



Department of Revenue
Department Description

FY 2009-10 Budget Request

November 1, 2008

DEPARTMENT OF REVENUE BACKGROUND INFORMATION

The **Executive Director's Office** provides central budgeting, accounting, purchasing, contract administration, human resources and internal auditing functions for the Department. The office is funded through direct and indirect costs charged to divisions. Roxy Huber is the Executive Director and Tim Weber is the Deputy Director. In addition, the Executive Director's Office includes a Citizen's Advocate who assists citizens and taxpayers with problems, grievances or inquiries. It also includes a Public Information Officer/Legislative Liaison who is the primary contact for all media queries and requests for information, and directs all legislative matters for the Department. Additionally, the Executive Director's Office has a section entitled Office of Research and Analysis that develops special studies and reports, such as the Department's annual report. The section also develops specialized analyses of the Department's operations with an aim towards improving efficiency and effectiveness; provides fiscal note coordination during the legislative session; and develops revenue and expenditure estimates for proposed bills and ballot initiatives. This group also develops analytical data and estimates the refunding of State of Colorado excess revenues under Article X, Section 20 of the State Constitution.

Central Department Operations provides the Department of Revenue with essential support services that ensures sensitive taxpayer information and payments are processed, deposited, and posted in an accurate and secure manner through each step of the tax administration system. This division is comprised of Cash and Document Processing and General Services, and is primarily funded through General Fund appropriations and indirect costs.

Cash and Document Processing is a sequential tax processing workflow system that contains many sections of Central Department Operations and is commonly referred to as the pipeline. This program receives and sorts over 4.4 million pieces of mail each year; enough to have the United States Postal Service (USPS) give 1375 Sherman St. a unique zip code of 80261. This program maintains two cashing operations, which supports tax collection activities, provides service to walk-in and cash paying taxpayers, and collects fees and fines administered by the Department of Motor Vehicle operations, Ports of Entry, Gaming, Racing and Liquor Enforcement. Cash and Document Processing is responsible for depositing tax revenue with the Treasury and establishing tax accounts and liabilities for new businesses.

The General Services program serves as the forms designer and supplier for the Department. It also procures and supplies citizens and the Department's internal divisions with the necessary forms, publications, envelopes, cigarette stamps, and paper stock for normal business operations. Central Department Operations processes and mails approximately 6.0 million pieces of mail per year and acts as a liaison between the Department of Revenue and the USPS.

Department Description FY 2009-10 BUDGET REQUEST

The **Information Technology Division** provides system programming, desktop and technical support for the entire Department, and maintenance of the Department's various computer hardware and software applications. This division is primarily funded through General Fund appropriations and indirect costs.

Systems Support maintains a multitude of information technology systems for all divisions within the Department except the State Lottery Division. These responsibilities include providing production and enterprise services, maintaining the Department's data and voice communication infrastructure, assuring adequate information security and desktop support, and managing centralized print operations from the Department of Personnel and Administration.

The *Colorado State Titling and Registration System (CSTARS)* supports the titling and registration infrastructure for Colorado motor vehicles. Per Section 42-1-211, C.R.S., (2008) the system provides the necessary data processing equipment, software, support and training to aid the authorized agents of the Department in processing motor vehicle registration and title documents.

The **Taxation Business Group** is charged with the collection, administration, audit and enforcement responsibilities pertaining to all taxes, fees, bonds and licenses covered under Colorado's tax laws. The business group is directed by an administrative section. Senior management, policy-making, and budgetary support for the division are contained in this section. This division is primarily funded from General Fund appropriations, but does receive some moneys from the Highway Users Tax Fund (HUTF) and federal programs.

The *Taxation and Compliance Division* utilizes various methods to assist in the collection of monies due the State such as: filing bankruptcy claims; recording and releasing tax liens and judgments; garnishment of wages and bank accounts; income tax distraint warrants; resolution of taxpayer disputes; and the utilization of private collection agencies. The Division also audits or examines Colorado tax returns both at the Department through its Fair Share program and at business locations through its Field Audit program. Audits are also conducted for the purpose of ascertaining whether royalties have been properly submitted to the State from operating and royalty mineral interests in Colorado.

