

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2015-16 STAFF BUDGET BRIEFING
DEPARTMENT OF STATE**

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

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DEPARTMENT OF STATE

Department Overview

The Department of State oversees the administration of elections, registers businesses, maintains records of rules and document filings, and makes collected data available to the public. Additionally, the Department regulates lobbyists, notaries public, charitable organizations, and charitable gaming practices.

Administration Division

- Provides personnel, finance, and general administrative support for all divisions.

Information Technology Services

- Provides technical and project management services, systems development, and support to programs administered by the Department.

Elections Division

- Administers statewide statutory and constitutional provisions that relate to elections, including the preparation and conduct of elections, and the initiative and referendum process.
- Certifies voting equipment.
- Implements the provisions of the federal Help America Vote Act (HAVA), including the improvement of the administration of federal elections.
- Manages the State of Colorado Registration and Elections (SCORE) system, the State's computerized statewide voter registration system.
- Oversees campaign finance reporting by political candidates and committees.

Business and Licensing Division

- Collects, maintains, and provides public access to business filings such as annual reports, articles of incorporation, liens, and other documents filed by businesses.
- Registers business names, trade names, and trademarks.
- Registers charitable organizations.
- Publishes the Code of Colorado Regulations (CCR).
- Licenses entities that engage in charitable gaming and enforces related laws.
- Regulates notaries public and administers related laws.
- Registers lobbyists and monitors the filing of required disclosure reports.

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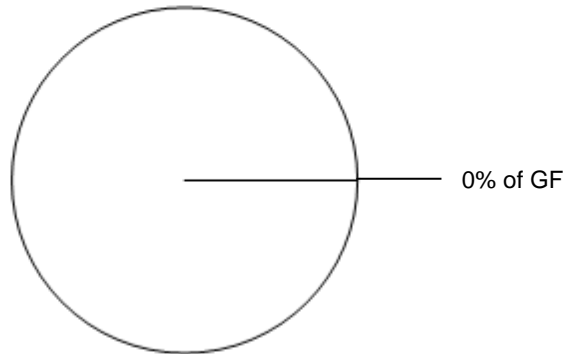
Department Budget: Recent Appropriations

Funding Source	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 *
General Fund	\$0	\$0	\$0	\$0
Cash Funds	20,458,878	23,406,861	22,136,875	22,110,225
Reappropriated Funds	0	0	0	0
Federal Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Funds	\$20,458,878	\$23,406,861	\$22,136,875	\$22,110,225
Full Time Equiv. Staff	133.0	139.0	137.3	137.3

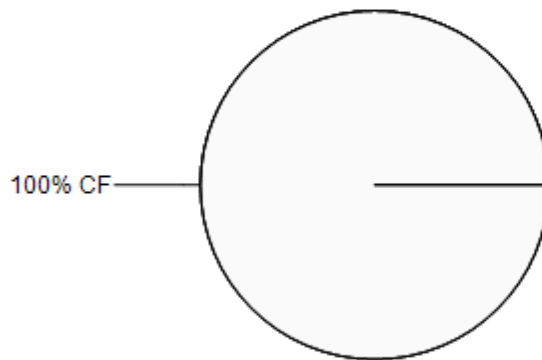
*Requested appropriation.

Department Budget: Graphic Overview

**Department's Share of Statewide
General Fund**



Department Funding Sources

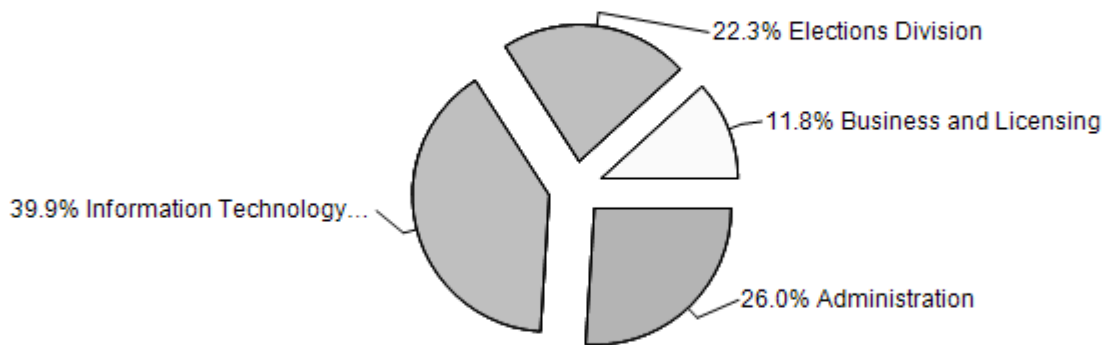


All charts are based on the FY 2014-15 appropriation.

Distribution of General Fund by Division

The Department of State does not receive General Fund appropriations.

Distribution of Total Funds by Division



All charts are based on the FY 2014-15 appropriation.

General Factors Driving the Budget

The Department of State is entirely cash-funded from the Department of State (DOS) Cash Fund and the Federal Elections Assistance Fund.¹ More than 96.0 percent of all Department revenue is from business registration, filing, and licensing fees collected by the Business and Licensing Division. Bingo-raffle, campaign finance, lobbyist, and notary administration fees account for the remainder of Department revenue.

The FY 2013-14 Long Bill restructured the Department's budget to increase transparency, dividing the old Administration Division into three separate divisions: Administration, Elections, and Business and Licensing. The following table shows FTE by division for FY 2012-13 through the budget request for FY 2015-16:

Department of State - Distribution of FTE					
FY 2012-13 through FY 2015-16					
	<u>Administration</u>	<u>Information Technology Services</u>	<u>Elections Division</u>	<u>Business and Licensing Division</u>	<u>Total</u>
FY 2012-13 Actual	79.6	32.1	0.0	0.0	111.7
FY 2013-14 Actual	17.8	36.0	27.1	38.5	119.3
FY 2014-15 Appropriation	19.0	36.0	34.2	48.1	137.3
FY 2015-16 Request	19.0	36.0	34.2	48.1	137.3

Major factors driving the budget for the Department include elections-related expenses, the volume of business filings, and information technology services projects for the Elections and Business and Licensing divisions.

Elections-related Expenditures

Elections-related expenditures are tied to growth in the population of eligible voters, changes in election laws, and changes in election-related practices by citizens of the State. The budget for Department of State reflects variation in these factors in its internal, external, and HAVA expenditures, as detailed below.

Internal Expenditures

Annual variations in internal expenditures are primarily the result of changes in the number the legal services hours required by the Elections Division. Legal services expenditures were first fully recognized by program in FY 2007-08, and have averaged \$317,507 over seven years. The FY 2011-12 and FY 2012-13 increases in operating expenses were related to participation in the Electronic Registration Information System (ERIC) project, including appropriations of

¹ The Department has received federal funds to help administer the Help America Vote Act (HAVA). These moneys are continuously appropriated as cash funds through the Federal Elections Assistance Fund which has a current balance of approximately \$2.5 million. No additional federal funding is expected.

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\$245,000 and \$170,000, respectively, and a supplemental that rolled forward the FY 2011-12 appropriation into FY 2012-13.

The following table outlines internal expenditures from FY 2005-06 through FY 2013-14:

Department of State Elections Program Internal Expenditures									
	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Personal Services	\$804,717	\$921,945	\$1,069,434	\$1,359,082	\$1,409,092	\$1,828,723	\$1,725,146	\$2,277,610	\$2,056,543
Operating Expenses	100,275	140,546	171,564	266,903*	164,008*	160,379	235,173	378,427	243,596
Legal Services	0	3,839	273,769	228,103	354,388	350,570	472,876	281,845	260,999
Leased Space	136,078	61,168	91,233	142,321	108,286	132,554	113,005	169,608	155,685
Total Internal Expenditures	\$1,041,070	\$1,127,498	\$1,606,000	\$1,996,409	\$2,035,774	\$2,472,225	\$2,546,201	\$3,107,490	\$2,716,823
Percentage Change		8.3%	42.4%	24.3%	2.0%	21.4%	3.0%	22.0%	(12.6%)

*Operating Expenses includes Discretionary Fund expenditures of \$828 in FY 08-09 and \$1,052 in FY 09-10.

External Expenditures

The following table outlines two line items that capture external elections expenditures from FY 2005-06 through FY 2013-14:

Department of State Elections Program External Expenditures									
	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Initiative and Referendum	\$83,417	\$138,332	\$50,000	\$301,007	\$149,420	\$40,493	\$184,253	\$208,143	\$149,114
Local Election Reimbursement	847,146	1,681,178	914	2,042,250	0	1,666,033	1,541,360	2,226,707	2,455,163
Total External Expenditures	\$930,563	\$1,819,510	\$50,914	\$2,343,257	\$149,420	\$1,706,526	\$1,725,613	\$2,434,849	\$2,604,277
% Change	3.3%	95.5%	(97.2%)	4,502.4%	(93.6%)	1042.1%	1.1%	41.1%	7.0%

The Initiative and Referendum line item funds the verification of signatures on candidate and initiative petitions. Department expenditures on signature verification depend on year and number of initiatives on the ballot. During odd years, initiatives are limited to TABOR-related matters, but during even years there are no restrictions on the type of initiatives on the ballot.

The Local Election Reimbursement line item reimburses counties for their costs related to statewide ballot issues and questions. These expenditures are driven by the number of eligible registered voters in each county, and this number typically increases during even years due to the voter registration drives that precede general elections. Increases in Local Election Reimbursements are also driven by statutory changes that increase reimbursement rates or increase the number of eligible registered voters.

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HAVA Expenditures

The federal Help America Vote Act of 2002 (HAVA) required the state to replace outdated voting technology, to ensure accessibility for disabled voters, and to institute a statewide voter registration system. The Federal Elections Assistance Fund was created in Section 1-1.5-106 (1) (a), C.R.S., to receive HAVA funds. Pursuant to Section 1-1.5-106 (2) (b), C.R.S., HAVA funds are continuously appropriated to the Department of State. To date, the Department has received \$45.8 million in federal funds with \$2.6 million in matching contributions appropriated from the DOS Cash Fund. The State does not anticipate additional federal funding and HAVA funds are expected to be exhausted in the next several years.

