

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

NP-01 Resources for Administrative Courts

Dept. Approval By: *Barbara Baker* ☒ Supplemental FY 2015-16
☒ Change Request FY 2016-17
☐ Base Reduction FY 2016-17
 OSPB Approval By: *Grant M. Hall / 10/30/15* ☐ Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$8,063	\$0	\$8,470	\$533	\$533
	FTE	0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$8,063	\$0	\$8,470	\$533	\$533
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$8,063	\$0	\$8,470	\$533	\$533
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office - Administrative Law Judge Services	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$8,063	\$0	\$8,470	\$533	\$533
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> x		If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number: Various Sources Cash Funds		
Reappropriated Funds Source, by Department and Line Item Name: Not Applicable.		
Approval by OIT? Yes <input type="checkbox"/> No <input type="checkbox"/> Not Required <input checked="" type="checkbox"/> x		
Schedule 13s from Affected Departments: Not applicable.		
Other Information: None.		

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

NP-02 Annual Fleet Vehicle Request

Dept. Approval By: <u><i>Barbara Burke</i></u>	<input checked="" type="checkbox"/>	Supplemental FY 2015-16 Change Request FY 2016-17 Base Reduction FY 2016-17 Budget Amendment FY 2016-17
OSPB Approval By: <u><i>Eric M. Smith 10/30/15</i></u>	<input type="checkbox"/>	

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$604,671	\$0	\$604,671	\$56,265	\$56,265
	FTE	0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$156,556	\$0	\$156,556	\$14,986	\$14,986
	CF	\$448,115	\$0	\$448,115	\$41,279	\$41,279
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$604,671	\$0	\$604,671	\$56,265	\$56,265
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office - Vehicle Lease Payments	GF	\$156,556	\$0	\$156,556	\$14,986	\$14,986
	CF	\$448,115	\$0	\$448,115	\$41,279	\$41,279
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required?	Yes	No	<input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number: Various Sources Cash Funds				
Reappropriated Funds Source, by Department and Line Item Name: Not applicable				
Approval by OIT?				
Yes	No	Not Required	<input checked="" type="checkbox"/>	
Schedule 13s from Affected Departments: Not applicable.				
Other Information: None.				

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

NP-03 Secure Colorado

Dept. Approval By: <u><i>Barbara J. Bush</i></u>	x	Supplemental FY 2015-16
		Change Request FY 2016-17
		Base Reduction FY 2016-17
OSPb Approval By: <u><i>Grant M. Smith</i></u> 10/30/15		Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request Continuation
	Total	\$15,093,157	\$0	\$15,818,187	\$44,960
	FTE	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$7,546,246	\$0	\$8,225,457	\$23,381
	CF	\$7,546,911	\$0	\$7,592,730	\$21,579
	RF	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request Continuation
	Total	\$15,093,157	\$0	\$15,818,187	\$44,960
	FTE	0.0	0.0	0.0	0.0
01. Executive Director's Office - Payments to OIT	GF	\$7,546,246	\$0	\$8,225,457	\$23,381
	CF	\$7,546,911	\$0	\$7,592,730	\$21,579
	RF	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0

Letternote Text Revision Required? Yes ☐ No ☒ If Yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and CORE Fund Number: Various Sources Cash Funds

Reappropriated Funds Source, by Department and Line Item Name: Not Applicable.

Approval by OIT? Yes ☒ No ☐ Not Required ☐

Schedule 13s from Affected Departments: Not applicable

Other Information: None.