The *Taxpayer Service Division (TPS)* administers the State's tax programs and provides assistance and information to Colorado taxpayers. The division maintains five service centers in Colorado Springs, Denver, Fort Collins, Grand Junction, and Pueblo, as well as a tax information call center. The division produces public information campaigns, administers tax classes to promote voluntary compliance, and distributes information to the public to explain the State's tax laws and policies. TPS also issues licenses and permits, processes tax forms and requests for refunds, resolves taxpayer problems and intercepts income tax refunds for payment of debts owed to other State agencies and the Internal Revenue Service.

Department Description FY 2009-10 BUDGET REQUEST

The *Tax Conferee* serves as an intermediary in the hearing process and acts as the Executive Director's official designee for tax hearings. These can include tax assessment disputes and refund denials. Employees in this unit conduct reviews, legal research, investigations, interviews, and negotiations. They also assist taxpayers in clarifying decisions. If a hearing with the Tax Conferee fails to achieve a successful resolution, then a formal hearing with the Executive Director is granted. Finally, if a feasible resolution is not attained, the aggrieved party may elevate the dispute to the judicial system.

The **Division of Motor Vehicles** issues drivers licenses and identification cards; regulates commercial driving schools; provides support for the statewide vehicle titling and registration system (CSTARS); enforces the State's auto emissions program; and oversees the Motorist Insurance Identification Database program. This division is largely funded with General Fund appropriations, but does receive limited support from various cash funds.

The responsibilities of *Driver and Vehicles Services* includes: managing drivers licensing records; verifying documents presented for identification, including proof of the applicant's legal presence in the U.S.; identifying and assessing administrative sanctions against drivers, including all restraints for alcohol related driving offenses; investigating fraud related to drivers licenses and identification documents; and providing support and coordination for the motor vehicle registration process. This division also supervises license plate ordering and distribution, as well as all other registration products for county offices.

The *Vehicle Emissions* program licenses emissions testing site operators, inspectors and mechanics; conducts inspections of emissions testing facilities to ensure compliance with statutory requirements; and validates inspector and mechanic performance standards.

The *Titles* program is responsible for the issuance of legal, negotiable certificates of title to protect the public when purchasing motor vehicles. Program staff review all high-risk title applications to verify that the assignment of ownership has been properly made.

The *Motorist Insurance Identification Database (MIIDB) Program* helps law enforcement officers verify driver compliance with the State's motor vehicle insurance requirements. This program is authorized to suspend driving privileges for uninsured motorists.

The **Motor Carrier Services Division** administers most of its responsibilities through the Ports of Entry program, which includes 17 fixed port facilities and 10 mobile units. Port officers collect fuel taxes and registration fees, ensure compliance with statutory weight and size restrictions for commercial vehicles, and enforce vehicle safety regulations. In the event of violations, they also collect fines and penalties. This division is required to file the State's Annual Size and Weight Enforcement Plan with the Federal Highway Administration, which is used to qualify Colorado for federal highway funding. The Motor Carrier Services Division also enforces hazardous material transport requirements and verifies compliance with registration requirements for the federal International

Department Description FY 2009-10 BUDGET REQUEST

Registration Plan and International Fuel Tax Act programs. Though this division receives some General Fund and federal moneys, it is primarily funded from HUTF ‘off-the-top’ dollars.

The **Enforcement Business Group** regulates limited stakes gaming; enforces the State’s liquor and tobacco laws through licensing and compliance checks; regulates the horse and dog racing industries; regulates and licenses the motor vehicle dealer industry; and adjudicates complaints related to drivers licenses, liquor licenses, certain racing licenses, and some tax disputes. With the exception of tobacco grants, programs within this division are wholly supported by specific cash funds.

The *Limited Gaming Division* licenses and regulates the Colorado limited gaming industry including gaming devices, facilities, personnel, and activities. This division also enforces the laws contained in the Limited Gaming Act, as well as rules and regulations promulgated by the Colorado Limited Gaming Control Commission. The Commission has the constitutional authority to allocate moneys to the Division from the Limited Gaming Fund and is not subject to appropriation by the General Assembly.

The *Liquor Enforcement Division* licenses persons who manufacture, import, distribute or sell alcoholic beverages, and regulates the sale and distribution of liquor within the State by promoting awareness of and enforcing the provision of Liquor, Beer and Special Events Codes.