The following table outlines HAVA expenditures from FY 2005-06 through FY 2013-14:

Department of State Elections Program Federal HAVA Expenditures									
	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Personal Services	\$1,339,095	\$2,568,175	\$4,675,330	\$5,438,777	\$905,690	\$367,559	\$723,860	\$50,155	\$65,358
Contractors	0	0	0	0	1,723,503	1,428,817	424,166	56,593	245,299
Operating Expenses	156,538	715,722	1,427,311	242,325	341,520	459,185	351,183	874,637	147,718
Grants	1,526,875	12,243,989	1,566,498	247,788	119,283	135,073	96,081	172,333	256,050
Capitalized Property Purchases	0	2,927,481	1,687,334	644,949	0	367,843	0	0	39,925
Transfers	736	162,304	49,042	63,716	5,000	5,000	5,000	5,000	0
Total HAVA Expenditures	\$3,023,244	\$18,617,671	\$9,405,515	\$6,637,555	\$3,094,996	\$2,763,477	\$1,600,290	\$1,158,718	\$754,349
% Change	(48.2%)	515.8%	(49.5%)	(29.4%)	(53.4%)	(10.7%)	(42.1%)	(27.6%)	(34.9%)

Business Filing and Licensing Expenditures

The Business and Licensing Division's primary responsibility is to receive reports that businesses and other entities are required to file with the State, and provide public access to those records. This includes include business entity filings, voter registration, campaign finance disclosure, administrative rules, lobbyist reports, and charitable organization reports. Business and Licensing is also responsible for the licensing and regulation of bingo/raffle organizations, registering lobbyists, fund raisers, and charitable organizations, and the commissioning of notaries public. Today, most records are filed and accessed electronically. *Please see the issue brief on page 24 for more information on business filing fees.*

Information Technology Services Projects

The Information Technology Services Division provides most of the technology support for the Department. Many of the filing services, public records, and search functions provided by the Department are available on the internet with over 2,500 web-based transactions processed daily.

The Division currently has 5.0 FTE fully dedicated to elections projects, including the federally-mandated computerized statewide voter registration and election management system, known as

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the State of Colorado Registration and Elections (SCORE) system. SCORE is required by the Help America Vote Act, and its creation has been primarily funded by the Federal Elections Assistance Fund. The federal funding, which was considered "seed" money, has largely been exhausted and the funding for SCORE, and other HAVA requirements is being transferred to the Department of State Cash Fund.

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Summary: FY 2014-15 Appropriation & FY 2015-16 Request

Department of State						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2014-15 Appropriation						
HB 14-1336 (Long Bill)	\$21,893,762	\$0	\$21,893,762	\$0	\$0	137.2
Other legislation	<u>243,113</u>	<u>0</u>	<u>243,113</u>	<u>0</u>	<u>0</u>	<u>0.1</u>
TOTAL	\$22,136,875	\$0	\$22,136,875	\$0	\$0	137.3
FY 2015-16 Requested Appropriation						
FY 2014-15 Appropriation	\$22,136,875	0	\$22,136,875	\$0	\$0	137.3
R1 Local Election Reimbursement	495,964	0	495,964	0	0	0.0
R2 Business Intelligence Center	775,000	0	775,000	0	0	0.0
R3 Elections Division Operating Expenses	70,265	0	70,265	0	0	0.0
Centrally appropriated line items	320,590	0	320,590	0	0	0.0
Indirect cost assessment	27,325	0	27,325	0	0	0.0
Annualize prior year funding	<u>(1,715,794)</u>	<u>0</u>	<u>(1,715,794)</u>	<u>0</u>	<u>0</u>	<u>0.0</u>
TOTAL	\$22,110,225	\$0	\$22,110,225	\$0	\$0	137.3
Increase/(Decrease)	(\$26,650)	\$0	(\$26,650)	\$0	\$0	0.0
Percentage Change	(0.1%)	0.0%	(0.1%)	0.0%	0.0%	0.0%

Description of Requested Changes

R1 Local Election Reimbursement: The request includes an increase of \$495,964 cash funds to fully fund reimbursements to counties for election expenses, as required by statute (Section 1-5-505.5, C.R.S.).

R2 Business Intelligence Center: The request includes an increase of \$775,000 cash funds to continue support for the Business Intelligence Center program, and provide funding for the Department to host the Go Code Colorado statewide application challenge event on an annual basis.

R3 Elections Division Operating Expenses: The request includes an increase of \$70,265 cash funds for additional operating expenses associated with training county clerks and election staff, oversight of elections, and required audits of voting equipment.

Centrally appropriated line items: The request includes adjustments to centrally appropriated line items for the following: state contributions for health, life, and dental benefits; merit pay;

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salary survey; short-term disability; supplemental state contributions to the Public Employees' Retirement Association (PERA) pension fund; vehicle lease payments; workers' compensation; legal services; administrative law judges; payment to risk management and property funds; leased space; and COFRS modernization.

Indirect Cost Assessment Adjustments: The request includes an increase of \$27,325 cash funds to reflect adjustments to indirect cost assessment lines as a result of the Statewide Indirect Cost Plan.

Annualize prior year funding: The request includes adjustments related to prior year legislation and budget actions. The primary change is a decrease of \$1.3 million cash funds in one-time funding for the Business Intelligence Center program in the Business and Licensing Division.

Issue: Elections Division Requests for Local Election Reimbursements and Operating Expenses

The Department requests an increase of \$495,964 cash funds for local election reimbursements, and an increase of \$70,265 cash funds to meet the growing need for training and certifying local elections officials, elections observation and oversight, and the provision of support to counties.

SUMMARY:

- The Department is required by statute to reimburse counties for the cost of elections based on the number of active registered voters in each county. House Bill 13-1303 changed the status of 330,000 previously-inactive voters to active, requiring the Department to pay more in local election reimbursements in order to meet its statutory obligation.
- Elections are becoming more complicated to administer due to recent reforms, including those made in H.B. 13-1303. This is driving increased demand for training and certification offered by the Department, and requires higher levels of oversight and support for counties to ensure compliance with state and federal election law.

RECOMMENDATION:

Staff recommends the Committee approve the Department's requests for an increase of \$495,964 cash funds for local election reimbursements, and an increase of \$70,265 cash funds to meet the growing need for the training and certification of local elections officials, observation and oversight of elections, and provision of support to counties.

DISCUSSION:

The Department has submitted two elections-related requests for FY 2015-16:

RI – Increase to Local Election Reimbursements

Statute requires the Department to provide reimbursements to counties on a per voter basis for a state-wide ballot issue or question in an election year (Section 1-5-505.5, C.R.S). Reimbursement rates were most recently adjusted by H.B. 12-1143 (Ferrandino/Steadman), which specifies that counties with fewer than 10,000 active registered voters be reimbursed at rate of \$0.90 per active registered voter, and counties with more than 10,000 active registered voters receive \$0.80 per active registered voter.

House Bill 13-1303 (Hullinghorst/Giron) made significant changes to election law, including the elimination of the "Inactive-Failed to Vote (I-FV)" voter status designation. As a result, more than 330,000 voters previously listed as I-FV were converted active status. While the bill did not change the reimbursement rates, the increase in the total number of active registered voters now requires the Department to pay more in local election reimbursements to meet its statutory

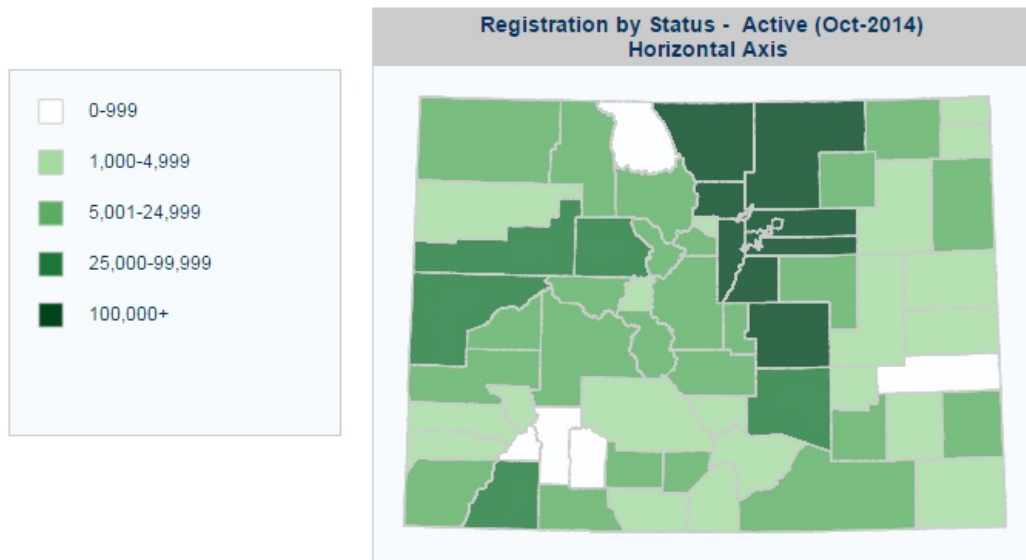
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obligation. The Committee approved a supplemental appropriation for FY 2013-14 to provide for the additional reimbursement requirements, but did not address a continuation of the increased funding for future years.

Department Request

The Department requests an increase of \$495,964 cash funds for FY 2015-16 to provide enough spending authority in the Local Election Reimbursement line item to meet statutory obligations for reimbursements to counties in the future. This is largely a technical adjustment that would bring the total appropriation to \$2.5 million, matching the supplemental appropriation approved for FY 2013-14.

