

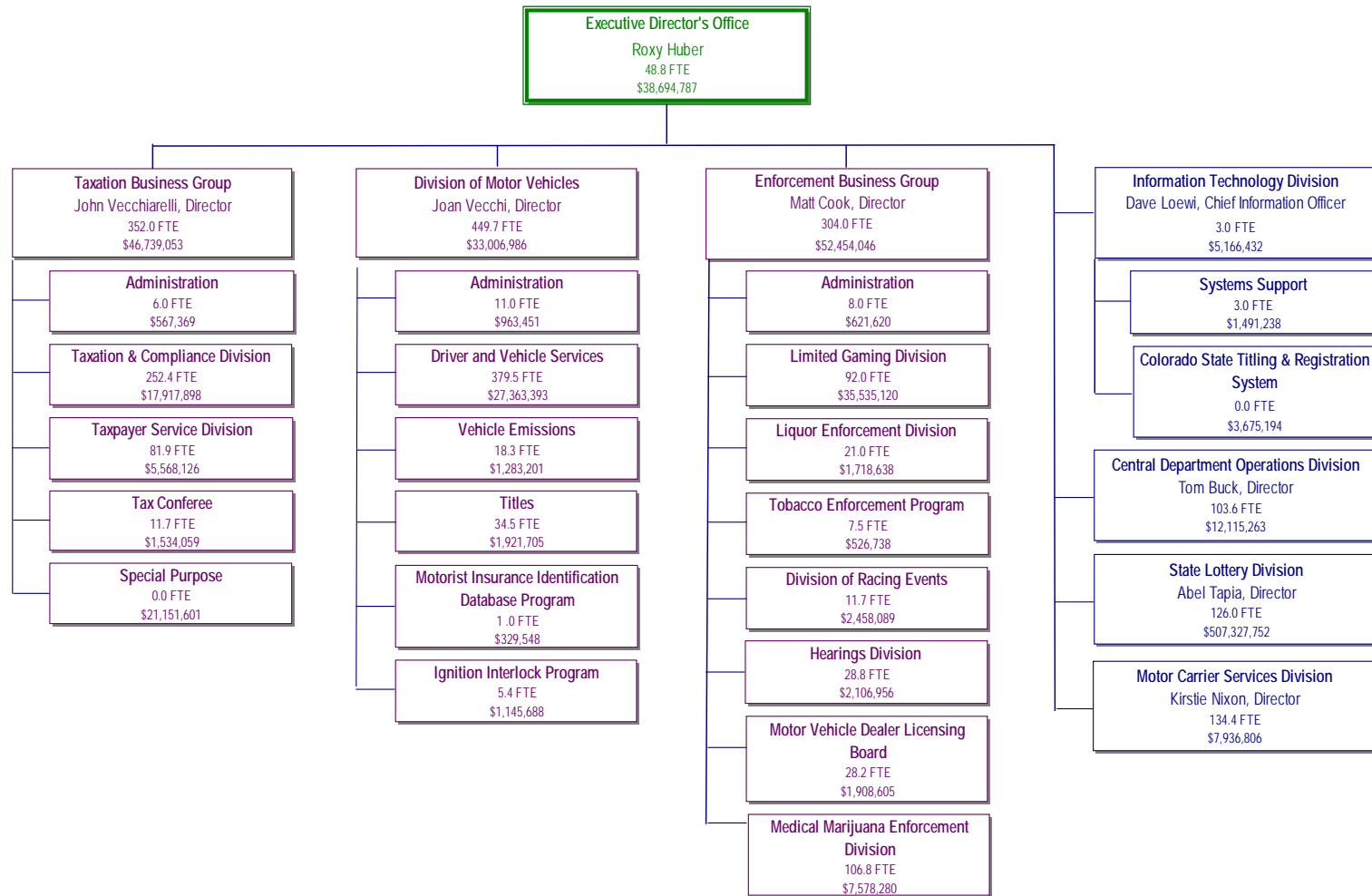


Department of Revenue
Department Description

FY 2011-12 Budget Request

November 1, 2010

Department Description FY 2010-11 BUDGET REQUEST



1,521.5 FTE

\$703,791,125 FY 10-11 APPROPRIATED TOTAL FUNDS

\$70,714,586 GF

\$618,401,515 CF

\$12,321,924 HUTF

\$1,537,481 RF

\$815,619 FF

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 4.6 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 cashiering 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.