The *Tobacco Enforcement Program* enforces laws that prohibit the sale of tobacco products to minors. This allows the State to meet federal standards and qualify for the Substance Abuse Prevention and Treatment block grant.

The *Division of Racing Events* licenses and regulates greyhound and horse racing events; enforces all laws, rules and regulations related to racing activities; and is responsible for ensuring the health and welfare of greyhounds and horses racing in Colorado.

The *Hearings Division* conducts a variety of administrative hearings regarding the various licenses issued by the Department, including driver’s licenses, liquor licenses, horse and dog racing licenses and certain motor vehicle dealers’ licenses. These hearings provide a forum for adjudication of rights and duties between the Department and its licensees.

The *Motor Vehicle Dealer Licensing Board* is responsible for licensing and regulating the sale and distribution of motor vehicles, and promulgating consumer protection regulations. These responsibilities include licensing all salespersons and those with ownership interests in new and used auto dealerships.

Department Description FY 2009-10 BUDGET REQUEST

The **State Lottery Division** is designated a TABOR enterprise under Article X, Section 20 of the Colorado Constitution and supports its operations through lottery ticket sales, all of which are deposited into the Lottery Fund. The Colorado Lottery Commission governs the overall activities of the Lottery. The Colorado Lottery offers three jackpot games (Powerball, Lotto and Cash 5) and several scratch ticket games at more than 2,900 retailers statewide. Proceeds are distributed according to Article XXVII, Section 3 of the Colorado Constitution on a quarterly basis in the following manner: 40 percent to the Conservation Trust Fund for distribution to eligible municipalities and counties for parks, recreation, and open space purposes; 10 percent to the Colorado Division of Parks and Outdoor Recreation for the acquisition, development, and improvement of parks land; and remaining proceeds to the Great Outdoors Colorado Trust Fund (GOCO Fund) up to \$35 million per fiscal year that is adjusted each year according to the 1992 Consumer Price Index-Denver. Any amount exceeding the GOCO cap is distributed according to Section 22-54-117 (1.6) (a) (I), C.R.S., (2008) to the Lottery Proceeds Contingency Reserve Fund to be used for supplemental assistance to school districts for capital expenditures to address immediate safety hazards or health concerns within existing school facilities. Due to increasing revenues, the Lottery has distributed proceeds to the Contingency Reserve Fund since FY 2001-02.

DEPARTMENT OF REVENUE PRIOR YEAR LEGISLATION

HB 08-1010 (McFadyen, Takis) Expansion of Motor Vehicle Fines

This legislation institutes monetary penalties pertaining to vehicular eluding and significantly increases a variety of motor vehicle and moving violations. The Legislative Council Staff fiscal note estimates additional Highway Users Tax Fund (HUTF) revenues of approximately \$12 million per year.

HB 08-1049 (Benefeld, Groff) Extension of Child Care Income Tax Credit

The Legislative Council Staff fiscal note estimates that General Fund revenues will decrease by \$9.4 million for the second half of FY 2009-10 and by \$19.2 million for each calendar year through 2019.

HB 08-1098 (Primavera, Keller) Repeal of Disabled Persons Parking Fees

This legislation officially repeals a provision in Title 42 that allows the Department of Revenue to collect fees for the actual costs of manufacturing and issuing parking placards to disabled persons. In practice, the Department stopped collecting such fees beginning in 1999. The class action *Thompson v. Colorado Department of Revenue* was settled in March 2008.

HB 08-1102 (Labuda, Johnson) Concerning Liquor Enforcement Division

Prior to enactment of this legislation, the reserve requirement for the Liquor Enforcement Division and State Licensing Authority Cash Fund was ten percent and not consistent with Section 24-75-402, C.R.S. (2008). This bill brings the fund into compliance with current law and also specifies that moneys remaining in this fund are not reverted to the General Fund.