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

R-01 Division of Motor Vehicles Funding Deficit

Dept. Approval By: Barbara J. Drake ☒ Supplemental FY 2015-16
☐ Change Request FY 2016-17
☐ Base Reduction FY 2016-17
 OSPB Approval By: Paul H. H. / 10/30/15 ☐ Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total		\$23,675,060	\$0	\$24,177,790	\$836,501	\$836,501
FTE		399.1	0.0	399.1	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$7,148,247	\$0	\$3,031,041	\$0	\$0
	CF	\$16,417,694	\$0	\$21,037,630	\$836,501	\$836,501
	RF	\$109,119	\$0	\$109,119	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total		\$19,309,721	\$0	\$19,812,451	\$0	\$0
FTE		399.1	0.0	399.1	0.0	0.0
04. Division of Motor Vehicles, (B) Driver Services - Personal Services	GF	\$7,148,247	\$0	\$3,031,041	\$0	\$0
	CF	\$12,052,355	\$0	\$16,672,291	\$0	\$0
	RF	\$109,119	\$0	\$109,119	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Total		\$4,365,339	\$0	\$4,365,339	\$836,501	\$836,501
FTE		0.0	0.0	0.0	0.0	0.0
04. Division of Motor Vehicles, (B) Driver Services - Drivers License Documents	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$4,365,339	\$0	\$4,365,339	\$836,501	\$836,501
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required?	Yes	<input checked="checked" type="checkbox"/>	No	<input type="checkbox"/>	If Yes, describe the Letternote Text Revision:
					Cash Funds from HUTF Off-the-top
Cash or Federal Fund Name and CORE Fund Number:	4070				
Reappropriated Funds Source, by Department and Line Item Name: Not applicable.					
Approval by OIT?	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	Not Required <input checked="checked" type="checkbox"/>
Schedule 13s from Affected Departments:	Not applicable.				
Other Information:	None.				



COLORADO

Department of Revenue

*Priority: R-01
Division of Motor Vehicles Funding Deficit
FY 2016-17 Change Request*

Cost and FTE

- The Department requests a net increase of \$836,501 cash funds in the Division of Motor Vehicles (DMV) to support operations while continuing to improve DMV wait times, and to ensure an adequate supply of driver's license documents to meet increasing demand.
- This request includes \$3.2 million of spending authority from Highway User's Tax Fund (HUTF) "Off-the-Top" offset by a corresponding decrease of \$2,363,499 in spending authority from the Licensing Services Cash Fund (LSCF) in FY 2016-17 and thereafter.

Current Program

- The appropriations included in the DMV budget support administration, personal services, and operating expenses incurred in the operation of driver's license offices. Revenue is collected from the issuance of driver's licenses, commercial driver licenses, permits, and identification cards.
- In each of the fiscal years FY 2014-15 and FY 2015-16, the legislature approved one-time funding for the decision item "R-1, DMV Funding Deficit" as a General Fund appropriation to cover an operating gap between revenue and expenditures supporting the Driver's Services section of the DMV.

Problem or Opportunity

- As authorized by S.B. 14-194, the Department increased FY 2015-16 fees for driver's license documents by an average of 16.5 percent. The Department increased most fees up to the 20 percent increase limit, except where limited to a lesser increase by the cost to provide the service or other constraints.
- Actual document issuance and issuance cost per document is expected to exceed the estimated amounts used in the FY 2015-16 decision item.
- Despite the increase in revenue from increasing fees, the LSCF is projected to continue to have a deficit in FY 2016-17 and beyond. Of this, \$3.2 million is related to the amount of HUTF Off-the-Top support needed to address this deficit given the current operational activity. This deficit is in part due to the fact that the cost incurred to issue a driver's license (\$27.88) is greater than the fee the Department charges (\$25.00), even after recent fee increases.

Consequences of Problem

- Inadequate funding to fully finance DMV operations may result in a need for a reduction in workforce which will negatively impact customer service by increasing wait times.
- Current document issuance projections combined with the increased cost to issue each license, are estimated to result in an \$836,501 shortfall in the Driver's License Documents line item in FY 2016-17 that will inhibit the Department's ability to meet the full demand for driver's licenses, identification cards, and instruction permits.

Proposed Solution

- Based on the recommendation from the Governor's Office of State Planning and Budgeting in support of their FY 2016-17 State-wide fiscal balancing strategy, the Department requests \$3.2 million of ongoing HUTF Off-the-Top spending authority beginning in FY 2016-17 to fund the operating gap between revenue and expenditures related to customer demand in the DMV, offset by a reduction of \$2,363,499 in spending authority from the LSCF.
- Dependent upon the \$3.2 million spending authority from HUTF, the Department requests to shift \$836,501 of Licensing Services Cash Fund spending authority from the Personal Services Line to the Driver's License Documents line to provide adequate resources for growing document costs in FY 2016-17 and thereafter.
- This solution requires a legislative change to allow the Department to utilize HUTF Off-the-Top revenue.