As of November 1, 2014, there were almost 3.0 million total active registered voters and 637,000 inactive voters in Colorado. The following figure shows the distribution of active voters by county:



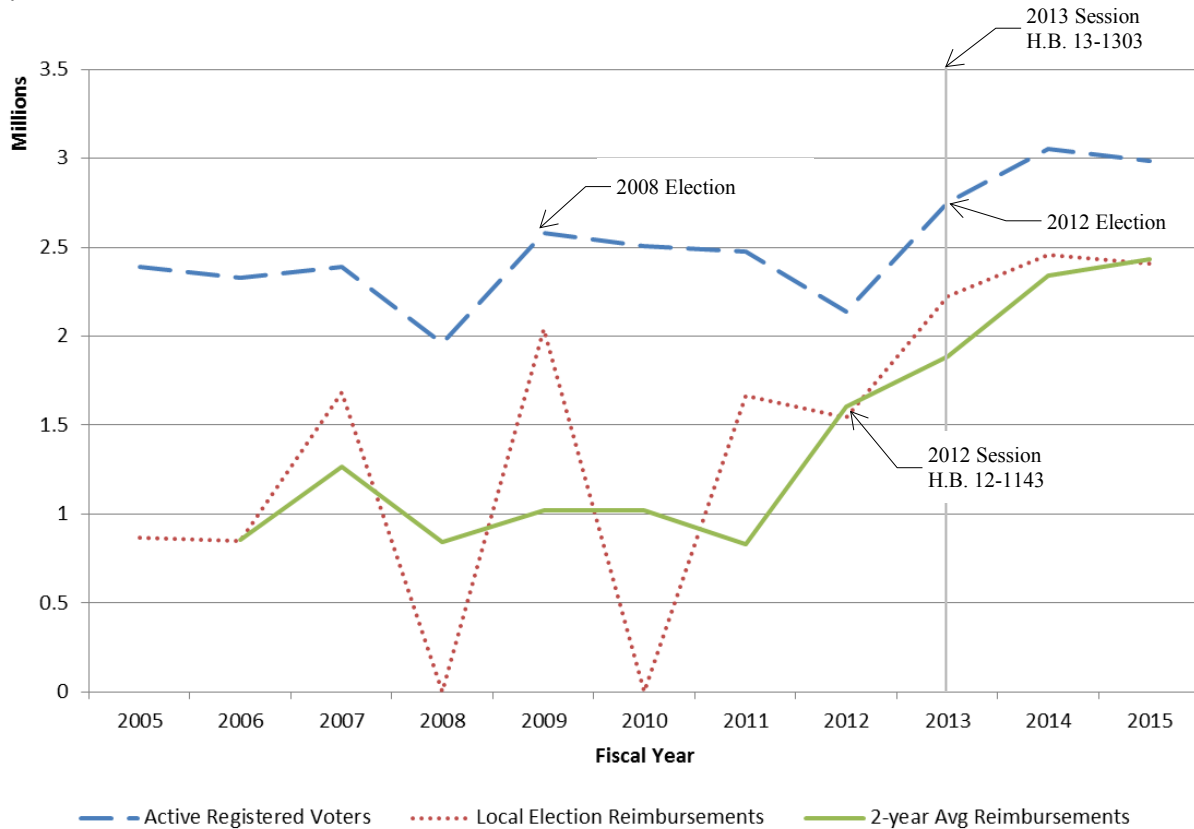
* From the Accountability in Colorado Elections (ACE) database provided by the Secretary of State.

At the time of the 2014 election, 29 counties had less than 10,000 voters and will be reimbursed at the \$0.90 rate. The remaining 35 counties had more than 10,000 voters and will receive reimbursement at the \$0.80 rate. Staff estimates that this will require \$2.4 million in reimbursements to counties in FY 2014-15. Department expenditures on reimbursements for the 2013 coordinated election were just under \$2.5 million.

The November 2014 election is only the second statewide election since the implementation of H.B. 13-1303, so the data available for estimating the need for future reimbursement is limited. However, the Department anticipates that the number of active voters will remain the same or increase slightly due to population growth and the resolution of "correction of address" issues. As a result, the amount required for local election reimbursements should also be relatively constant at approximately \$2.5 million.

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Staff concurs with the Department's assessment. The following figure shows the number of active voters in Colorado and local election reimbursements by the Department since FY 2004-05:



Voter registration numbers show some short-term fluctuations during even and presidential election years, but tend to follow long-term population trends. Barring any new legislation that impacts voter registration or adjusts the reimbursement rate to counties, the number of active voters is likely to stay reasonably constant over the next several years. An appropriation of \$2.5 million will give the Department the flexibility to accommodate any other acute changes in the number of active voters, as well as more gradual adjustments going forward.

Recommendation: Staff recommends the Committee approve the Department's request to increase the appropriation for local election reimbursements by \$495,964 cash funds for FY 2015-16.

R3 – Increase to Elections Operating Expenses

Elections Training and Certification

Pursuant to Section 1-1-301, C.R.S., the Secretary of State is required to provide a certification program for county clerks and local election officials on the conduct of elections, HAVA, and other elections-related issues. To be certified, elections officials must complete 14 courses that average 2.5 hours each. Elections officials must complete five continuing education courses every two years to maintain that certification.

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Approximately 75.0 percent of the courses are available online and the material is updated twice per year, after elections and the close of the legislative session. The Department also offers ten opportunities for in-person certification training every year during statewide and regional group meetings of the Colorado County Clerks Association around the state. Three to four staff members travel to each meeting to teach courses, especially those that are not effective in an online format.

Counties vary widely in the number of staff with elections-related responsibilities, but the Department reports the increasing complexity of administering elections is driving growth in the number of county-level staff with enough responsibility during elections to require certification. At present, 377 county clerks and other local elections officials are certified, and the Department has been issuing an average of 50 new certifications each year. By the end of FY 2015-16, 427 officials are expected hold certification with 80 new certifications issued during the course of the year. This presents an increase in workload for the Department.

Additionally, 25 new county clerks were elected in the recent election. None of this new cohort is certified and more than half have limited prior experience with elections administration. Significant turnover among certified elections staff is also expected as the new county clerks take office. As a result, the Department plans to hold five week-long intensive training sessions that provide an introduction to the basics of elections in addition to the regular certification program in FY 2015-16.

Elections Support and Oversight

Other changes made by H.B. 13-1303 include: allowing same-day voter registration; instituting mail ballot elections; changing requirements for voter service centers; and increasing the frequency of change-of-address searches using the National Change of Address database. These alterations increased the complexity of running elections, which requires the Department to increase oversight and support provided to counties. During the most recent election, the Department observed five counties and made onsite visits to all 64 counties, visiting 90.0 percent of all polling centers to ensure compliance with SCORE acceptable use policies, and the Americans with Disabilities Act. The total cost of training, support, and oversight of elections has increased 335.0 percent since FY 2009-10, and the Department anticipates the need for higher levels of oversight and support will continue as election reform makes elections more complicated to administer.

Department Request

The Department requests an increase of \$70,265 cash funds to meet the need for the certification of local elections officials, observation and oversight of elections, and provision of support to counties. Without increased funding, the Elections Divisions will be unable to provide sufficient training and oversight to ensure adequate compliance with election law.

Recommendation: Staff recommends the Committee approve the Department's request for an increase of \$70,265 cash funds to fund operating expenses in the Elections Division related to training and oversight.

Issue: Overview of Business Intelligence Center Request

The Department of State is requesting an increase of \$775,000 cash funds to continue funding for personal services and operating expenses for the Business Intelligence Center program, and provide funding for the Department to host the Go Code Colorado statewide application challenge event on an annual basis.

SUMMARY:

- The Business Intelligence Center (BIC) program was launched in FY 2013-14 to aggregate and standardize datasets of high value to the business community from across state agencies, and improve access to public information.
- BIC hosts the Go Code Colorado (GCC) application challenge, which encourages the development of apps that utilize the data gathered and maintained by the program. Finalists from GCC events receive a one-year contract with the state of Colorado to develop and maintain their applications
- The Department received a total of \$2.25 million cash funds and 1.0 FTE for the first two years of the BIC program, and requests an ongoing appropriation of \$775,000 cash funds for data management and GCC app challenge events.

RECOMMENDATION:

Staff recommends the Committee approve a technical adjustment to the Department's request, in lieu of a budget amendment, to annualize the appropriation for salary and benefits for the BIC program manager in the Administration Personal Services line item.

Additionally, staff recommends the Committee request the following information for discussion during the Department hearing on December 2, 2014:

- a comparison and clarification of the goals of BIC and the GCC app challenges;
- a discussion of the relationship between stated BIC program objectives and anticipated performance measures for GCC events (e.g. the number of apps developed);
- specific information on the involvement of other state agencies in the GCC challenges; and
- an estimate of the direct and indirect costs and the expected benefits of GCC events.