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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. Beginning in FY 2010-11, the personnel and associated expenses transferred from under the Department of Revenue's oversight to the Governor's Office of Information Technology.

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.

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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. For FY 2010-11, this division is largely funded with cash fund appropriations.

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 *Ignition Interlock Program* is responsible for providing interlock ignition devices for applicants who qualify pursuant to the requirements of section 42-2-132.5, C.R.S. (2010).

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 and ensure compliance with statutory

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weight and size restrictions for commercial vehicles. 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 Registration Plan and International Fuel Tax Act programs. Though this division receives some General Fund and cash fund 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; regulates and licenses the cultivation, distribution, and sale of medical marijuana; and adjudicates complaints related to drivers licenses, liquor licenses, certain racing licenses, and some tax disputes. It is proposed to transfer the regulation of the Bingo and Raffle games from the Secretary of State to the Department of Revenue, beginning in FY 2011-12. With the exception of tobacco grants and a very small amount of General Fund to support the tobacco area, 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.

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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.

The *Medical Marijuana Enforcement Division* is responsible for the regulation licensing of the cultivation, manufacture, distribution and sale of medical marijuana in the state.

The *Bingo-Raffle Enforcement* (proposed) regulates games of chance, including performance of licensing and enforcement duties. The transfer of this responsibility from the Secretary of State to the Department of Revenue is based on the requirements set forth in section 12-9-302 C.R.S. (2010), and will be determined by a vote of the people in November 2010.

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 10-1019 (Frangas, Williams) Parking Privileges for People with Disabilities

This bill makes several changes regarding the reserved parking program for the disabled and placards for persons with disabilities including eligibility, expiration dates on placards, and update and enforcement of laws associated with disabled parking. The bill also creates the Disabled Parking Education and Enforcement Fund to be used for education about eligibility standards and for administration of the reserved parking program. The fund receives one-half of reserved parking program ticket revenue. This legislation will take effect January 1, 2011.

HB 10-1045 (Miklosi, Romer) Ability to Change Address on Records Held by Specific Agencies

This bill requires the Secretary of State and the Department to link their agency web sites to allow individuals to make a change of address electronically for purposes of voter registration, driver's licenses, identification cards, and state income tax. Further, individuals may electronically update address information with the Department directly through the department's official web site. This does not apply to address changes for vehicle registration which requires individuals to update their address within the county of residence. This legislation will take effect July 1, 2011.

HB 10-1058 (Riesburg, Hodge) Civil Penalty for Unstamped Cigarettes

Previously, the Department was authorized to impose a civil penalty of \$0.25 per cigarette seized from any person or entity possessing unstamped cigarettes in Colorado that have been confiscated. The bill expands the penalty to individuals and entities purchasing or possessing unstamped cigarettes, regardless of whether the cigarettes have been confiscated. This change does not apply to cigarettes purchased from a United States military exchange or commissary, so long as the cigarettes are not for resale in the state. The legislative fiscal note identifies an increase in revenue to the Tobacco Tax Enforcement Cash Fund of \$32,000 in FY 2010-11 but minimal revenues thereafter (less the \$5,000 annually). This bill became effective August 11, 2010.

HB 10-1113 (McFadyen, Hodge) Transfer of Ports of Entry to Colorado State Patrol

The bill transferred the Motor Carrier Safety Assistance Program from the Department of Revenue, Ports and Entry to the Colorado State Patrol, effective August 15, 2010. This program has responsibility for enforcement of minimum standards for commercial vehicles in addition to inspection of vehicles carrying nuclear materials and the investigation of violations related to their transport. This transfer moved 10.0 annualized FTE positions associated with the program but did not move the employees associated with those positions.

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HB 10-1172 (Bradford, Cadman) Mobile Machinery Specific Ownership Tax

This bill changes the registration of mobile machinery, renaming the class to special mobile machinery and clarifying the definition. The bill also establishes demonstration plates and corresponding fees for special mobile machinery dealers or wholesalers. The plates are for special mobile machinery that is for sale and is used for demonstration purposes. Finally, the bill authorizes the use of individual temporary registration plates, tags, or certificates that are good for up to 60 days. Temporary registration fees are set at \$2.00, of which \$1.60 is retained by the county clerks office or the Department. The remaining \$0.40 is credited to HUTF. This bill is effective October 1, 2010.