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COLORADO

Department of Revenue

John W. Hickenlooper
Governor

Barbara Brohl
Executive Director

FY 2016-17 Funding Request | November 1, 2015

Department Priority: R-01
Request Detail: Division of Motor Vehicles Funding Deficit

Summary of Incremental Funding Change for FY 2016-17	Total Funds	HUTF Off-the-Top	Licensing Services Cash Fund
Division of Motor Vehicles Funding Deficit	\$836,501	\$3,200,000	(\$2,363,499)

Problem or Opportunity:

This funding request continues the Department's efforts to modernize the operations and financing of the Division of Motor Vehicles (DMV). The modernization effort began with the Governor's FY 2014-15 budget submission, which included four decision items with the goal of improving customer service, reducing wait times, ensuring a stable funding mechanism, and improving funding transparency. The effort continued in the Governor's FY 2015-16 budget submission, which included a request for \$4,199,062 General Fund to fund the ongoing financial support for DMV's operations; however, the request was approved for FY 2015-16 only. This FY 2016-17 request provides continuation of financial support for Driver's Services activities.

Division of Motor Vehicles Funding Deficit:

The fee revenue earned in the Licensing Services Cash Fund (LSCF) is not adequate to support the Long Bill appropriations for the Driver's Services section. The LSCF is financed with driver's license, identification document, and special plate fees. The cash fund supports the DMV administration, driver's license program, driver control program, and investigations unit, in addition to shared services costs from the Executive Director's Office and the Governor's Office of Information Technology (OIT).

Prior to the 2007 legislative session, the DMV was financed with General Fund. In the 2007 session, S.B. 07-241 authorized the creation of the LSCF to pay the cost of administration, personal services, and operating expenses incurred in the operation of driver's license offices. The bill increased driver's license fees from \$15.00 to \$20.40 (not including the \$0.60 identification security fee), of which \$5.40 was credited to the LSCF and \$15.00 was credited to the Highway Users Tax Fund (HUTF). Additionally, the bill mandated a \$25.00 surcharge on special license plates to be credited to the LSCF.

Since that time, the cash financing of driver's license operations has been extended and modified through several bills. The most recent change was brought about by the JBC-sponsored Senate Bill 14-194, which was introduced in conjunction with the funding requests described below. Senate Bill 14-194 authorized the DMV to increase fees for certain services and to establish new fees for services for which no fee was previously charged. The fee increases were capped at 20 percent for the first year and 5 percent in subsequent years. Fee setting authority became effective July 1, 2015, and the DMV increased fees

effective July 15, 2015. New fees were determined based on a cost accounting study, which resulted in DMV fee increases averaging 16.5 percent. For additional detail, see Appendix A: Driver's License Fees. Together, S.B. 14-194 and H.B. 14-1336 provided the DMV with an ongoing financing plan that reduced the number of cash funds, eliminated certain fund balance transfers, and realigned the Long Bill structure with DMV operations. Although these two bills were significant steps in providing a comprehensive financing plan for the division, a gap still exists between the DMV appropriation and LSCF revenue despite the fee increase as authorized in S.B. 14-194. The Department's FY 2014-15 funding request R-1, "DMV Funding Deficit" provided a one-time General Fund appropriation of \$6.2 million to address the structural deficit and help build a reserve balance in the LSCF. The funding gap was addressed again in the FY 2015-16 budget cycle by R-1, "Division of Motor Vehicles Funding Deficit" which resulted in another one-year only appropriation of \$4.2 million.

DMV document issuance increased 12.8 percent between FY 2013-14 and FY 2014-15. The issuance increase resulted in an upward adjustment to the Department's FY 2015-16 and FY 2016-17 revenue forecasts. As described in the FY 2015-16 decision item, the Department expected LSCF revenue to total \$28.5 million in FY 2016-17, including the fee increases. The Department is now projecting LSCF revenue to total \$29.5 million in FY 2016-17, an increase in projected revenue of \$1 million. Based on the updated forecasts, the Department anticipates a smaller funding gap in FY 2016-17 than what was estimated in FY 2015-16.

Document Issuance Cost Increase:

The Department's Division of Motor Vehicles (DMV) is tasked with the issuance of identification cards and driver's licenses pursuant to Section 42-2-104, 42-2-302, and 42-2-106, C.R.S. The DMV receives a specific annual appropriation for document (card) issuance in the (4) Division of Motor Vehicles (B) Driver's License Documents line item. The FY 2015-16 spending authority in Driver's License Document line in the Licensing Services Cash Fund totals \$4,365,339. In prior years, this spending authority has been sufficient to pay for the material costs associated with the production of driver's licenses, identification cards, and instruction permits from the Licensing Services Cash Fund (LSCF). However, increased spending authority is needed in the line item in FY 2016-17 due to issuance projections that are higher than what was included in the FY 2015-16 request and increased card production costs.

