental health needs who are in the criminal justice system and half is allocated to the Department of Health Care Policy and Financing for allocation to the Screening, Brief Intervention, and Referral to Treatment (SBIRT) program. The SBIRT program is created in H.B. 10-1033, which passed the General Assembly and was signed by the Governor in the 2010 session. House Bill 10-1033 also appropriated \$334,227 General Fund to the SBIRT program for FY 2010-11, and H.B. 10-1284 act appropriates \$334,227 General Fund to the Department of Human Services for allocation to mental health and alcohol and drug abuse services.

The act appropriates \$10,317,583 cash funds and 110.0 FTE to the SLA from the Medical Marijuana License Cash Fund. Of these funds, \$271,368 and 2.0 FTE are reappropriated to the Department of Law for the provision of legal services to the Department of Revenue related to the implementation of the act, and \$260,700 and 1.2 FTE are reappropriated to the Colorado Bureau of Investigation in the Department of Public Safety for the provision of background checks related to the implementation of the act. In addition, the act appropriates \$59,747 cash funds and 1.2 FTE to the Department of Public Health and Environment for allocation to the Center for Health and Environmental Education.

- ❑ **H.B. 10-1285 (Priola/Tapia): Overweight Vehicle Fine/Tax Incentives.** Increases the penalties for overweight vehicles. After subtracting the costs of administration, the increased fine revenue is used to finance a sales tax refund and an income tax credit for commercial vehicle investment in Colorado. Establishes procedures for qualifying for the refund and credit. Clarifies that a motor vehicle registered in Colorado, subsequently registered in another state, then reregistered in Colorado is not subject to taxes and fees due during the time it was registered in another state. Appropriates \$86,658 cash funds from the

Commercial Vehicle Enterprise Tax Fund to the Department of Revenue for implementation of the act.

- ❑ **H.B. 10-1314 (Pommer/Keller): Supplemental Appropriation to the Department of Revenue.** Modifies FY 2009-10 appropriations included in the FY 2009-10 Long Bill (S.B. 09-259).
- ❑ **H.B. 10-1338 (McCann/Steadman): Probation Eligible with Two Prior Felonies.** Allows a person who has two or more prior felony convictions to be eligible for probation, with certain exceptions. Makes an appropriation to the Department of Revenue of \$336,057 General Fund for the implementation of H.B. 09-1137, which passed in the 2009 regular session and enacted into law. House Bill 09-1137 expands the Gambling Payment Intercept Act to add outstanding court-required restitution payments to the list of other payments (such as child support) that casinos already intercept.
- ❑ **H.B. 10-1341 (Judd/Keller): Motorist Insurance Identification Account Funds to the Colorado State Titling and Registration Account.** Temporarily diverts any moneys remaining in the Motorist Insurance Identification Account to the Colorado State Titling and Registration Account. Both accounts are sub-accounts within the Highway Users Tax Fund. Under prior law, any moneys in the Motorist Insurance Identification Account at the end of a fiscal year are transferred to the Highway Users Tax Fund.
- ❑ **H.B. 10-1376 (Pommer/Keller): Long Appropriations Bill.** The general appropriations act for FY 2010-11. That act also has supplemental appropriations that modify the FY 2009-10 appropriations. These supplemental appropriations included: removing appropriations from H.B. 10-1190, H.B. 10-1191, H.B. 10-1192, H.B. 10-1194 and H.B. 10-1195. The appropriation included in H.B. 10-1189 included an appropriation sufficient to implement all six of these similar bills. H.B. 10-1376 also included a provision adjusting the FY 2009-10 appropriation for the Amendment 35 Distribution to Local Governments to reflect actual Amendment 35 tax collections.
- ❑ **H.B. 10-1387 (Pommer/White): Refinance Driver's License Offices.** Extends the refinance of driver's licence offices in the Division of Motor Vehicles, Driver and Vehicle Services, for two additional fiscal years. Diverts all revenue from fees for driver's licenses to the Licensing Services Cash Fund (LSCF). Previous law had approximately two-thirds of the fee revenue credited to the Highway Users Tax Fund (HUTF). For FY 2010-11, refinances \$20.0 million General Fund with \$20.0 million cash funds from the LSCF (\$17.3 million) and the HUTF "Off-the-Top" moneys. For FY 2011-12, the refinance is entirely from the LSCF. Requires that any moneys left in the LSCF at the end of a fiscal year, less 16.5 percent of the previous years appropriation, be transferred to the HUTF.