DISCUSSION:

Background

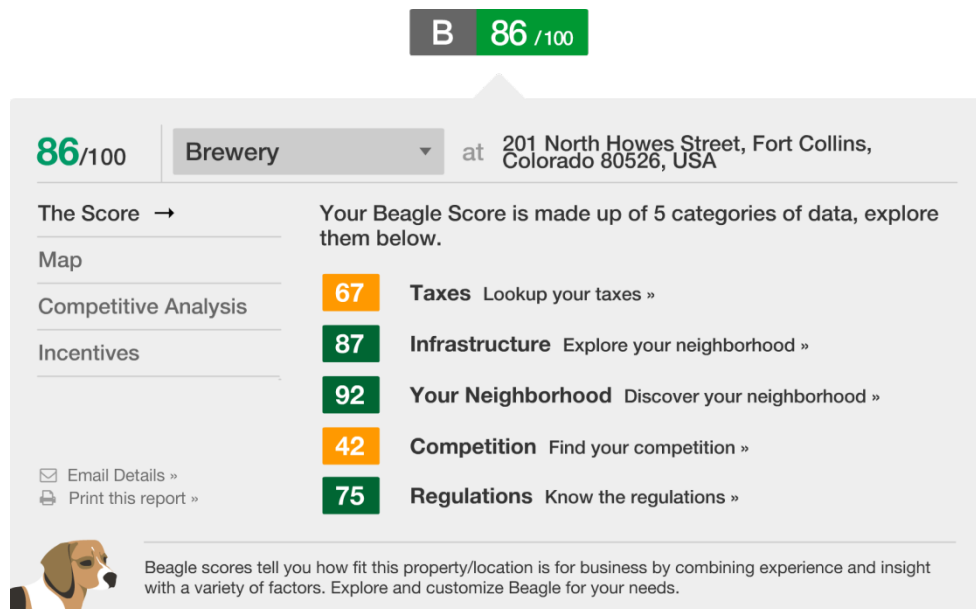
The Business Intelligence Center (BIC) was launched in FY 2013-14 to aggregate and standardize datasets from across state agencies and improve access to public information. The Department chose to utilize the Colorado Information Marketplace (CIM), a pre-existing open data platform, to host datasets collected as part of the BIC program and serve as a central access

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point for users. BIC targets datasets of high value to the business community and has helped publish 38 datasets on CIM in the past year. The Department expects to add another 67 datasets by the end of FY 2014-15.²

The BIC program has also hosted a statewide application challenge called Go Code Colorado (GCC). Teams of software developers and members of the Colorado business community are charged with developing apps that utilize the data gathered and maintained by BIC. The top three finalists from GCC events receive a one-year contract with the state of Colorado to develop and maintain their applications: \$25,000 for the winning app; \$15,000 for the first runner-up; and \$10,000 for the third place finisher.

Two of the three winning apps are currently complete and available for use. The following figure is a screenshot of the Beagle Score widget, the first-place app which accesses CIM data to calculate a score indicating the fitness of a real estate location for different kinds of businesses:



A total of 25 teams (130 people) participated in the 2014 GCC event and dates for a second challenge in spring of 2015 have been finalized. The Department indicates that these challenges will be held on an annual basis, pending the approval of the request for funding, and that participation is expected to increase as the program becomes more well-known.

² The datasets currently available are from the Department of State and four state agencies that have agreed to participate: Higher Education, Local Affairs, Labor and Employment, and Revenue.

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Program Funding History

The Department received a total of \$2.25 million cash funds and 1.0 FTE for the first two years of the BIC program. The appropriation included funding for:

- IT, administrative, and legal costs of developing the platform and gathering datasets;
- an executive manager to oversee program development and coordinate GCC challenges;
- outreach, marketing, and event planning expenses for GCC challenges; and
- contracts for the winners of the GCC challenge.

Additionally, the approved request provided for an ongoing appropriation of \$125,000 cash funds and 1.0 FTE for the executive manager starting in FY 2015-16.

Department Request

The Department requests an increase of \$775,000 cash funds for BIC personal services and operating expenses as summarized in the following table:

FY 2015-16 BIC Funding Request	
<u>BIC Personal Services (new line item)</u>	
Program Manager Salary and Benefits	\$120,000
Event Management and Communications	225,000
Data Management	250,000
Legal Services	<u>30,000</u>
Personal Services Total	\$625,000
<u>BIC Operating Expenses (new line item)</u>	
Travel Reimbursement	\$30,000
Communications and Marketing	35,000
Software Program Licenses	30,000
Winning App Contracts and Licenses	50,000
Administrative Fees	<u>5,000</u>
Operating Total	\$150,000
Total Request	\$775,000

If approved, BIC appropriations will be reflected in two new Long Bill line items in the Business and Licensing Division for increased transparency. For comparison purposes, the following table shows the appropriation approved for FY 2013-14 and the Department's request for FY 2015-16:

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Comparison of BIC FY 13-14 Budget Amendment and FY 15-16 Request						
Line Item	FY 13-14 Budget Amendment			FY 15-16 Request Item		
	FY 13-14	FY 14-15	FY 15-16	Base Approp.	FY 15-16 Request	BIC Total
Admin, Personal Services	\$125,000	\$125,000	\$125,000	\$125,000	\$0 ^a	\$125,000 ^a
Admin, Operating Expenses	50,000	50,000	0	50,000	(50,000) ^b	0
IT Services, Personal Services	450,000	1,000,000	0	1,000,000	(1,000,000) ^b	0
IT Services, Operating Expenses	125,000	325,000	0	325,000	(325,000) ^b	0
B&L, BIC Personal Services	-	-	-	0	625,000	625,000
B&L, BIC Operating Expenses	-	-	-	0	150,000	150,000
Continued Appropriations	\$0	\$750,000	\$125,000	\$1,500,000	(\$1,375,000)	\$125,000
New Appropriations	<u>750,000</u>	<u>750,000</u>	<u>0</u>	<u>-</u>	<u>775,000</u>	<u>775,000</u>
Total Appropriation	\$750,000	\$1,500,000	\$125,000	\$1,500,000	(\$600,000)	\$900,000
FTE	1.0 FTE	1.0 FTE	1.0 FTE	1.0 FTE	0.0 FTE	1.0 FTE

^a Please see the JBC Staff recommendation below. ^b These amounts were included in the request as annualizations of prior year funding.

Program Manager Salary and Benefits

When BIC was established, the Committee approved an ongoing appropriation of \$125,000 and 1.0 FTE to continue funding for the BIC Program Manager after FY 2014-15. This amount was built into the base appropriation for the Administration Division's Personal Services line item starting in FY 2013-14. The Department's current request for FY 2015-16 also includes \$120,000 cash funds for the BIC Program Manager's salary and benefits in a new BIC Personal Services line item, but does not annualize the existing appropriation. As such, the request duplicates the ongoing funding currently being carried forward in the Administration Division.

Recommendation: Staff recommends the Committee approve the following technical adjustment to the Department's request, in lieu of a budget amendment.

Department of State Administration Division	
<u>Personal Services</u>	<u>Cash Funds</u>
FY 2015-16 Department Request	\$1,756,684
Recommended Technical Adjustment	<u>(125,000)</u>
TOTAL	\$1,631,684
Percentage Change	(7.1%)

This recommendation removes funding for the BIC Program Manager in the Administration Division and reflects the Department's intent to include the \$120,000 cash funds appropriation for the position in the requested BIC Personal Services line item. The Department has indicated agreement with this adjustment.

Funding for Go Code Colorado App Challenge

The GCC app challenges are a creative way of collaborating with the business community and encouraging the use of publicly available data to solve problems and enhance services. However, staff is concerned that the GCC app challenge events are not a cost-effective or efficient way to further the objectives of the BIC program.

1) GCC events divert significant resources away from central BIC program goals.

The BIC program was originally conceived to provide a solution to the difficulty of finding and using publicly-available information that may be helpful to the business community. This is primarily accomplished through the development and maintenance of the CIM platform as a central repository for public data. However, only \$250,000 of the Department's request is exclusively for adding datasets and maintaining the data available on the CIM website, both of which further BIC program objectives. The remainder is either partially or fully dedicated to running the GCC events, which were developed to build awareness of, and create demand for, the BIC data, not necessarily to help provide it.

Additionally, while GCC apps are required to address business-related problems as part of the challenge, they may only serve a very narrow portion of the business community. App challenges could have the unintended effect of facilitating access in a piecemeal fashion for specific niches, rather than encouraging broad use of CIM data over time, which is the ultimate goal of BIC.

In sum, GCC goals are related to, but different than, the larger mission of the BIC program. If the majority of funding for the BIC program will be dedicated to the app challenges, program priorities may need to be evaluated and adjusted so that the objectives for the funding are more transparent.

2) The GCC app challenges are not a reliable way to guarantee long-term use of CIM data.

GCC challenges are structured to give winning apps the resources to be successful by providing start-up money, mentorship, and a technical review process. However, the contract between the Department and challenge winners only requires the apps be maintained for a period of one year. The apps become private enterprises after the term of the contract expires, and developers are under no obligation to maintain them if it is not profitable or beneficial to do so. In general, apps that achieve long-term success are rare and it is possible that many GCC apps will not be maintained over time. This makes them unreliable as a long-term strategy for guaranteeing access to and use of the CIM data. Importantly, the Department has indicated that it intends to use the number of apps developed through GCC as a workload measure for the services provided by the BIC program, not the number of successful or available apps over time.

3) GCC apps are more expensive than other comparable data access tools.

The Department was unable to provide specific information on how much of the request amount directly supports GCC events. However, based on available numbers, staff estimates the approximate total cost of a GCC app at \$143,300, whether the app succeeds after the one-year

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contract period or not.³ In comparison, the estimated average cost of apps developed through the Office of Information Technology (OIT) is \$80,000 to \$120,000 depending on the level of complexity and platform requirements. Up-front costs for GCC apps are \$23,300 to \$63,000 more per app with no guarantee of a return on that investment.

4) *Financial support for GCC app challenges from other agencies appears limited.*

The Department indicates that it works with the Office of Economic Development and International Trade (OEDIT), the Office of Information Technology (OIT), and private industry to host the GCC app challenge events. Private industry is a direct beneficiary of the GCC app challenges and contributed \$75,000 in cash donations and \$122,000 of in-kind contributions for the 2014 GCC event. However, it does not appear that OEDIT or OIT contributed any significant financial support for GCC events.

OIT has requested \$65,000 General Fund in FY 2015-16 to pay for the software licenses that will keep the CIM website operational. If approved, this will be the first guaranteed funding source for CIM since it was created in 2012, but does not provide any direct support for the GCC app challenge events.

Recommendation: Staff recommends the Committee request the following information for discussion during the Department hearing on December 2, 2014:

- a comparison and clarification of the goals of BIC and the GCC app challenges;
- a discussion of the relationship between stated BIC program objectives and anticipated performance measures for GCC events (e.g. the number of apps developed);
- specific information on the involvement of other state agencies in the GCC challenges; and
- an estimate of the direct and indirect costs and the expected benefits of GCC events.