HB 10-1189 (Pommer, Heath) Eliminate Sales Tax Exemption for Direct Mail

This bill applies sales and use tax to advertising materials cooperatively delivered by mail in Colorado including advertising leaflets, discount coupons, envelopes, and labels. This does not apply to newspapers or preprinted newspaper supplements. The Department is required to account for the revenue attributable to this bill and make quarterly reports to the legislature about the revenue gain. This bill became effective February 24, 2010 upon signature of the Governor.

HB 10-1190 (Pommer, Heath) Suspend Industry Fuel Sales and Use Tax Exemption

This bill temporarily eliminates the sales and use tax exemption for storage, use, or consumption of energy used for industrial purposes. From March 1, 2010, until June 30, 2012, the sales and use tax will apply to electricity, coal, coke, fuel oil, steam, nuclear fuel or natural gas for use in processing, manufacturing, mining, refining, irrigation, construction, telephone and radio communication, and street transportation services. The storage, use, or consumption of fuel purchased for railroad transportation services, diesel fuel purchased for off-road use, and fuel purchased for agricultural purposes or electricity generation is exempt from this bill. The bill requires the Department to account for all revenue attributable to the bill and make quarterly reports to the General Assembly regarding the net revenue gain. This bill became effective February 24, 2010 upon signature of the Governor.

HB 10-1191 (Pommer, Heath) Eliminates Candy and Soda Sales Tax Exemption

This bill excludes the purchase of candy and soft drinks, including such purchases through vending machines, from the state sales tax exemption for purchases of food for off-premises consumption. Purchases of candy and soft drinks became subject to the state sales and use tax starting May 1, 2010. The sales tax treatment of candy and soft drinks by local governments in the state is unaffected by the bill. The bill also authorizes the Department of Revenue to establish rules to provide a process, if necessary, for retailers and vending machine operators to estimate the amount of sales tax due on their sale of candy and soft drinks. The department is required to account for the revenue attributable to this bill and make quarterly reports to the legislature about the revenue gain. This bill became effective February 24, 2010 upon signature of the Governor.

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HB 10-1192 (Pommer, Heath) Sales and Use Tax of Standardized Software

This bill expands the definition of taxable computer software beyond pre-packaged software to include standardized software downloaded from the internet and software installed on a computer or electronic device by a vendor representative. The department is required to account for the revenue attributable to this bill and make quarterly reports to the legislature about the revenue gain. This bill became effective February 24, 2010 upon signature of the Governor.

HB 10-1193 (Pommer, Heath) Sales Tax Out-of-state Retailers

This bill clarifies the sales and use tax responsibilities of out-of-state retailers with a legally related member having physical presence within the state. These retailers must collect and remit state and local sales tax from Colorado residents. Retailers that do not collect Colorado sales taxes must notify Colorado purchasers that the State requires the purchaser to file a use tax return if sales tax has not been paid on taxable purchases, send out notification annually and file the information with the Department annually. The bill also clarifies the Department's ability to enforce and collect these taxes. This bill became effective March 1, 2010.

HB 10-1194 (Ferrandino, Heath) Eliminate Nonessential Articles Sales Tax Exemption

This bill eliminates the sales and use tax exemption for articles, containers, and bags that are provided without a separate charge to a consumer of food, meals, or beverages, if it is nonessential to the purchase and becomes the personal property of the customer. The storage of nonessential articles, containers, and bags given to consumers at no additional charge will also be subject to the sales and use tax. The Department is required to promulgate rules to guide firms' application of this tax, account for the revenue attributable to this bill and make quarterly reports to the legislature about the revenue gain. This bill became effective February 24, 2010 upon signature of the Governor.

HB 10-1195 (Ferrandino, Heath) Suspend Agricultural Sales and Use Tax Exemption

This bill temporarily suspends the sales and use tax exemption for the sale or storage, use, or consumption of agricultural compounds used in caring for livestock, semen for agricultural and ranching purposes, and pesticides for use in the production of agricultural and livestock products. The exemption is suspended through the end of FY 2012-13. Agricultural compounds include insecticides, fungicides, growth-regulating chemicals, enhancing compounds, hormones, and vaccines. They also include drugs, whether dispensed in accordance with a prescription or not, that are used for the prevention or treatment of disease or injury in livestock, and animal pharmaceuticals that have been approved by the Food and Drug Administration. The department is required to account for the revenue attributable to this bill and make quarterly reports to the legislature about the revenue gain. This bill became effective February 24, 2010 upon signature of the Governor.