**FY 2011-12 Joint Budget Committee Staff Budget Briefing
Department of Revenue**

**APPENDIX C: UPDATE OF FY 2009-10
LONG BILL FOOTNOTES AND REQUESTS FOR INFORMATION**

Long Bill Footnotes

- 45a. Department of 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, while not vetoing the footnote, directed the Department of Revenue not to comply with this footnote. In his letter, Governor Ritter stated: "Intending that the Department not spend more than 5.0 percent of Amendment 50 revenues on administrative expenses of the Limited Gaming Division, constitutes extensive oversight of the appropriation which is in violation of Article XVIII, Section 9, Paragraph (5) (b) (I), which states in part, payments of on-going expenses of the Commission 'shall not be conditioned on any appropriation by the general assembly.' I, however, am not vetoing this footnote because the direction provided is framed as the intent of the General Assembly."

Requests for Information

- 1. All Departments, Totals --** Every department is requested to submit to the Joint Budget Committee, by November 1, 2009, information on the number of additional federal and cash funds FTE associated with any federal grants or private donations that are applied for or received during FY 2009-10, and that are not otherwise included in the Long Bill.

Comment: This request does not apply to the Department of Revenue.

- 64. Department of Revenue, Information Technology Division, Colorado State Titling and Registration System --** The Department is requested to provide, for the fiscal year starting July 1, 2009, quarterly reports to the Joint Budget Committee on the fund balance, revenues, and expenditures in the Colorado State Titling and Registration Account (Account) created in Section 42-1-211 (2), C.R.S., a sub-account of the Highway Users Tax Fund. The reports should come as soon as possible after the end of the quarters that end on September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010.

Comment: The Department submitted the requested reports, including the final report for the fiscal year ending on June 30, 2010, which was submitted shortly after the state closed its books for the FY 2009-10 fiscal year. The report is summarized in the following table.

Colorado State Titling and Registration Account FY 2009-10 Account Activity			
	Projected	Actual	Difference Favorable/ (Unfavorable)
Beginning Fund Balance	\$4,291,113	\$4,291,113	\$0
Revenues	8,057,198	8,073,871	16,673
Expenditures	10,863,616	8,758,366	2,105,250
Ending Fund Balance	1,484,695	3,606,618	2,121,923
Net Change in Fund Balance	(\$2,806,418)	(\$684,495)	\$2,121,923

The Account is the subject of a briefing issue in this document. Please see page 40 for more information.

65. Department of Revenue, Taxation Business Group, Taxation and Compliance Division

-- The Department is requested to provide to the Joint Budget Committee, as soon as possible after the end of the fiscal year that ends on June 30, 2009, but no later than September 30, 2009, a report detailing the amount of additional General Fund revenue realized in during FY 2010-11 by the General Assembly's funding of the program to allow senior auditors to travel eight weeks each out-of-state to audit companies that are based out-of-state. The Department is requested to provide a similar report for the fiscal year that ends June 30, 2010.

Comment: The Department provided the required report. Please see a detailed discussion in the Issues section on Page 37 for more information.

66. Department of Revenue, Taxation Business Group, Taxation and Compliance Division

-- The Department is requested to provide to the Joint Budget Committee, as soon as possible after the end of the fiscal year that ends on June 30, 2010, but no later than September 30, 2010, a report detailing the amount of additional General Fund revenue realized in FY 2009-10 by the General Assembly's funding of an expanded out-of-state tax compliance and enforcement program.

Comment: The Department provided the required report. Please see a detailed discussion in the Issues section on Page 37 for more information.

67. Department of Revenue, State Lottery Division

-- The Department is requested to submit a report to the Joint Budget Committee, by September 30, 2010, on the employment location of senior management employees of the State Lottery Division, pursuant to Section 24-35-202 (1), C.R.S., which requires the Lottery headquarters to be located in the city of Pueblo.

This report should identify each position in senior management of the Division, and where the primary offices of the incumbents in those positions are located.

Comment: The Department has responded that the following primary officers of the Lottery are located as follows:

Abel Tapia, Director- Primary office located in Pueblo
J.E. Lewellan, Chief Operating Officer - Primary office located in Pueblo
Patrick Maroney, Security Director - Primary office located in Pueblo
Tom Kitts, Deputy Director - Primary office located in Denver

STATE OF COLORADO

DEPARTMENT OF REVENUE

State Capitol Annex
1375 Sherman Street, Room 409
Denver, Colorado 80261
Phone (303) 866-3091
Fax (303) 866-2400



Bill Ritter, Jr.
Governor

Roxanne Huber
Executive Director

October 26, 2010

The Honorable Brandon Shaffer
President of the Senate
Colorado General Assembly

The Honorable Terrance Carroll
Speaker of the House
Colorado General Assembly

The Honorable John Morse
Senate Majority Leader
Colorado General Assembly

The Honorable Paul Weissmann
House Majority Leader
Colorado General Assembly

The Honorable Mike Kopp
Senate Minority Leader
Colorado General Assembly

The Honorable Mike May
House Minority Leader
Colorado General Assembly

Dear Senators and Representatives:

Nine bills enacted from the 2010 legislative session require the Department of Revenue to account for, on a quarterly and cumulative basis, all revenue that is attributable to their enactment, to the extent such information is available. These bills are HB10-1189, HB10-1190, HB10-1191, HB10-1192, HB10-1193, HB10-1194, HB10-1195, HB10-1196 and HB10-1199.