As described above, the Department experienced unexpected document issuance growth of 12.8 percent in FY 2014-15. In the FY 2015-16 request, the Department was expecting a seven percent year-over-year decline in FY 2014-15 issuance due to a projected decrease in renewals. The issuance growth in FY 2014-15 led to an increase of \$3.2 million (12.9 percent) in revenue to the LSCF over the FY 2014-15 projection. Year-over-year document issuance actual and projected growth is summarized below in Table 1: FY 2011-12 to FY 2016-17 DMV Document Issuance. The majority of the growth in FY 2014-15 is attributable to an increase in the number of documents issued to residents new to Colorado exchanging identification cards or driver's licenses from other states or countries. In addition, as authorized by the Colorado Road and Community Safety Act, a total of 27,360 documents were issued to individuals unable to prove lawful presence. These documents would not previously have been issued by the Department.

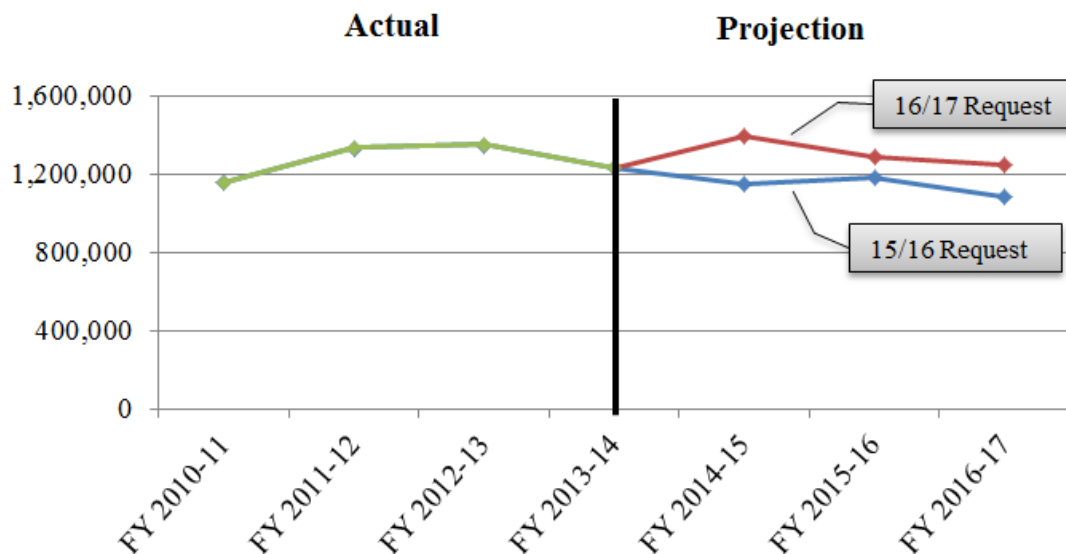
Table 1: FY 2011-12 to FY 2016-17 DMV Document Issuance

Fiscal Year	Total Non-S.B.13-251 Documents Issued	Total S.B.13-251 Documents Issued	Total Documents Issued	Year Over Year Change
FY 2010-11	1,156,451		1,156,451	27.6%
FY 2011-12	1,332,547		1,332,547	15.2%
FY 2012-13	1,349,049		1,349,049	1.2%
FY 2013-14	1,233,690		1,233,690	-8.6%
FY 2014-15	1,315,008	76,957	1,391,965	12.8%
FY 2015-16*	1,215,006	74,660	1,289,666	-7.3%
FY 2016-17*	1,185,897	64,846	1,250,743	-3.0%

**Projected*

While FY 2014-15 saw unexpected growth, document issuance is expected to decrease in FY 2015-16 and FY 2016-17 compared to FY 2014-15. This is due to the cyclical nature of document issuance as it relates to renewal periods. The projections are based on a multivariate forecasting model using trend and document expiration data to predict the issuance cycle which repeats itself at intervals equal to the renewal period. Even though issuance is expected to decrease in the coming years, the FY 2016-17 issuance estimates exceed previous projections and the assumptions used in the FY 2015-16 request. The graph below illustrates the difference between the assumptions used in each request.