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HB 10-1209 (Balmer, Gibbs) Voluntary Military Driver's License ID

This bill adds an option for military identifier indicating the branch of service on the Colorado Driver's License and allows a current military service member or veteran to request this identifier. This identifier can only be acquired after payment of a \$15 fee and presenting a valid military identification document. Proof of military service is only required for the initial license issuance. Once the direct and indirect costs of the bill are paid, revenue is credited to the Highway Users Tax Fund for state highway purposes. This bill became effective July 1, 2010.

HB 10-1284 (Massey, Romer) Medical Marijuana Regulations

This bill regulates medical marijuana by creating the state and local medical marijuana licensing authority within the enforcement division of the Department as well as local licensing authorities throughout the state. It identifies the requirements to operate a medical marijuana center, role of the Department in regulation of medical marijuana and the requirements as act as a caregiver. Medical marijuana centers already operating on July 1, 2010, must apply for a state license by August 1, 2010. The legislative council fiscal note identifies \$2,721,000 in projected revenues from this bill. This bill became effective June 7, 2010 upon signature of the Governor.

HB 10-1285 (Priola, Tapia) Overweight Vehicle Fine Tax Initiatives

This bill raises the fines on overweight commercial motor vehicles and uses the additional fine revenue to fund an existing sales tax refund and an existing income tax credit for commercial investment in Colorado. Both tax incentives in this bill are capped at the amount of new fine revenue generated by this bill. Fine revenue will be deposited in the Commercial Vehicle Enterprise Tax Fund and transferred to the General Fund to pay for the tax incentives in the bill and any programming and tracking costs that result from the implementation of this legislation. The legislative council fiscal note identifies \$1,130,000 in projected revenues from this bill including \$750,000 in fine revenues and \$380,000 in surcharge revenues beginning in FY 2010-11. This bill became effective July 1, 2010.

HB 10-1338 (McCann, Steadman) Probation Eligibility for Two or More Felony Convictions

Current law prohibits a defendant from applying to the court for probation if he or she has two or more prior felony convictions. This bill allows individuals with two or more felony convictions that occur after the effective date of the bill to apply for probation with certain exceptions. A defendant may not apply for probation if the current or a prior conviction for some types of offenses.

The bill does not change the district attorney's ability to recommend that the prohibition be waived and probation granted on a case-by-case basis. This bill became effective on May 25, 2010 upon signature of the Governor.

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HB 10-1341 (Judd, Keller) The Transfer of Moneys from the Motorist Insurance Identification Account to the Colorado State Titling And Registration Account.

This bill authorizes the transfer of any unexpended or unencumbered funds in the Motorist Insurance Identification Account to the Colorado State Titling and Registration (CSTARS) Account for fiscal years 2010-11 and 2011-12. The transfer of monies is expected to maintain fund solvency for the CSTARS Account through FY 2011-12 in order to support ongoing title and registration functions performed by the State and County governments.

HB 10-1387 (Pommer, White) Finance Driver's Licenses at Department of Revenue

In FY 2009-10, SB09-274 diverted fee revenue from the Highway Users Tax Fund (HUTF) to the Licensing Services Cash Fund (LSCF) to fund the Division of Motor Vehicle in the Department. This bill removes the repeal date in current law and makes the same cash funds diversions for FY 2010-11 and FY 2011-12. Diverted fees are from driver's license examinations and from driver's licenses, commercial driver's licenses, learner's permits, minor driver's licenses, and identification cards issued by the department. Any of the moneys left in the LSCF at the end of the fiscal year, less 16.5% of the annual appropriation from the fund, are credited to the HUTF. The bill also permits the use of fund balance from the motorist insurance identification account of the HUTF for expenses incurred by the division in FY 2010-11. Finally, it permits the use of funds in FY 2010-11 from the HUTF "off-the-top" appropriation to be used for the expenses incurred by the division. Funding the division from these sources reduces revenue for state highways and at the same time reduces the General Fund obligation.