³ This divides \$430,000 in expenses over three winning apps, including: \$340,000 for media relations, promotional campaigns, website creating, event, management, video production, travel reimbursement, and contracts with winners; and half the cost of legal services, software licenses, administrative fees, and the salary for the program manager (\$90,000) assuming an equal split between GCC and other BIC program requirements.

Issue: Determining the Financial Status of the Department of State

The Department has reported issues with personnel, record-keeping, and the new statewide CORE system that are currently preventing access to historical and current financial data necessary for budgetary and financial decision-making.

SUMMARY:

- Significant turnover of personnel with fiscal and budgetary responsibilities has occurred over the past year, potentially damaging institutional memory related to record-keeping and the long-term financial condition of the Department.
- The Department has reported difficulties in accessing financial records from previous and current fiscal years, impacting the precision and reliability of revenue forecasts.
- The most recent audits of the Department (statewide and federal) reported issues with adherence to State Fiscal and Procurement Rules as well as expenditures of HAVA funds. Prior state audits of the Department have focused on program performance and are out of date.
- Requesting a financial audit at this time will identify any problems with prior year financial records, provide an accurate and comprehensive record for the incoming administration, and assist the Committee with figure setting for the Department in current and future years.

RECOMMENDATION:

Staff recommends the Committee: (1) request any available information and an opinion from the Office of the State Auditor on the financial state of the Department; and (2) consider submitting a request to the Legislative Audit Committee for a financial audit of the Department of State, to be conducted as soon as possible.

DISCUSSION:

The Department has struggled to access financial records, reconcile previous data with current numbers, and locate accurate information when requested. These issues have been attributed to personnel turnover, record-keeping, and the new statewide CORE system, and are currently preventing access to historical and current financial data necessary for budgetary and financial decision-making.

Turnover of Financial and Budget Personnel

The Department has attributed difficulties in providing full and accurate data to considerable turnover among financial staff and personnel responsible for the budget over the past year. Staff

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is concerned that some of the institutional memory regarding budgetary practices and the long-term financial condition of the Department has been lost as department staff were replaced. For example, when staff requested data on prior year expenditures, it appeared difficult for the Department to ascertain how totals were calculated in the past in order to provide updated information that was consistent. This issue may also be compounded by the recent election of a new Secretary of State whose administration will start in January 2015. Any incoming personnel will have limited prior experience with, or knowledge of, Department finances.

Access to Financial Records

In working with the Department, staff notes internal records and documentation appear to be somewhat disorganized, or even missing in some cases. This presents challenges for new department staff to find and provide requested data. For example, department staff has had to reference multiple copies of the same file with small differences and non-specific file names which has caused problems determining which version contains the correct data. Additionally, the Department has indicated that financial records and budget documents from both previous and current fiscal years have been inaccessible or difficult to find. This has affected the precision, and potentially the accuracy, of revenue forecasts used to set fees, enact fee holidays, and manage the DOS Cash Fund balance.

The Department has suggested that some of the issues with the availability and accuracy of historical files may be related to the departure of former department staff, while others involve new CORE system. The Department has been able to reconcile revenue and procurement reports. However, discrepancies between data entered in CORE and reports have been a persistent problem and the Department is still in the process of addressing issues in the expense reports. Staff in the Office of the State Controller was unable to clarify whether problems with reports generated by InfoAdvantage are occurring for all state agencies or if they are more specific to the Department of State. Regardless, staff is concerned about the accuracy and reliability of the financial and budgetary data provided by the Department but is not in a position to verify historical records or determine the cause of any issues or discrepancies.

Prior Department Audits

The most recent statewide single audit sampled transactions made by the Department and found that they did not fully comply with state fiscal and procurement rules. The Department agreed with the audit recommendations and planned to implement changes by July 2014. Other state audits of the Department have generally been limited in scope and are becoming outdated. The last two audits of the Department on record with the State Auditor were conducted in 2007 (Voter Registration and HAVA) and 2008 (Oversight of Charitable Solicitations, Lobbyists, and Notaries), and focused on program performance.

The U.S. Election Assistance Commission conducted an audit in 2012 that was restricted to the Department's use of federal funds for the administration of the Help America Vote Act (HAVA). The results of the audit indicated that the office "generally accounted for and spent HAVA funds in accordance with applicable requirements" with the exception of an improper expenditure on a voter registration media campaign in 2012. The Department contested the finding regarding the media campaign.

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DOS Cash Fund Balance

Please note staff does not have immediate concerns regarding the DOS Cash Fund balance at this time. The Department estimates expenses in the current fiscal year to be \$20.5 million using available data on year-to-date expenditures. This is \$1.6 million less than the Department's FY 2014-15 appropriation. As a result, the DOS Cash Fund's projected year-end balance plus expected fee revenue appears to be sufficient to cover the Department's FY 2015-16 request with an ending fund balance of \$1.5 million.

Recommendation

Staff recommends the Committee:

- 1) ask the Office of the State Auditor to provide an opinion of the Department's current financial status based on any available information they may have; and
- 2) consider submitting a request to the Legislative Audit Committee for a financial audit of the Department of State, to be conducted as soon as possible.

A full and independent audit to determine the financial status of the Department near the mid-point of FY 2014-15 will allow for a detailed review of Department financial records, identify the source of any errors or discrepancies in the data, and will establish a clear record for new budget staff and the incoming administration. Information from an audit also would be of use to the Committee during figure setting for the upcoming fiscal year by ensuring that decisions on future appropriations can be informed by full, accurate, and current financial data.

Informational Issue: Comparison of Business Filing Fees, Revenues, and Expenditures

All states charge fees for business filings, but there is significant variation in both the amount charged and how states use fee revenue. This issue brief provides an overview of Colorado's business filing fees, revenues, and expenditures in comparison to policies and practices in other states.

SUMMARY:

- Business filing fees provide more than 96.0 of revenue for the Department of State, which is entirely cash funded with the exception of federal funding for the administration of the Help America Vote Act (HAVA).
- In comparison to other states, Colorado has some of the lowest business filing fees for new business in the nation and the Department of State has more flexibility in setting fees than most other state agencies responsible for business filings.
- About half of all states deposit some or all filing fee revenue into the state General Fund or limit the use fee revenue to the program that process business filings. Colorado is relatively unique in that all filing fees are retained by the Department of State and fee revenue directly supports all programs and divisions, including elections-related expenses.

DISCUSSION:

The Business and Licensing Division in the Department of State is responsible for registering, licensing, and overseeing businesses and a variety of other entities including charitable organizations, lobbyists, and notaries public. Business filing fees alone account for more than 96.0 percent of the revenue that supports all divisions and programs in the Department of State, including elections-related expenditures. All states charge fees for business filings, but there is significant variation in both the amount charged and how states use fee revenue.

Comparison of Business Filing Fees

The Department's Business Operations Unit handles an average of 750,000 filings per year. Periodic reports are the most common business filing the Department processes, with 29,000 to 42,000 submitted per month. Filings for new LLCs and new trade names are the next most common, averaging 6,000 and 3,600 submissions per month respectively. Nearly all of these filings are accepted electronically.

Each type of business filing has an associated fee set by the Secretary of State. Colorado has some of the lowest filing fees for new businesses in the country at \$50 each for corporations,

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LLCs and LLPs.⁴ The following figure shows the range of fees charged by states for new business filings:



The national average for business filing fees is approximately \$110 for corporations and \$130 for both LLCs and LLPs. Only one state (Kentucky) has lower filing fees than Colorado for corporations and LLCs, and five states have lower filing fees for LLPs.⁵ It is currently Department policy to conduct regular competitiveness reviews when setting fee amounts to keep Colorado business filing fees at or near the lowest rate in the country.

Actual and Projected Fee Revenue

With the exception of small federal grants and continuously-appropriated funds for the administration of HAVA, business filing fees provide nearly all of the revenue for Department programs. The following table shows actual and projected fee revenues from all filing types since FY 2011-12:

Department of State Fee Revenues				
FY 11-12	FY 12-13	FY 13-14	FY 14-15*	FY 15-16*
\$17,298,268	\$14,838,261	\$18,694,466	\$18,718,741	\$20,644,187

*Estimated revenue projections.

⁴ Please note: LLCs are Limited Liability Corporations, and LLPs are Limited Liability Partnerships.

⁵ Data from "Business Filing Fees by State" assembled by Heather Morton, National Conference of State Legislatures, October 8, 2014.

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Fee Adjustments and Holidays

The Department currently has the authority to adjust fees to align revenue and costs or to address an excess uncommitted reserve issue with the DOS Cash Fund without direct legislative oversight (Sections 24-21-104 (1) (b) and 24-21-104 (3) (b), C.R.S.). Eight other states and Washington D.C. follow a similar approach, allowing agencies responsible for business filings to set and adjust the amount for collected fees. At least two of these states also have statutory provisions comparable to Colorado, requiring fee revenue to be approximately equal to expenses. Most other states enumerate dollar amounts for business filing fees in statute, and often require legislative approval to make adjustments.⁶

According to Department records, there have been a total of 12 adjustments under the current Secretary of State, which includes changes associated with three fee holidays.⁷ Fee holidays significantly reduce the cost of certain types of filings over a discrete period of time. The most recent fee holiday reduced filing fees for new businesses from \$50 to \$1 beginning in July through the end of October 2014. Department estimates of fee holiday revenue impacts are summarized in the table below:

Department of State 2014 Fee Holiday Revenue Impact					
	July	August	September	October	Total
Unit Sales	8,533	7,959	7,741	9,708	33,941
Actual Revenue	\$46,508	\$7,959	\$7,741	\$9,708	\$71,916
Estimated Revenue w/o Fee Holiday*	<u>426,650</u>	<u>397,950</u>	<u>387,050</u>	<u>485,400</u>	<u>1,697,050</u>
Total Revenue Impact	(\$380,142)	(\$389,991)	(\$379,309)	(\$475,692)	(\$1,625,134)

*Note: Estimates of revenue collected without a fee holiday assume demand is inelastic.