**Total Document Issuance:
Actual and Historic Projection Comparison**



While current issuance projections show a decrease in issuance for FY 2015-16 and FY 2016-17, the production cost of each document has increased. The DMV re-procured the card production contract using a competitive bid process during FY 2014-15. As anticipated by the Department, total card production costs increased from \$3.159 per card to \$4.159 per card. This increase in the per-unit cost is driving the total costs for the document line above current spending authority levels. The historical actuals and future projections for total document costs can be found in Table 2: FY 2011-12 to FY 2016-17 DMV Document Costs.

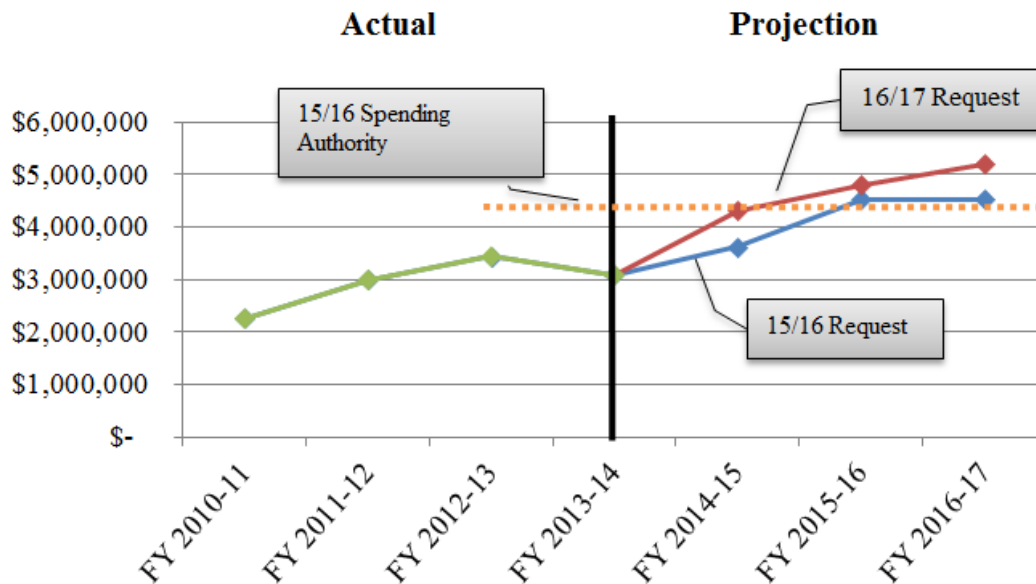
Table 2: FY 2011-12 to FY 2016-17 DMV Document Costs

Fiscal Year	Total Non-S.B.13-251 Document Cost	Total S.B.13-251 Document Cost	Total Document Cost	Year Over Year Change
FY 2010-11	\$2,258,414		\$2,258,414	
FY 2011-12	\$2,994,363		\$2,994,363	32.6%
FY 2012-13	\$3,435,459		\$3,435,459	14.7%
FY 2013-14	\$3,087,144		\$3,087,144	-10.1%
FY 2014-15	\$4,061,024	\$243,107	\$4,304,131	39.4%
FY 2015-16*	\$4,527,715	\$281,187	\$4,808,902	11.7%
FY 2016-17*	\$4,932,146	\$269,695	\$5,201,840	8.2%

**Projected*

All identification cards, instruction permits, and driver's licenses are produced by the DMV's card vendor in a secure production facility. The new card includes numerous security enhancements which will reduce fraud and ensure REAL ID compliance going forward. The enhancements include the use of polycarbonate card stock, laser engraved images, and engraved and embossed text. These features were extensively evaluated and supported by numerous stakeholders including law enforcement agencies.

Total Document Cost: Actual and Historic Projection Comparison



As the graph above illustrates, under current projections for document issuance and increases in the production cost per card, the prior spending authority level will result in an \$836,501 shortfall. The DMV requests a shift of spending authority of \$836,501 from the Personal Services line to the Driver's License Documents line in the Licensing Services Cash Fund to ensure the ability to continue to issue identification cards and driver's licenses to Colorado residents.