SB 10-120 (White, Rice) Prepaid Wireless Telephone Service Surcharge

This bill imposes a charge of 1.4 percent on the retail sale of prepaid wireless telephone service to fund local enhanced 9-1-1 services (E911). The Department of Revenue will collect the E911 charges and remit them to the local 911 authority boards based on a formula established by the Public Utilities Commission (PUC) in the Department of Regulatory Agencies. Retail sellers can retain 2 percent of the E911 charges collected from consumers until July 1, 2011 when the percentage is increased to 3.3 percent. Retailers are subject to penalties for failure to collect or remit charges. The bill also creates the Prepaid Wireless Trust Cash Fund for deposit of all collected revenues. The Department of Revenue may retain up to \$450,000 from collections for initial start up costs from and up to 3 percent for administering the collection and remittance of charges; appropriations will appear in the Department's budget from the Prepaid Wireless Trust Cash Fund.

SB 10-141 (King, Lambert) Ballot Measure to Transfer Bingo from Secretary of State to Department of Revenue

In the FY 2010 Legislative Session SB 10-141 SB10-141 designated the Department as the licensing and enforcement authority for games of chance, such as bingo and raffles transferring the responsibility for the Secretary of State (DOS). All existing staff, resources, and funds in the DOS relating to these functions were transferred to the Department on July 1, 2012.

DEPARTMENT OF REVENUE HOT ISSUES

Colorado Integrated Tax Architecture (CITA) Project

The Department is currently replacing its technology infrastructure associated with Colorado's tax administration. The CITA project was scheduled to be implemented in five phases that would last from March 2008 to June 2012. The Department 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 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 has allowed for greater adoption of tax administration best practices because system and resource limitations of the legacy systems will be removed. Currently the Department has received funding for four phases of the project and has submitted a capital construction funding request to complete the fifth and final phase (sixth year of funding) of the CITA project. The final phase is comprised of food services licenses, gaming tax, off-highway, pari-mutuel racing fees, public utility commission, tobacco products tax, cigarette tax, vending machine stickers, and alcohol and fermented beverages tax.

Tax Credit Legislation in 2010 Legislative Session

In the 2010 Legislative Session, the General Assembly passed several bills that have an impact on the Department and the tax laws it administers. Several sales tax exemptions were eliminated or suspended, including direct mail advertising (HB 10-1189), energy for industry purposes (HB 10-1190), candy and soft drinks (HB 10-1191), agricultural compounds (HB 10-1195), and nonessential articles (HB 10-1195). Other legislation expanded the definition of taxable computer software (HB 10-1192) and required online retailers to collect sales tax from state residents who conduct business transactions online (HB 10-1193). The Department is providing education to individual and business taxpayers regarding the tax law changes while working to ensure the incorporation of the changes into the Colorado Integrated Tax Architecture (CITA) system.

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Tax Compliance Initiatives

The Department is statutorily charged with the collection, administration, auditing and enforcement responsibilities for all taxes, fees, bonds and licenses covered under Colorado tax laws. The Department has enhanced compliance activities to support its statutory mission by implementing several initiatives. In aggregate, these initiatives are expected to generate over \$29.5 million in General Fund revenue over the next two fiscal years. The initiatives include the following:

- **Data Conversion Identification Program:** The Department will utilize new tax data that has resulted from the implementation of the Colorado Integrated Tax Architecture (CITA) project to target specific accounts now identified as overdue and pursue collection of tax liabilities.
- **1099 Program:** The Department has identified a population of taxpayers that have Form 1099 income, which represents individuals who receive their income as non-employee compensation, such as contractors or consultants. The Department will identify taxpayers who have not filed a return with the State of Colorado but for whom the Department has income information and will pursue unpaid tax liabilities.
- **Voluntary Compliance Program:** This program will target taxpayers not included in the 1099 Program and whose account value is below \$1,000. The Department has identified a specific population of taxpayer accounts that would be subject to a voluntary compliance program.
- **Treasury Offset:** This program, created in 1996, allows states to intercept a federal tax refund to satisfy income tax debts owed the state. The Department received resources to fully implement a treasury offset program in Colorado, beginning in FY 2010-11.
- **Delinquency Billings:** Beginning in FY 2010-11, the Department will expand the number of billings sent to individuals with delinquent income tax accounts.