HB 08-1194 (Judd, Veiga) Increasing Penalties for Drunk Driving

The primary objectives of this legislation as it relates to the Department of Revenue is to create the First Time Drunk Driving Offender Account and to provide additional revenue to subsidize ignition interlock devices for indigent DUI offenders by increasing the driver's license reinstatement fee from \$60 to \$95. The bill also provides funding to institute more high visibility drunk driving enforcement actions with the ultimate goal of raising more revenue for the interlock program. The new fee becomes effective September 1, 2008, while the subsidy program is required to be established by January 1, 2009. The bill appropriates \$614,500 and 4.5 FTE to the Department of Revenue from the First Time Drunk Driving Offender Account in FY 2008-09. The Legislative Council Staff fiscal note indicates that out-year costs are estimated at \$1.2 million and 5.4 FTE.

HB 08-1257 (Vaad, Williams) Overweight Vehicle Permits and Fees

Department Description FY 2009-10 BUDGET REQUEST

This legislation increases the allowable overweight maximum for divisible loads on secondary roadways from 85,000 pounds to 110,000 pounds for trucks with a 'quad' axle grouping. The Colorado Department of Transportation is responsible for administering permits and collecting the related fees, while the Department of Revenue's Ports of Entry program will enforce the pertinent permit requirements. The Legislative Council Staff fiscal note projects additional revenue to the State Highway Fund of \$1.3 million annually for permits.

HB 08-1299 (Buescher, Keller) Department of Revenue Supplemental

This is the supplemental appropriation to the Department's FY 2007-08 operating budget.

HB 08-1303 (Buescher, Keller) Capital Construction Supplemental

This legislation provides additional capital construction funding for projects requested by the Department of Revenue in FY 2007-08 pertaining to the Fort Morgan and Limon ports of entry in the amount of \$290,234 and \$414,918, respectively.

HB 08-1353 (Madden, Isgar) Improve Verification of Conversation Easements

This bill establishes the Conservation Easement Oversight Commission, a nine-member board that will advise both the Division of Real Estate (DORA) and the Department of Revenue regarding the administration and accuracy of conservation easements. It must also respond to requests from these agencies to review conservation easement transactions, applications, and other documents. As it relates specifically to the Department of Revenue, the bill requires the executive director of the Department of Revenue to develop and implement a separate process for the review of gross conservation easements in consultation with the Division of Real Estate and the Conservation Easement Oversight Commission. The review process will include gross conservation easements for which the Department of Revenue has been informed that an audit is being performed by the IRS. The legislation appropriates \$92,818 General Fund and 2.0 FTE to the Department of Revenue in FY 2008-09. According to the Legislative Council Staff fiscal note, estimated out-year costs are \$87,808 General Fund and 2.0 FTE.

HB 08-1372 (Primavera, Hagedorn) Adult Stem Cell Donation Awareness

As it relates specifically to the Department of Revenue, this legislation includes an innovative check-off mechanism. In conjunction with the creation of the Adult Stem Cells Cure Fund, a check-off is created on the Colorado individual income tax return only after the Executive Director of the Department of Revenue certifies with the revisor of statutes that there are no more than 14 check-offs available for the next calendar year. This certification must occur by September 1 of the prior year. The bill allows the General Assembly to appropriate moneys from the Adult Stem Cells Cure Fund to the Department of Revenue to cover the costs of implementing the check-off if the aforementioned certification should ever occur.

HB 08-1380 (Jahn, Shaffer) Method for Attributing Net Income to Colorado

This legislation requires that multi-state partnerships and corporations apportion their Colorado taxable income based on the ratio of sales in Colorado to their total sales. The bill further specifies that non-business income can be directly allocated to the appropriate state or apportioned to the state based on the ratio of a company's sales in Colorado to its total sales. The fiscal note estimates that this legislation will reduce General Fund revenue by at least \$1.6 million in FY 2008-09 beginning January 1, 2009, and by at least \$3.2 million in FY 2009-10.

SB 08-059 (Johnson, Kefalas) Administration of Commercial Driver's License Test

This legislation eliminates the fee maximum of \$100 that can be charged by third-party commercial driver's license testers for licensing drivers. This fee will now be set every three years by the Department of Revenue according to the rule-making provisions of the Administrative Procedures Act in Title 24.

SB 08-082 (Veiga, Jahn) Sale of Alcoholic Beverages on Sundays

This legislation removes the restriction on selling alcoholic beverages on Sundays. While the fiscal note estimates that General Fund revenues will increase by \$6 million per year, this statutory change is not expected to impact the workload of the Liquor Enforcement Division.