The data available to the Department is not adequate to reliably and accurately account for all revenue attributable to the enactment of the nine bills mentioned above. This is because the information provided by vendors on sales tax returns does not delineate sales to the level of detail that would be needed to isolate the impact of the implementation of the bills. For the Department to report this information, retailers would have to provide detailed information with regard to sales taxes collected for specific items.

In light of these limitations, the Department has attempted to report information that at least meets the spirit of the requirement by tracking the additional sales tax collected by selected industries assumed to be affected by the enactment of HB10-1189, HB10-1190, HB10-1191, HB10-1192, HB10-1194 and HB10-1195, based on industry code classifications. While this data may include changes that are a direct result of the above mentioned legislation, there are several other factors that affect the sales tax revenue collections by the selected industries such as:

- Changes in the economy (e.g. business cycles, employment variables, inflation, new businesses)
- Previously passed legislation that became effective during this reporting period
- Regulatory changes
- Inability to identify and isolate all businesses that may have been impacted
- Commodity price changes
- Sales within particular industry code classifications may include taxable items that are not specific to the legislation

Furthermore, additional collections due to implementation of the 2010 legislation are not captured exclusively through sales tax collections. Use tax payments by businesses have been affected by the legislation, as well. Businesses or

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Appendix D - Letter from Department of Revenue on Increased Tax Revenues

individuals pay use tax primarily if they purchase goods outside of the state for use in the state when the out-of-state vendor does not charge sales tax. For instance, the sales/use tax liability for purchases of computer software from out-of-state vendors would be submitted by Colorado businesses on use tax returns when sales taxes are not collected by the out-of-state vendor. Given that software is purchased by many different types of businesses, the Department cannot isolate the impact of increased use taxes due to the repeal of the sales/use tax exemption on computer software by focusing on use tax collections from specific industry codes. It should be noted that use tax collections for second quarter CY 2010 were \$8.6 million greater (a 40.4 percent increase) than use tax collections for the same time period last year. However, given that use tax revenues dipped to low levels during 2009 due to the recession, the increase is most likely due to many reasons including changes/growth in the economy as well as changes in legislation.

An example of how the factors listed above interplay and result in an inability to determine the increase in sales tax revenues attributable to the enacted legislation is provided in the following explanation. HB10-1191 eliminated the sales and use tax exemption on the sales of soft drinks and candy. There is no data on sales tax returns that can account for sales taxes collected specifically for soft drinks and candy. Therefore, the Department can only identify businesses by industry code that may have been affected by the legislation. The targeted industry codes of businesses affected by this legislation include grocery stores, convenience stores, and warehouse clubs. However, these businesses sell many other items in addition to soft drinks and candy, whose prices may increase or decrease or whose popularity may increase or decrease taxable sales. Therefore, although the Department can report the increase in sales taxes collected by businesses in the targeted industry codes, some change in revenues are attributable to factors that affect the sales of other taxable items sold by these businesses. Another factor adding to the uncertainty is that there may be other types of businesses that sell candy or soft drinks that are not included in the targeted list (e.g. pizza delivery businesses that sell liter bottles of soft drinks or craft stores that sell candy). Another factor is the passage of HB09-1342 which eliminated the sales tax exemption for cigarettes, requiring cigarettes to be taxed beginning June 30, 2009. The additional tax collected on the sales of cigarettes would also be a contributing factor in a sales tax revenue increase noted for these same businesses.

As illustrated in the example and because of the factors listed above, it is impossible for the Department to determine the additional revenue that is attributable directly to the enacted legislation.

However, as indicated above, the Department has identified the industry codes that are most likely to distinguish businesses affected by six of the house bills and is providing the following table that indicates the net change in state sales tax revenues collected by the targeted industries, comparing collections in the second quarter of CY 2009 to those in second quarter of CY 2010. The cumulative amount is the total increase in sales taxes collected by the targeted industries when comparing quarterly sales tax collections to the previous year's quarterly sales tax collections, starting with the second quarter of CY 2010. The cumulative amount of sales tax collections for this first report is equal to the quarterly comparison. However, the cumulative amount will increase with each report.