Conservation Easement Initiative

The Department requested and received additional resources to address a significant backlog in conservation easement refund claims, beginning in FY 2010-11. The Tax Conferee program within the Department intends to resolve the existing backlog within a five-year period. Currently there are approximately 500 claims that the Department either has disputed or is in the process of disputing. These claims date from 2001 to 2008 and have a total value of \$121,200,000 excluding penalty and interest, representing a significant risk to the State. The Department plans to resolve the claims by aggregating like cases where applicable, utilizing economies of scale to lessen the workload and need for additional resources. It is estimated that this initiative will generate an additional \$4.1 million in General Fund revenue per year over five years.

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Driver and Vehicle Services Financing

During the 2007 session, the Governor signed SB 07-241 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 (LSCF) to open three new offices in Denver, Golden and Loveland and reduce wait times for Division of Motor Vehicle (DMV) clients along the central front range. During the 2009 session, the Governor signed SB 09-274 into law. This bill reallocated fee revenue from the Highway Users Tax Fund (HUTF) to the LSCF to offset General Fund expenditure within the DMV for FY 2009-10 only. The bill also permitted the use of funds in FY 2008-09 and FY 2009-10 in the HUTF "off-the-top" appropriation to be used for the expenses incurred by the division.

In the 2010 Legislative Session, HB 10-1387 was passed to extend the 100 percent fee allocation to LSCF through FY 2011-12. In addition, the bill extended permission to utilize HUTF "off-the-top" through FY 2010-11. Although fees were increased as part of SB 07-241 and 100 percent of the fees were allocated to LSCF in HB 10-1387 through FY 2011-12, fees have not been sufficient to cover the Department's appropriation or operational needs. This has forced the Department to hold vacancies and restrict office hours to align expenses with available revenue rather than with the Department's appropriation. This has had negative impacts to the Department's ability to provide customer service and has extended the wait time for citizens requiring services.

In addition, beginning in June 2010, more citizens began requiring DMV services due to the shift in driver's license expiration dates from ten years from issuance to five years as part of SB 05-047, putting further constraints on the Department's ability to effectively provide photo identification services. Although greater demand for services will increase the revenue generated in LSCF, current projections do not indicate that the increase will fully support the costs of operation. The Department is proposing two decision items as part of the FY 2011-12 Budget Request including:

- Decision Item #2: Driver's License Document Line Increase
- Decision Item #6: Legislative Initiative for Driver and Vehicle Services Funding

Decision Item #2 addresses the Department's increasing operational costs associated with the production of additional photo identification cards resulting from the shift in driver's license expiration dates. Also included with the decision item is a supplemental request for FY 2010-11 to address projected funding shortfalls for the current year. Decision Item #6 offsets licensing services cash fund dollars with HUTF "off-the-top" to mitigate a projected revenue shortfall in FY 2011-12. This decision item also includes a supplemental request to address the projected shortfall for FY 2010-11.

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Colorado State Titling and Registration System Funding

Over the past several years, a decline in the number of vehicles titled and registered in the state of Colorado has resulted in a significant decrease to the revenue generated by titling and registration activities. These revenues are deposited into the Colorado State Titling and Registration System Account (CSTARS) and utilized to support infrastructure and operational functions for statewide titling and registration responsibilities. This includes equipment, maintenance, training, and support for all 64 Counties in the State. The last operational fee increase related to title and registration activity occurred in 2001. Over the past four fiscal years, revenues have decreased by 17.1%, and expenditures have dropped by 25.2% over the same period. Meanwhile, HB 10-1341 was passed during the 2010 Legislative Session to authorize the temporary transfer of any unexpended or unencumbered funds from the Motorist Insurance Identification Account to the Colorado State Titling and Registration System Account for FY 2010-11 and FY 2011-12. The Department estimates that this action will preserve solvency in the fund until FY 2012-13. Additionally, the Department has implemented stringent internal restrictions to mitigate insolvency concerns with the CSTARS Account and continues to seek a long-term legislative solution.