SB 08-176 (Taylor, White) Continuation of Division of Racing Events

This legislation extends statutory provisions governing the Division of Racing Events through April 20, 2010. Since this is an existing program, there is no fiscal impact created by the enactment of this bill.

DEPARTMENT OF REVENUE HOT ISSUES

- The Department of Revenue is currently replacing its technology infrastructure associated with Colorado's tax administration. This initiative is called the Colorado Integrated Tax Architecture (CITA) project, and the new system is scheduled to be implemented in five phases that will last from March 2008 to June 2012. The Department of Revenue began this replacement because the information technology infrastructure currently used for tax administration dates from the 1960s. It relies on language that is outdated and has numerous limitations that require costly and time consuming workarounds. Once the new system is implemented, it will assist the Department of Revenue with: (1) implementing Generally Accepted Accounting Principals (GAAP); (2) reducing the amount of manual effort required for distribution of funds to the state, counties, cities, and special districts; (3) utilizing a single, consolidated data repository; and (4) implementing better tools for discovery and selection. The implementation of CITA will allow for greater adoption of tax administration best practices because system and resource limitations of the legacy systems will be removed.
- As part of its functions, the Department of Revenue processes approximately 4.4 million pieces of mail in its incoming mail facility located at 1375 Sherman Street in Denver. A significant majority of this volume relates to tax documents. The Department utilizes a traditional remittance processing system that processes approximately 2.8 million checks and coupons and deposits moneys into the State's Treasury. Documentation is manually data-entered and microfilmed for storage after deposit. The current system is close to 10 years old and when it was purchased, it was anticipated to have a seven year useful life. The Department researched solutions and identified a next generation system that has the capability of capturing data and imaging the documents at the same time as the remittance processing is completed. This initiative has the potential to save the State of Colorado \$1.4 million once fully implemented at the Department of Revenue. Moreover, such a system will tighten the security of and control over sensitive documents and negate possible audit findings that are found in the Statement on Auditing Standards (SAS) No. 109 and No. 112.
- During the 2007 session, the Governor signed Senate Bill 241 into law. This legislation increased a variety of fees related to driver's licenses including the standard license from \$15.00 to \$20.40 and created the Licensing Services Cash Fund. The bill accomplished two objectives by: 1) providing additional revenue to open three new driver's license offices in Denver, Golden, and Loveland; and 2) offsetting a portion of base General Fund expenditures in the Division of Motor Vehicles (DMV). This enabled the State to both save General Fund dollars and reduce wait times for DMV clients along the central Front Range. Enactment of this legislation has allowed the Department to begin implementing service in areas that lost driver's license offices during the budget cuts in 2002 and 2003.

Department Description FY 2009-10 BUDGET REQUEST

- Although signed into law by President Bush in May 2005, the first deadline for states to comply with the Real ID Act as stipulated by the U.S. Department of Homeland Security is December 31, 2009. At the end of the first phase, all states must complete upgrading the security of their driver's licensing systems to include a check for lawful status of all applicants. This will ensure that illegal aliens are unable to obtain a Real ID. Such identification will be necessary to gain access to any federal facility, to board a commercial aircraft, and to enter a nuclear power plant. The Colorado Department of Revenue is largely compliant with the first phase requirements of the Real ID Act. The initial estimate of \$14.6 billion attached to this legislation was reduced by more than 73 percent to \$3.9 billion when states were given more flexibility in how they issue licenses to Americans over the age of 50. However, moneys pledged by Congress to fund Real ID have been minimal. As a result, the National Conference of State Legislatures (NCSL) has issued a resolution urging Congress to repeal this legislation. During the 2007 session, the Colorado General Assembly adopted House Joint Resolution 07-1047 to express its opposition to the requirements of Real ID.