Bill	Title	2nd Quarter, CY 2010 Net Change**	Cumulative Net Change
HB10-1189	Direct Mail	\$93	\$93
HB10-1190	Industrial Energy	3,522	3,522
HB10-1191	Candy and Soft Drinks	5,506	5,506
HB10-1192	Software Regulation	1,237	1,237
HB10-1194	Food Containers	142	142
HB10-1195	Agricultural Products	1,288	1,288

* Please see Appendix A for industry code classifications used above to estimate net change in sales tax collections

** Net change is compared to 2nd Quarter, CY 2009.

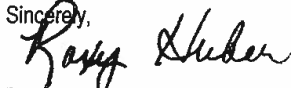
Appendix D - Letter from Department of Revenue on Increased Tax Revenues

The table does not include revenues associated with the passage of HB10-1193, HB10-1196 and HB10-1199 for the following reasons:

- HB10-1193 specifies that as of March 1, 2010, all out-of-state retailers that conduct business in Colorado are required to collect state sales tax on items purchased by Colorado purchasers. Otherwise, the retailer is required to notify Colorado purchasers that use tax is due on certain purchases and that the state of Colorado requires the purchaser to file a use tax return. These notifications are to occur by January 31st, following the calendar year in which the purchases were made and requires payment of the tax by April 15th following the calendar year in which the purchases were made. The Department can report the increase in total use taxes paid. The first report would compare second quarter CY 2011 collections to second quarter CY 2010 collections; however, some of the potential documented increase could be due to other factors, similar to the increase in collections associated with the other bills as businesses pay use tax for the purchase of equipment from out-of-state businesses. Additionally, the state may realize an increase in sales tax collections attributable to this bill if the internet retailers choose to collect sales taxes for Colorado purchases; however, taxable internet purchases by Colorado residents are not specific to any one or even a few industry codes; therefore, the Department cannot isolate a change in sales tax revenues as it relates to this legislation.
- HB10-1196 establishes a \$6,000 limit on the amount of income tax credit allowed for certain vehicles that are fuel efficient (category 7 vehicles) purchased on or after January 1, 2010 but before January 1, 2011 and eliminates the credit, thereafter. The revenue change created by this legislation will not be available until income tax year 2011 returns are submitted to the Department. The Department will begin receiving these returns after January 1, 2012 and will document this information in its report to legislative leadership for the first quarter of CY 2012.
- HB10-1199 establishes a temporary cap of \$250,000 on the net operating loss that may be claimed by a company. This cap is in place for income tax years 2011, 2012 and 2013. Net operating loss may be carried forward one additional year for each tax year that a company is prohibited from claiming additional net operating loss. The Department will be unable to report the revenue impact of this legislation because the amount of a deduction carried forward by a corporation is not separately tracked by the Department's accounting system (although this information is available on a case-by-case basis to auditors by manually reviewing a submitted return).

Please contact Mark Couch at the Department of Revenue, with any questions that you may have. Mark may be reached at 303-866-2819 or mcouch@spike.dor.state.co.us.

Sincerely,



Roxy Huber
Executive Director
Colorado Department of Revenue

Appendix D - Letter from Department of Revenue on Increased Tax Revenues

Appendix A

BILL #	Brief Description	Impacted Industries Code Classifications
HB10-1189	Direct Mail	<ul style="list-style-type: none"> ▪ Direct Mail Advertising
HB10-1190	Industrial Energy	<ul style="list-style-type: none"> ▪ Electric Power Generation, Transmission and Distribution ▪ Natural Gas Distribution ▪ Water, Sewage and Other Systems
HB10-1191	Candy and Soft Drinks	<ul style="list-style-type: none"> ▪ Supermarkets and Other Grocery (except Convenience) Stores ▪ Convenience Stores ▪ Confectionary and Nut Stores ▪ Pharmacies and Drug Stores (except Medical Marijuana Dispensaries) ▪ Food (Health) Supplement Stores ▪ Warehouse Clubs and Supercenters
HB10-1192	Software Regulation	<ul style="list-style-type: none"> ▪ Computer and Computer Peripheral Equipment and Software Merchant Wholesalers ▪ Computer and Software Stores ▪ Software Publishers
HB10-1194	Food Containers	<ul style="list-style-type: none"> ▪ Service Establishment Equipment and Supplies Merchant Wholesalers ▪ Industrial and Personal Service Paper Merchant Wholesalers ▪ General Line Grocery Merchant Wholesalers
HB10-1195	Agricultural Products	<ul style="list-style-type: none"> ▪ Crop Production ▪ Animal Production ▪ Support Activities for Agriculture and Forestry ▪ Other Farm Product Raw Material Merchant Wholesalers ▪ Restricted Use Pesticide Dealers