Transfer of the Motor Carrier Safety Assistance Program to the Colorado State Patrol

Legislation passed during the 2010 Legislative Session transferred responsibility for the oversight of commercial vehicle industry safety through the Motor Carrier Safety Assistance Program from the Ports of Entry program in the Department of Revenue to the Colorado State Patrol, effective August 15, 2010. HB 10-1113 consolidated the safety inspection and enforcement functions and transferred responsibility for all nuclear material inspections and investigation of violations related transport to the Colorado State Patrol. The bill also requires a study of Port of Entry operations, including a determination of which principal department is the most appropriate to carry out Port of Entry functions. This study, with which the Department will fully cooperate, is required to be finished by June 1, 2011. HB 10-1113 required the transfer of 10.0 annualized FTE positions associated with the program to the Colorado State Patrol, but did not move the employees associated with those positions. As a result, the Department initiated a layoff plan for the employees displaced by the transfer, terminating the positions within the Department of Revenue by the bill effective date of August 15, 2010. Additionally, the budget for the nuclear materials inspections and the Motor Carrier Safety Assistance Program was reduced by \$926,304 annualized total funds, including \$46,166 in HUTF; \$33,344 from the Nuclear Materials Transportation Fund; \$83,844 in reappropriated funds; and \$762,950 in federal funds.

Medical Marijuana Regulation, Licensing, and Enforcement

During the 2010 Legislative Session, the Department of Revenue received authorization via HB 10-1284 to regulate and control the licensing of the cultivation, manufacture, distribution and sale of medical marijuana or marijuana-infused products in the state of Colorado. The bill creates the state and local medical marijuana licensing authority within the Enforcement Business Group of the Department as well as local licensing authorities throughout the state. All medical marijuana centers in operation prior to July 1, 2010 were required to apply for a state license by August 1, 2010, and all proposed centers must follow the application process prior to becoming operational. The legislation clarified that localities will maintain the ability to institute ordinances concerning medical marijuana centers but in the absence of local ordinances the state law will apply. As the state licensing authority, the Department is authorized to adopt rules, forms, and applications to enforce the provisions of HB 10-1284, including:

- Enforcement of the medical marijuana code;
- Instructions for local licensing authorities and law enforcement officers;
- inspections and investigations of medical marijuana facilities;
- Penalties associated with violations;
- Development of identification cards for employees; and
- Security requirements for medical marijuana centers.

Revenues generated from the license application fees will be deposited into the newly created Medical Marijuana License Cash Fund to cover expenses associated with providing the licensing and oversight functions for medical marijuana facilities. The Department was appropriated \$10,317,583 from the Medical Marijuana License Cash Fund and 110.0 FTE in to implement the legislation.

Bingo and Raffle Enforcement

In the 2010 Legislative Session, SB 10-141 designated the Department as the licensing and enforcement authority for games of chance, such as bingo and raffles. Implementation of SB 10-141 is conditional upon voter approval of HCR09-1003, which is a proposed constitutional amendment to give the General Assembly authority to determine which agency regulates bingo and raffles. Colorado voters will decide on this measure in the November 2010 election. The provisions of SB 10-141 include the transfer of the licensing and enforcement responsibility from the Secretary of State to the Department of Revenue, effective July 1, 2011. For FY 2010-11, the Department received an appropriation for \$116,020 for start-up costs associated with transferring staff and establishing the bingo and raffle licensing program, including funding for infrastructure and licensing software. Beginning in FY 2011-12, the Department will receive \$455,560 total funds and 6.0 FTE to operate the bingo and raffle licensing program.