Department Description FY 2009-10 BUDGET REQUEST

DEPARTMENT OF REVENUE WORKLOAD INDICATORS	FY 2006-07 Actual	FY 2007-08 Estimate	FY 2008-09 Estimate	FY 2009-10 Estimate
Executive Director's Office				
Citizen complaint cases resolved	803	1,385	1,200	1,200
Payments processed (PVs & ITs)	14,388	13,588	14,000	14,000
Contracts and leases executed	82	99	100	100
Personnel actions completed	6,782	7,155	7,300	7,300
Statistical publications/reports developed and published	86	83	81	81
Colorado counties offering online vehicle registration renewal	9	17	24	26
Central Department Operations				
Total Deposit Transactions by Check	2,722,587	2,989,269	2,800,000	2,800,000
Total Deposit Transactions by Third Party Payment Processing	238,665	241,118	225,000	225,000
Total Deposit Transactions by Electronic Funds Transfer	746,786	817,972	900,000	990,000
Total Individual Income Tax Returns	2,250,144	2,447,338	2,496,285	2,546,211
Individual Income Tax Refunds	1,431,092	1,649,506	1,682,496	1,716,146
Individual Income Tax Payments	607,539	575,124	575,124	598,360
Documents Microfilmed	8,196,579	7,980,554	8,000,000	8,000,000
Keystrokes Data Entered	442,718,055	433,500,000	440,154,282	452,497,368
Total Pieces Mailed	5,636,809	5,882,000	5,800,000	5,882,000
Information Technology Division				
Help Desk Tickets	N/A	45,780	45,780	45,780
Modifications to Existing Applications	N/A	254	254	254
Hardware Deployments	N/A	2,960	2,960	2,960
Software Deployments	N/A	52	52	52
External Requests for Data	N/A	10	10	10
Database Administrator Task Requests	900	1,200	1,200	1,200
Taxation Business Group				
Total Assessments	\$283,490,653	\$290,513,396	\$317,723,011	\$322,723,011
by Taxpayer Services	\$17,977,257	\$25,000,000	\$30,000,000	\$35,000,000
by Field Audit	\$98,060,281	\$98,060,281	\$120,269,896	\$120,269,896
by Fair Share	\$167,453,115	\$167,453,115	\$167,453,115	\$167,453,115
Delinquent Collections	\$191,275,092	\$214,892,801	\$214,892,801	\$214,892,801
Website Hits	14,501,073	16,096,191	17,866,772	19,653,450

Department Description FY 2009-10 BUDGET REQUEST

DEPARTMENT OF REVENUE WORKLOAD INDICATORS	FY 2006-07 Actual	FY 2007-08 Estimate	FY 2008-09 Estimate	FY 2009-10 Estimate
Agent Calls at Call Center	273,169	300,139	327,000	330,000
Walk-in Customers	40,558	36,656	37,000	37,500
Field Audits Conducted	7,547	7,547	7,888	7,888
Conferee Cases Closed	152	145	148	148
Division of Motor Vehicles				
Driver's Licenses, Permits, and Documents Issued	894,090	886,798	928,546	945,001
Driver Control Restraint Actions	268,568	270,523	272,479	274,500
Title Applications	1,555,680	1,509,103	1,600,987	1,623,641
Vehicle Registrations	4,871,921	5,029,568	5,136,933	5,246,590
Clean Screen Emissions Tests	65,033	169,133	271,074	290,461
Enviro-Test Facilities Emissions Tests	813,096	778,676	646,184	871,386
Motor Carrier Services Division				
Safety Inspections Performed	23,814	24,290	22,326	22,326
Hazardous Material Permits Issued	1,426	1,389	1,352	1,390
Trucks Weighed at Ports of Entry Operations	5,423,400	5,503,808	5,584,216	5,751,742
Total Collections at Ports of Entry Operations	\$7,375,215	\$8,345,626	\$8,762,907	\$9,025,794
Commercial Drivers License (CDL) Compliance Audits	107	175	191	191
International Registration Plan (IRP) Pro-Rata Receipts	\$46,033,116	\$48,334,772	\$50,751,511	\$53,289,086
Enforcement Business Group				
Liquor Investigations Conducted	1,004	1,565	1,300	1,300
Auto Dealer Licenses Issued	2,547	2,721	2,846	2,846
Hearings Conducted	34,019	35,620	35,500	35,500
Gaming Licenses Issued	3,472	3,069	3,069	3,069
Racing Investigations Completed	208	250	200	200
State Lottery Division				
Ticket sales volume (millions)	\$455.9	\$496.9	\$517.8	\$570.4
Lottery retailers serviced	2,855	2,900	3,000	3,100
Lottery games offered	43	43	48	48