The Department indicated that the 2014 fee holiday for new businesses was enacted to reduce fee revenue by at least \$1.0 million and bring projected cash reserves below the 16.5 percent target. Based on FY 2013-14 expenditures of \$19.6 million, the target reserve for the DOS Cash Fund is \$3.2 million. Department estimates show actual expenditures for FY 2014-15 that are \$1.6 million less than the amount appropriated. Additionally, H.B. 14-1341 (May/Steadman) transferred \$2.175 million from the General Fund to the DOS Cash Fund at the end of FY 2013-14 as a repayment of moneys swept from the cash fund to the General Fund during FY 2008-2009. Department cash fund balance projections based on the lower estimated expenditures for FY 2014-15 and the additional revenue from the H.B. 14-1341 General Fund transfer, showed a year-end balance in excess of the target reserve.

⁶ Data from "State Statutes Defining Uses for Business Filing Fees" assembled by Heather Morton, National Conference of State Legislatures, October 15, 2014.

⁷ The number of adjustments includes both fee reductions and restorations for each fee holiday, (i.e. a fee holiday counts as two changes).

Comparison of Uses Business Filing Fees

Based on available data, just under half of all states have provisions for the deposit some or all of filing fee revenue directly into the General Fund. In some cases, all revenue over an established cap is diverted to the General Fund, while other states divert a pre-determined percentage of fee revenue into the General Fund or state treasury. Additionally, some states also have the statutory authority to transfer excess balances on cash funds used to hold filing fee revenue to the General Fund at the end of the each fiscal year.

Of the states that retain at least part of the filing fee revenue for Departments of State, seven specifically designate business filing fees to support the programs that generate the fees. The remaining states allow the use of fees for department operations more broadly or do not directly address the use of fees in statute.

Funding Elections-Related Expenses

The State of Colorado is somewhat unique in that revenue from business filing fees directly supports elections-related expenses, including reimbursements to counties. The Elections Division received an appropriation of \$4.6 million cash funds in FY 2014-15 from fee revenue in the DOS Cash Fund, which accounts for 20.7 percent of the Department's total appropriation. Roughly half of the appropriation is for personal services and half is for local election reimbursements.⁸

There is a wide range of variation across states in the degree to which counties and municipalities are reimbursed for the cost of elections, as well as the source of funds for those payments.⁹ A Secretary of State serves as the chief election officer in a total of 38 states, and all but seven of these have some mechanism in place to reimburse counties or cities for elections-related expenses. State policies on election reimbursements generally fall into five categories, though a mix of approaches is common:

- 1) Type of Election: States provide reimbursements to counties for specific kinds of elections, or in specific years, e.g. primaries (AZ, TX), special elections (FL, NJ, ND), vacancy elections or recalls (OR, PA), other emergency elections (SD), or elections in odd-number years (WA).
- 2) Ballot Specifics: States provide full or partial reimbursements to counties based on the kind of candidates or measures on the ballot, e.g. statewide offices or ballot measures only versus a shared ballot with both state and county races (AL, LA, MI, MS, OH, TN).
- 3) Per Voter Rates: States provide reimbursements to counties based on a particular rate per precinct or per voter (AK, CO, KY).

⁸ Please note the local election reimbursement appropriation for FY 2014-15 is approximately \$400,000 less than will be required for the November 2014 election.

⁹ Data from "State Funding for Elections" assembled by Katy Owens Hubler, National Conference of State Legislatures, October 30, 2014.

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- 4) Administrative Assistance: States provide or help pay for voting equipment (GA, IN, NM), printed ballots or forms (CT, RI, VT, WV), voter registration activities (CA), informational materials (NV), or other supplies (WY).
- 5) Other: States have grant funding available to counties or provide reimbursements for miscellaneous things, e.g. the incurred costs of presidential electors (MN).

Sources of funding across states for elections-related expenses are diverse and include, but are not limited to: general fund or state treasuries, funds appropriated by state legislatures in the budget for Secretaries of State, specific fees, and other dedicated cash funds. Many states also continue to utilize HAVA funds from the federal government in addition to other sources of funding.

In Colorado, Section 1-5-505.5, C.R.S., requires the Department of State to reimburse counties for a state ballot issue or state ballot question in an election year at a per voter rate determined by the number of active registered voters in a county. The total amount required in a given year depends on the reimbursement rate set in statute (last increased by H.B. 12-1143), and the way active registered voters are counted. However, all funds for reimbursements come from fee revenue in the DOS Cash Fund.

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Appendix A: Number Pages

	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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DEPARTMENT OF STATE
Scott Gessler, Secretary of State

(1) ADMINISTRATION

The Administration Division provides general management and supervision for the entire Department, including budgeting, accounting, and human resources services. Prior to FY 2013-14, Department responsibilities regarding elections and business filings were carried out by sections within this Division. Starting in FY 2013-14, these functions were designated to the newly-established Elections and Business and Licensing Divisions by a Department reorganization.

Personal Services	<u>5,518,992</u>	<u>1,600,548</u>	<u>1,707,139</u>	<u>1,756,684</u>
FTE	79.6	17.8	19.0	19.0
Cash Funds	5,518,992	1,600,548	1,707,139	1,756,684
Health, Life, and Dental	<u>863,469</u>	<u>273,763</u>	<u>924,392</u>	<u>960,283</u>
Cash Funds	863,469	273,763	924,392	960,283
Short-term Disability	<u>13,800</u>	<u>4,868</u>	<u>17,368</u>	<u>19,131</u>
Cash Funds	13,800	4,868	17,368	19,131
S.B. 04-257 Amortization Equalization Disbursement	<u>244,953</u>	<u>93,581</u>	<u>321,748</u>	<u>382,612</u>
Cash Funds	244,953	93,581	321,748	382,612
S.B. 06-235 Supplemental Amortization Equalization Disbursement	<u>210,507</u>	<u>84,483</u>	<u>301,638</u>	<u>369,568</u>
Cash Funds	210,507	84,483	301,638	369,568
Salary Survey	<u>0</u>	<u>57,376</u>	<u>216,883</u>	<u>95,089</u>
Cash Funds	0	57,376	216,883	95,089

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
Merit Pay	<u>0</u>	<u>35,929</u>	<u>84,574</u>	<u>100,385</u>	
Cash Funds	0	35,929	84,574	100,385	
Workers' Compensation	<u>6,926</u>	<u>14,078</u>	<u>12,921</u>	<u>14,023</u>	
Cash Funds	6,926	14,078	12,921	14,023	
Operating Expenses	<u>826,247</u>	<u>278,054</u>	<u>550,816</u>	<u>500,816</u>	
Cash Funds	826,247	278,054	550,816	500,816	
Legal Services	<u>481,421</u>	<u>421,541</u>	<u>704,753</u>	<u>672,722</u>	
Cash Funds	481,421	421,541	704,753	672,722	
Administrative Law Judge Services	<u>114,624</u>	<u>31,136</u>	<u>32,094</u>	<u>76,761</u>	
Cash Funds	114,624	31,136	32,094	76,761	
Purchase of Services from Computer Center	<u>102,789</u>	<u>165,228</u>	<u>0</u>	<u>0</u>	
Cash Funds	102,789	165,228	0	0	
Colorado State Network	<u>0</u>	<u>105,595</u>	<u>0</u>	<u>0</u>	
Cash Funds	0	105,595	0	0	
Payment to Risk Management and Property Funds	<u>37,672</u>	<u>40,676</u>	<u>53,338</u>	<u>41,734</u>	
Cash Funds	37,672	40,676	53,338	41,734	
Vehicle Lease Payments	<u>2,963</u>	<u>3,071</u>	<u>528</u>	<u>3,071</u>	
Cash Funds	2,963	3,071	528	3,071	
Leased Space	<u>631,682</u>	<u>641,271</u>	<u>658,026</u>	<u>636,211</u>	
Cash Funds	631,682	641,271	658,026	636,211	

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
COFRS Modernization	<u>40,140</u>	<u>40,140</u>	<u>40,140</u>	<u>15,946</u>	
Cash Funds	40,140	40,140	40,140	15,946	
Information Technology Security	<u>0</u>	<u>2,787</u>	<u>0</u>	<u>0</u>	
Cash Funds	0	2,787	0	0	
Indirect Cost Assessment	<u>105,838</u>	<u>107,012</u>	<u>128,983</u>	<u>156,308</u>	
Cash Funds	105,838	107,012	128,983	156,308	
Discretionary Fund	<u>4,740</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	
Cash Funds	4,740	5,000	5,000	5,000	
TOTAL - (1) Administration	9,206,763	4,006,137	5,760,341	5,806,344	0.8%
<i>FTE</i>	<u>79.6</u>	<u>17.8</u>	<u>19.0</u>	<u>19.0</u>	<u>0.0%</u>
Cash Funds	9,206,763	4,006,137	5,760,341	5,806,344	0.8%

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(2) INFORMATION TECHNOLOGY

The Information Technology (IT) Services division provides most of the technology support for the Department and is responsible for the Department's compliance with the Colorado Information Security Act. The Department provides search and filing services via the internet and the IT Services Division processes over 2,500 web-based transactions daily. The Division also provides project direction and support for the statewide voter registration and election management system.

(A) Information Technology

Provides IT support to the Department and manages the statewide voter registration database.