Department Description FY 2010-11 BUDGET REQUEST

DEPARTMENT OF REVENUE WORKLOAD INDICATORS	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Estimate	FY 2011-12 Estimate
Executive Director's Office				
Citizen complaint cases resolved	1,069	Not Available	Not Available	Not Available
Payments processed (PVs & ITs)	13,004	11,867	12,000	12,000
Contracts and leases executed	93	96	95	95
Personnel actions completed	7,300	7,015	7,015	7,015
Statistical publications/reports developed and published	91	90	91	91
Colorado counties offering online vehicle registration renewal	19	24	40	43
Central Department Operations				
Total Deposit Transactions by Check	2,593,593	2,659,409	2,660,000	2,810,000
Total Deposit Transactions by Third Party Payment Processing	171,798	136,129	150,000	150,000
Total Deposit Transactions by Electronic Funds Transfer	923,914	999,113	1,080,041	1,167,524
Total Individual Income Tax Returns	2,402,727	2,305,947	2,281,504	2,292,911
Individual Income Tax Refunds	1,615,705	1,568,953	1,552,322	1,560,084
Individual Income Tax Payments	552,870	438,838	434,186	436,357
Documents Imaged	7,772,437	8,177,829	7,398,960	7,435,955
Keystrokes Data Entered	417,997,735	478,293,632	412,477,097	414,539,482
Total Pieces Mailed	5,624,281	6,237,480	6,383,736	6,755,784
Information Technology Division				
Help Desk Tickets	27,418	34,860	36,603	36,603
Modifications to Existing Applications	874	1,398	1,661	1,791
Hardware Deployments	1,405	1,091	1,418	1,844
Software Deployments	3,119	5,969	8,644	13,415
External Requests for Data	30	527	580	622
Database Administrator Task Requests	1,300	1,349	1,079	1,079

Department Description FY 2010-11 BUDGET REQUEST

Taxation Business Group				
Total Assessments	\$352,644,775	\$349,962,657	\$365,094,758	\$394,100,347
by Taxpayer Services*	\$13,188,926	n/a	n/a	\$14,507,819
by Field Audit	\$176,630,423	\$202,948,154	\$206,561,303	\$221,059,073
by Discovery	\$162,825,426	\$147,014,503	\$158,533,455	\$158,533,455
Delinquent Collections	\$188,530,290	\$191,278,730	\$199,641,610	\$200,480,810
Website Hits	13,395,661	11,106,001	11,283,697	11,464,236
Agent Calls at Call Center	307,029	224,611	250,000	250,000
Walk-in Customers	28,989	37,632	38,272	38,922
Field Audits Conducted **	6,730	5,643	640	750
Conferee Cases Closed	150	162	168	168
Division of Motor Vehicles				
Driver's Licenses, Permits, and Documents Issued	792,307	905,836	1,085,582	1,308,076
Driver Control Restraint Actions	265,545	241,470	272,545	276,545
Title Applications	1,452,418	1,405,147	1,362,993	1,376,623
Vehicle Registrations	5,121,258	5,074,622	5,023,876	5,023,876
Clean Screen Emissions Tests	236,962	271,074	290,461	290,461
Enviro-Test Facilities Emissions Tests	680,272	809,823	871,386	871,386
Motor Carrier Services Division				
Safety Inspections Performed	24,467	30,285	3,000	N/A
Hazardous Material Permits Issued	1,253	1,055	1,100	1,100
Trucks Weighed at Ports of Entry Operations	4,968,423	4,935,358	5,000,000	5,050,000
Total Collections at Ports of Entry Operations	\$7,572,984	\$8,031,093	\$7,000,000	\$7,000,000
Commercial Drivers License (CDL) Compliance Audits	95	133	152	152
International Registration Plan (IRP) Pro-Rata Receipts	\$56,951,669	\$37,060,516	\$3,800,000	\$3,800,000

Department Description FY 2010-11 BUDGET REQUEST

Enforcement Business Group				
Liquor Investigations Conducted	1,640	1,408	1,500	1,500
Auto Dealer Licenses Issued	2,453	2,241	2,245	2,245
Hearings Conducted	34,000	27,390	30,700	31,000
Gaming Licenses Issued	4,310	3,624	3,100	3,100
Medical Marijuana Licenses Issued	n/a	n/a	2,300	2,300
Racing Investigations Completed	104	64	70	70
State Lottery Division				
Ticket sales volume (millions)	\$493.4	\$501.2	\$572.1	\$572.1
Lottery retailers serviced	2,496	2,950	3,100	3,200
Lottery games offered	51	78	80	80
* GenTax reports for tracking TPS assessments and adjustments have not been created. These are scheduled to be created in Phase 4, which is set to begin in November 2010. The Department notes that GenTax has created efficiencies in the accounting groups of TPS and this will translate into higher performance in fiscal years beginning in 2012				
** In the past, audit counts included all liabilities that a business had, and therefore, the audit count prior to FY 2011 included state audits, and any local jurisdictions and special districts; it also included any tax type the business filed. Rather than counting this as one audit, it was counted as at least three audits. With the implementation of GenTax, the Department reevaluated its audit methodology and determined to count only businesses under review rather than the liabilities audited.				