Proposed Solution:

Division of Motor Vehicles Funding Deficit:

Based on the recommendation from the Governor's Office of State Planning and Budgeting in support of their FY 2016-17 State-wide fiscal balancing strategy, the Department requests ongoing spending authority from the HUTF Off-the-Top totaling \$3.2 million in FY 2016-17 and thereafter to finance the projected gap between the Driver Service's Long Bill appropriation and the fee revenue. In addition, the Department requests a net reduction of \$2,363,499 in spending authority from the LSCF which is comprised of a \$3.2 million decrease in the Personal Services line, and an increase of \$836,501 in spending authority to the Driver's License Documents line. This will require a legislative change to allow HUTF Off-the-Top revenues to be appropriated to the Department, and to change the base Off-the-Top calculation to include DMV in the six percent allowable growth from the previous fiscal year.

The Department expects there may be a need for smaller incremental requests in future years due to the limitations of DMV fee setting and the volatile and cyclical nature of the primary source of revenue for the fund. Although FY 2015-16 fee increases are estimated to generate \$2,300,000 in revenue for FY 2015-16, future year fee increases are capped at five percent. Fee increases are not expected to keep pace with increases in operating costs, particularly those for personal services and information technology. The revenue estimates used in this request conservatively assume that fees will remain unchanged in FY 2016-17.

In order to minimize the amount of future requests over the long-term, and to more fully sustain DMV operations within the LSCF, the Department will seek a waiver to the excess reserve limit included in Section 24-75-402, C.R.S., for FY 2015-16 and each year thereafter as needed, in addition to pursuing a legislative change for FY 2015-16 and beyond to eliminate the year-end fund balance sweep of the LSCF to HUTF of reserves in excess of 16.5 percent. Over time, these changes will result in the ability of the Licensing Services Cash Fund to retain fund balance in higher revenue years which can be strategically used to mitigate shortfalls in lower revenue years. This will allow the Department to maintain a consistent level of staffing and customer service even during years of cyclical revenue downturn related to the renewal cycle of driver's licenses.

Without this funding request, the activities of the DMV will be subject to the cyclical revenue stream of the LSCF. When revenues decrease in the future due to the cyclical nature of document issuance, the DMV will need to reduce expenditures, resulting in increased wait times and decreased service levels. LSCF revenue declined sharply in FY 2013-14. In order to ensure the LSCF remained solvent, the DMV had to freeze hiring in the Driver's License and Driver Control business units ending the year with nearly 52.0 FTE vacant, to delay replacement of equipment such as optical testing machines, and to defer all but health and safety maintenance projects at driver license offices.

Document Issuance Cost Increase:

The Department requests a shift of spending authority of \$836,501 cash funds from the Personal Services line item to the Driver's License Documents line item in the Licensing Services Cash Fund for FY 2016-17 and thereafter to account for increased costs of driver's licenses, identification cards, and instruction permits. This request represents a 19 percent increase over the FY 2015-16 appropriation of \$4,365,339. The Department will also be requesting a related FY 2015-16 supplemental to adjust for these increased costs.

This shift in spending authority for the Driver's License Documents line will allow the Department to meet the anticipated demand of Colorado residents over the next several years. The Department expects there may be a need to make similar incremental requests in the future primarily due to the potential for unexpected increases in issuance related to population growth in the State and secondarily due to the statutory limitations of DMV fee setting. The current driver's license fee does not recover the full cost of issuance, and fee increases are not expected to keep pace with increases in production costs.

Anticipated Outcomes:

Using HUTF Off-the-Top to fund the \$3.2 million gap between the LSCF appropriations and estimated fee revenue will provide a more stable and predictable funding source and reduce the need to compromise service delivery. Fully funding the appropriation allows the DMV to further utilize authorized positions, implement plans to upgrade driver license offices, and invest in technology to further reduce wait times and continuously improve customer service.

An ongoing spending authority increase of \$836,501 to the Driver's License Documents Line will allow the DMV to meet its statutory obligation to issue documents. The goal of this request is to ensure that the DMV is able to issue identification cards, instruction permits, and driver's licenses to all permanent Colorado residents who meet application requirements.

In total, this request builds on the financing plan introduced in the 2014 legislative session, which supports the DMV's strategic plan to continue streamlining operations and increasing effectiveness in serving customers in the most efficient manner possible. The DMV developed a five-year strategic plan that provides a roadmap for the division to achieve higher levels of performance and attain a vision of having a high performing team with dedicated employees driving toward excellence in customer service, identity security, and public safety.