Personal Services	<u>4,259,246</u>	<u>5,590,874</u>	<u>5,779,961</u>	<u>4,723,907</u>	
FTE	32.1	36.0	36.0	36.0	
Cash Funds	4,259,246	5,590,874	5,779,961	4,723,907	
Operating Expenses	<u>468,747</u>	<u>461,150</u>	<u>806,112</u>	<u>481,112</u>	
Cash Funds	468,747	461,150	806,112	481,112	
Hardware/Software Maintenance	<u>1,433,895</u>	<u>1,428,877</u>	<u>1,798,242</u>	<u>1,738,242</u>	
Cash Funds	1,433,895	1,428,877	1,798,242	1,738,242	
Information Technology Asset Management	<u>372,460</u>	<u>809,250</u>	<u>445,418</u>	<u>445,418</u>	
Cash Funds	372,460	809,250	445,418	445,418	
SUBTOTAL - (A) Information Technology	6,534,348	8,290,151	8,829,733	7,388,679	(16.3%)
FTE	<u>32.1</u>	<u>36.0</u>	<u>36.0</u>	<u>36.0</u>	0.0%
Cash Funds	6,534,348	8,290,151	8,829,733	7,388,679	(16.3%)

JBC Staff Budget Briefing: FY 2015-16
Staff Working Document - Does Not Represent Committee Decision

	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(B) Statewide Disaster Recovery Center

Responsibility for the Statewide Disaster Recovery Center was transferred to the Office of Information Technology in FY 2011-12, though funding was transferred in one-third increments starting in FY 2011-12. As of FY 2013-14, the Department of State no longer provides funding for this function.

Personal Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
FTE	0.0	0.0	0.0	0.0	
Cash Funds	0	0	0	0	
Leased Space	<u>776,497</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Cash Funds	776,497	0	0	0	
Operating Expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Cash Funds	0	0	0	0	
Hardware/Software Maintenance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Cash Funds	0	0	0	0	

SUBTOTAL - (B) Statewide Disaster Recovery Center	776,497	0	0	0	0.0%
FTE	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0%</u>
Cash Funds	776,497	0	0	0	0.0%

TOTAL - (2) Information Technology	7,310,845	8,290,151	8,829,733	7,388,679	(16.3%)
FTE	<u>32.1</u>	<u>36.0</u>	<u>36.0</u>	<u>36.0</u>	<u>0.0%</u>
Cash Funds	7,310,845	8,290,151	8,829,733	7,388,679	(16.3%)

JBC Staff Budget Briefing: FY 2015-16
Staff Working Document - Does Not Represent Committee Decision

	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(3) ELECTIONS DIVISION

The Elections Division administers statewide statutory and constitutional provisions that relate to elections. This includes overseeing the election initiative and referendum process, inspecting and certifying voting equipment, and implementing the federal Help America Vote Act. The Division also manages the State of Colorado Registration and Elections (SCORE) voter registration system and monitors campaign finance reporting.

Personal Services	<u>0</u>	<u>2,056,543</u>	<u>2,118,433</u>	<u>2,187,020</u>	
FTE	0.0	27.1	34.2	34.2	
Cash Funds	0	2,056,543	2,118,433	2,187,020	
Operating Expenses	<u>0</u>	<u>218,561</u>	<u>215,007</u>	<u>267,838</u>	*
Cash Funds	0	218,561	215,007	267,838	
Help America Vote Act Program	<u>852,371</u>	<u>754,349</u>	<u>349,222</u>	<u>349,222</u>	
FTE	0.0	0.0	0.0	0.0	
Cash Funds	852,371	754,349	349,222	349,222	
Local Election Reimbursement	<u>2,226,707</u>	<u>2,455,163</u>	<u>2,004,036</u>	<u>2,500,000</u>	*
Cash Funds	2,226,707	2,455,163	2,004,036	2,500,000	
Initiative and Referendum	<u>208,156</u>	<u>149,114</u>	<u>250,000</u>	<u>150,000</u>	
Cash Funds	208,156	149,114	250,000	150,000	

TOTAL - (3) Elections Division	3,287,234	5,633,730	4,936,698	5,454,080	10.5%
FTE	<u>0.0</u>	<u>27.1</u>	<u>34.2</u>	<u>34.2</u>	<u>0.0%</u>
Cash Funds	3,287,234	5,633,730	4,936,698	5,454,080	10.5%

*This line item includes a decision item.

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	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2015-16 Request	Request vs. Appropriation
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(4) BUSINESS AND LICENSING DIVISION

The Business and Licensing Division is primarily responsible for registering, licensing, and overseeing businesses and providing public access to those records. The Divisions also licenses and regulates bingo/raffle organizations and fund raisers, registers lobbyists and charitable organizations, and commissions notaries public.

Personal Services	<u>0</u>	<u>2,338,869</u>	<u>2,447,103</u>	<u>2,523,122</u>	
FTE	0.0	38.5	48.1	48.1	
Cash Funds	0	2,338,869	2,447,103	2,523,122	
Operating Expenses	<u>0</u>	<u>88,936</u>	<u>163,000</u>	<u>163,000</u>	
Cash Funds	0	88,936	163,000	163,000	
Business Intelligence Center Personal Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>625,000</u>	*
Cash Funds	0	0	0	625,000	
Business Intelligence Center Operating Expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>150,000</u>	*
Cash Funds	0	0	0	150,000	
TOTAL - (4) Business and Licensing Division	0	2,427,805	2,610,103	3,461,122	32.6%
FTE	<u>0.0</u>	<u>38.5</u>	<u>48.1</u>	<u>48.1</u>	0.0%
Cash Funds	0	2,427,805	2,610,103	3,461,122	32.6%
TOTAL - Department of State	19,804,842	20,357,823	22,136,875	22,110,225	(0.1%)
FTE	<u>111.7</u>	<u>119.4</u>	<u>137.3</u>	<u>137.3</u>	0.0%
Cash Funds	19,804,842	20,357,823	22,136,875	22,110,225	(0.1%)

*This line item includes a decision item.

Appendix B: Recent Legislation Affecting Department

2013 Session Bills

S.B. 13-104 (Supplemental Bill): Supplemental appropriations act to modify FY 2012-13 appropriations.

S.B. 13-230 (Long Bill): General appropriations act for FY 2013-14.

H.B. 13-1101 (Progressive Raffles): Authorizes bingo-raffle licensees to offer progressive raffles where the jackpot is carried over and increased from one drawing to the next until the jackpot is awarded and to offer consolation prizes where the jackpot is not won. The Secretary of State is authorized to establish rules specifying the conduct of progressive raffles, including limiting the maximum jackpot and the maximum number of simultaneous progressive raffles that may be conducted. Appropriates \$25,160 cash funds to the Department of State for FY 2013-14 for contract programming services to make the necessary changes to the bingo-raffles licensing system.

H.B. 13-1135 (Voter Preregistration at Age 16): Allows a person who has turned 16 years of age, who will not be 18 years of age by the date of the next election, to preregister to vote. The registrant will be registered automatically upon turning 18 years of age. Appropriates \$26,640 cash funds to the Department of State for FY 2013-14 for necessary computer programming modifications.

H.B. 13-1138 (Authorize Benefit Corporations): Establishes the requirements for a corporation to be created as or convert to a "benefit corporation", including that the corporation is intended to produce one or more public benefits and to operate in a responsible and sustainable manner. Requires the corporation to provide information in its annual report on the benefits that the corporation has promoted specific benefits. Appropriates \$91,760 cash funds to the Department of State for FY 2013-14 for contract computer programming services to implement the required changes to the Department's computer systems.

H.B. 13-1167 (Secretary of State Collect Business Information): Requires the Secretary of State (SOS) to *request* information from business owners filing documents with the SOS regarding the business owners' gender, race, veteran status, disability, and the National American Industry Classification code. The submission of the requested information is voluntary on the part of the owner. The SOS is required to make this information available to the public in a searchable manner. Appropriates \$74,592 cash funds to the Department of State for FY 2013-14 for contract computer programming services to implement the required changes to the Department's computer systems.

H.B. 13-1303 (Create The Voter Access & Modernized Elections Act): Requires that all general, primary, odd-year, coordinated, presidential, special legislative, recall, and congressional vacancy elections are to be conducted as mail ballot elections and the county

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clerks are required to mail a ballot to all active registered voters. Voters have the option of returning the ballot by mail, dropping the ballot off at a voter service and polling center (center), or casting a ballot at a center.

Requires clerks to operate the center in all covered elections and eliminates polling places. Centers are required to be open for at least 15 days prior to and including Election Day (Sundays excluded). The center must have the ability to:

- Register a person to vote;
- Allow a voter to cast a ballot, including a provisional ballot;
- Accept mail ballots deposited by electors;
- Allow a registered voter to update his or her name, if legally changed, and his or her address;
- Allow an unaffiliated voter to affiliate with a political party and cast a ballot in a primary election;
- Access the statewide voter registration database (SCORE) through a secure computer connection, except that counties with fewer than 25,000 registered voters may, upon demonstrating hardship, seek approval from the Secretary to State to access SCORE and conduct real-time verification of voter eligibility by telephone or other means;
- Provide mail ballots to requesting voters;
- Provide original and replacement ballots; and
- Creates the Voter Access and Modernized Elections Commission.

Centers serve all voters in the county and the number of centers and the number and type of ballot drop-off locations that counties must provide are specified. Voters may register to vote by mail or through a voter registration agency or voter registration drive up to 22 days before an election, register online through the Secretary of State (SOS) website up to 8 days before an election, register in person at a county clerk's office, when registrations are permitted, and register at a voter service center up to and including election day. Requires the voter to reside in a precinct to vote and reduces the time required for state residency to 22 days. Eliminates the state of "Inactive – Failed to Vote" and shifts all voters to active status. Allows county clerks, with voter permission, to send certain election-related communications to voters electronically, except for ballots and confirmation cards.

Requires the SOS to conduct a National Change of Address database search on all registered voters in the SOCRE database, and to transmit the results monthly to county clerks. Specifies the procedures for county clerks to confirm that the voters identified in the search have moved. Requires the SOS to enter into data sharing agreements with the Department of Public Health and Environment and the Department of Corrections to cross-check person registering to vote with death records and felon lists, respectively.

Appropriates \$1,317,181 cash funds and 4.0 FTE to the Department of State for FY 2013-14 for contract computer programming services, personal services, the costs related to the Voter Access and Modernized Elections Commission, program testing, and other costs to implement the bill.

2014 Session Bills

S.B. 14-153 (Legislative Members Compensation Boards & Commissions): Establishes uniform payments of per diem and the reimbursement of expenses to current members of the general assembly who are appointed to serve on state entities created or authorized by statute on which members of the general assembly are statutorily required to be appointed to serve. Reduces the appropriation to the Elections Division for the Colorado Voter Access and Modernized Elections Commission by \$2,816 cash funds for FY 2014-15.

S.B. 14-161 (Update Uniform Election Code of 1992): The "Voter Access and Modernized Elections Act", enacted in 2013, made various changes to the "Uniform Election Code of 1992". To facilitate implementation of that act, and the conduct of elections generally, the bill makes various corrections, clarifications, and alterations to the code. Appropriates \$150,154 cash funds to the Department of State for FY 2014-15 for information technology costs and voter registration materials.

S.B. 14-217 (Increased Transparency Lobbyist Disclosure): Makes modifications to existing statutory provisions governing lobbying. While the bill appropriates \$12,360 cash funds for information technology modifications for FY 2014-15, the effective date of the bill is July 1, 2015, effectively nullifying the appropriation for FY 2014-15.

H.B. 14-1247 (Supplemental Bill): Supplemental appropriations for FY 2013-14.

H.B. 14-1336 (Long Bill): General appropriations act for FY 2014-15.

H.B. 14-1341 (Department of State Cash Fund Repayment Transfer): The bill transfers \$2,175,000 from the General Fund to the Department of State Cash Fund on June 30, 2014 (FY 2013-14), for the repayment of moneys transferred from the cash fund to the General Fund during FY 2008-09, to forestall a projected cash fund deficit based on the projected operating deficit between appropriations and revenue for FY 2013-14 and FY 2014-15.

H.B. 14-1369 (Durable Medical Equipment Supplier License): Requires a durable medical equipment supplier to have a license with the Secretary of State. The licensee must be physically located within the state or within 50 miles of the state, have sufficient inventory and staff to do business, and be accredited by an organization recognized and accepted by the Centers for Medicare and Medicaid Services. Appropriates \$95,775 cash funds and 0.1 FTE for information technology costs and program management to the Department of State for FY 2014-15.

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

Long Bill Footnotes

- 1 All Departments except Department of Corrections and Department of Human Services, Totals** -- It is the intent of the General Assembly that when each department applies the 3.0 percent salary survey increase reflected in the salary survey line item appropriations, each employee shall receive a base-building increase up to the range maximum, and that salary survey increase amounts over the range maximum shall not be base-building.

Requests for Information

The 2014 Long Bill did not include any requests for information for the Department of State.

Appendix D: Indirect Cost Assessment Methodology

Description of Indirect Cost Assessment Methodology

The Department of State does not have an indirect cost recovery plan for departmental indirect costs because it is entirely cash funded and does not receive General Fund appropriations that require an offset within the Department.

It is part of the Statewide Indirect Cost Plan, as determined by the State Controller, and the Department has a line item in the Administration Division that accounts for that appropriation.

Recent appropriations and the FY 2015-16 request are detailed in the table below:

Department of State				
Statewide Indirect Cost Actuals, Appropriation, and Request				
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Actual	Actual	Appropriation	Request
Statewide Indirects	\$105,838	\$107,012	\$128,983	\$156,308

Appendix E: SMART Act Annual Performance Report

Pursuant to Section 2-7-205 (1) (b), C.R.S., the Department of State is required to publish an Annual Performance Report by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation. The report dated November 3, 2014 is attached for consideration by the Joint Budget Committee in prioritizing the Department's budget requests.

Strategic Policy Initiatives

The Secretary of State's office identified several strategic policy initiatives aimed at growing commerce and fostering political freedom by being value-driven, ethical and efficient. For this evaluation report, the department selected a few initiatives that best capture our strategic and operational priorities, while also helping drive our mission and vision. Additional details for these and other strategic policy initiatives are available in the Department's Performance Plan, located on the Secretary of State's website.

Enhance eLearning Output – Shorten the eLearning development cycle, while expanding the number of courses available

Already recognized as a national governmental leader, the Colorado Secretary of State's eLearning platform continues to illustrate what an interactive and accessible public sector looks like. Developing on the successes of this platform, the department aims to more quickly develop, approve and roll out eLearning courses aimed at benefiting our stakeholders, both internal and external. Through our internal process mapping, we're continuing to refine and expedite our course development process allowing us to more quickly develop a wider array of courses.

Build Outreach Opportunities and Relationships with Stakeholders – Build lasting financial support for the Business Intelligence Center and GoCodeColorado

With one year under their belts, these successful initiatives have already broken down barriers with non-traditional government partners and awarded three up-and-coming Colorado startups with some investment dollars and exposure. We challenged the tech and entrepreneurial community to develop creative applications aimed at improving Colorado's business climate and opportunities—and Coloradans across the state delivered. Look for these initiatives to thrive in 2015, helping build a better business climate through better access to public data.

Leverage Technology – Improve data quality of voter rolls through coordination

As a pioneer involved with the Electronic Registration Information Center (ERIC), Colorado continues to improve the quality of its voter registration data by sharing information across state lines and with the federal government. In 2012, the Pew Center on the States found that 1 in 8 voter records was inaccurate. We're taking steps to vastly improve the quality of our data by integrating U.S. Postal information into the ERIC database and streamlining our data collection at the DMV.

Enhance IT Security – Expand reporting and tracking, while improving internal training

Our IT staff takes safeguarding our customer's information seriously. While we're constantly looking to adopt the latest innovations to further protect our information, we're also looking internally to improve the quality of our IT trainings and support integration of information security in our line of business. Staying ahead of the curve requires constant vigilance by updating our documented security plans and updating our cloud and service provider security requirements and strategies.



Secretary of State's Annual Performance Report

Operational Measures

Major Program Area – Business and Licensing Division

Process – Bingo-Raffle License Applications

Measure	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Goal	FY17 Goal
Number of Licensed Bingo Entities	1,275	1,237	1,245	1,310	1,325
Number of Bingo-raffle Licenses Rejected	214	158	125	151	132
Percentage of Bingo-raffled Licenses Rejected	17.5%	12.7%	10.0%	11.5%	10.0%

Development of the e-filing system began in earnest in FY 2014-15 with progress made toward deploying quarterly reporting and licensing registrations. Reject measurements will see only marginal improvements during this fiscal year without the deployment of the full online system which includes the license application. With full deployment in FY 2015-16, rejects will increase slightly as a result of reduced fees and the availability of online submissions. This in addition to the historically experienced learning curves with new on-line systems points toward the projection seen in FY 2015-16. With the expansion of the consultation model we anticipate increasing the knowledge level of both new and existing users of the application which will cause a decrease in FY 2016-17.

Process – Public Notary Applications

Measure	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Goal
Number of Notary Applications Filed	25,008	24,780	24,500	24,500
Number of Notary Applications Rejected	3,392	3,099	2,500	2,400
Percentage of Notary Applications Rejected	14.0%	12.5%	10.2%	9.79%

The Department will evaluate its success through daily performance dashboards and periodic ad hoc reporting tools. Continuous rejection rate monitoring will drive midstream adjustments while periodic comparisons between current rates, historical trends and initial estimated benchmarks will provide valuable feedback on progress toward our overall goal.

Process – Charity Program Filings

Measure	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Goal
Total charity program filings submitted	14,142	15,105	16,400	17,794
Number of filings rejected	1,831	1,266	1,800	1,423

Percentage of total charity program filings rejected	13.0%	8.4%	11.0%	8.0%
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The growth in the number of registered charities was 10% annually in FY11 and FY12. This growth rate decreased in FY13 and FY14 to 8% and 6.4% respectively. This could be due to the economic landscape and well-publicized delays in processing time for new organizations applying with the IRS for a tax-exempt status. This has led to a corresponding slowdown in the growth rate of total filings. An analysis of the most common reject reasons suggested we add data validation to the process. By adding this validation to on-line application forms we have been able to dramatically reduce rejection rates.

Major Program Area – Elections Division
Process – Online Voter Registration (OLVR)

Measure	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Goal
OLVR New Registrants	N/A	19,202	22,000	31,900
OLVR Updates	N/A	87,819	98,000	143,000
OLVR Updates by Last Four SSN Digits	N/A	5,000	8,000	10,000

The Department will use the number of registration transactions to determine bandwidth and hardware necessary to accommodate users as necessary. The Department will continue to evaluate technological trends to ensure the best user experience possible.

Process – Campaign Finance Penalties

Measure	FY13 Actual	FY14 Actual	FY15 Est.	FY 16 Goal
Percentage of Fines Paid (including reduced amounts)	N/A	60.0%	63.0%	65.0%
Percentage of Fines Fully Waived	N/A	24.0%	24.0%	24.0%
Percentage of Open Fines	N/A	10.0%	8.0%	5.0%
Percentage of Fines Sent to Collections	N/A	6.0%	5.0%	6.0%

The Department aims to recodify campaign finance rules and will help to prevent fines from increasing to uncontrollable amounts. We’ll also follow the Fair Debt Reduction Act.



Secretary of State's Annual Performance Report

Major Program Area – Information Technology Division
Process – Improve the agility, speed and quality of the I.T. Division

Measure	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Goal
Percentage completion for modernization of production office systems, Windows and Unix	N/A	66.0%	95.0%	100%
Implement Agile-based methodologies across all software development projects	N/A	100%	100%	100%
Develop and institute formal process for quarterly project and portfolio management of agency projects	N/A	50.0%	100%	100%

The Department will evaluate these areas by tracking our infrastructure modernization projects and holding formal collaborative reviews with program stakeholders in the agency. Success will be achieved when we can provide historical review of actual versus estimated project achievements and predicatively plan and deliver projects in-line with stakeholder expectations.