Assumptions and Calculations:

Division of Motor Vehicles Funding Deficit:

The Department requests \$3,200,000 of spending authority in the HUTF Off-the-Top for the (4) Division of Motor Vehicles, (B) Driver Services, Personal Services line item. This is partially offset by a corresponding reduction to the (4) Division of Motor Vehicles, (B) Driver Services, Personal Services line item in the Licensing Services Cash Fund spending authority of \$2,363,499. In addition, the Department requests to shift \$836,501 of spending authority from the (4) Division of Motor Vehicles, (B) Driver Services, Personal Services line item to the (4) Division of Motor Vehicles, (B) Driver Services, Drivers' License Documents line item in the Licensing Services Cash Fund. These calculations are based on the following assumptions:

- (1) LSCF appropriations in the Executive Director's Office that are requested in FY 2015-16 and projected for FY 2016-17 are included in the analysis;
- (2) All appropriations include annualized amounts for prior year special bills and funding requests;
- (3) Revenue projections anticipate an average 16.5 percent increase in fees in FY 2015-16 and no increase in fees for FY 2016-17;
- (4) The FY 2015-16 beginning cash fund balance is determined using the Department's expenditure and revenue estimates for FY 2014-15; and
- (5) Total Driver Services personal services expenditures remain unchanged, as this portion of the request refinances LSCF cash fund with HUTF cash fund and spending authority.

The document and revenue forecasts were constructed using a multi-variate forecasting model. Variables used in this model include historical document issuance, document expiration data, work days per month, and document issuance seasonality.

The following five-year projection illustrates the assumptions and calculations used to develop this request. Revenue projections included in this projection are developed using a multi-variate forecasting model to include document issuance projections under the current renewal period of five years. All costs are held constant with the exception of an assumed 1.0 percent increase in salary and survey and merit pay in FY 2017-18, FY 2018-19, and FY 2019-20 equating to approximately \$387,980 in LSCF, \$39,835 in HUTF, and \$53,185 in the General Fund each year. With the elimination of the HUTF sweep in FY 2015-16 and an exemption from the excess reserves statute, the fund is expected to be able to support operations with this funding request until FY 2018-19, at which point additional support may be needed to maintain DMV service levels. Additionally, other funding pressures on the LSCF may require General Fund appropriations or HUTF spending authority in the future in addition to what has been estimated here.

Document Issuance Cost Increase:

The projection for the total document cost assumes a projected issuance of 1,250,743 documents at \$4.159 each, equates to \$5,201,840 which is \$836,501 above the current base appropriation for the Driver's License Documents Line in FY 2015-16.

FY 2016-17 Projected Document Issuance Costs

	Total	Appropriation²	Variance
Total Document Forecast	1,250,743	-	-
Total Cost ¹	\$5,201,840	\$4,365,339	\$836,501

¹\$4.159 per card

²Appropriation is based on the FY 2015-16 Driver's License Documents line appropriation in S.B. 15-234

Appendix A: Driver's License Fees¹

Fee Description	Prior Fee	Cost to Provide	Prior Fee + 20 percent	Current Fee
Driver's License	\$ 21.00	\$ 27.88	\$ 25.20	\$ 25.00
Identification Card	\$ 10.50	\$ 11.52	\$ 12.60	\$ 11.50
Driving Permit	\$ 14.00	\$ 26.95	\$ 16.80	\$ 16.80
Duplicate License or Permit	\$ 7.50	\$ 12.33	\$ 9.00	\$ 9.00
Driver's License Extension	\$ 3.00	\$ 6.51	\$ 3.60	\$ 3.60
Commercial Driving Permit	\$ 14.00	\$101.72	\$ 16.80	\$ 16.80
Driving Record	\$ 2.20	\$ 17.37	\$ 2.64	\$ 2.60
Certified Driving Record	\$ 2.70	\$ 21.72	\$ 3.24	\$ 3.20
Road Test – Retest ²	\$ -	\$ 60.21	\$ -	\$ 15.00
Written Test – Retest ²	\$ -	\$ 11.16	\$ -	\$ 11.15
Return of Driver's License	\$ 5.00	\$ 12.33	\$ 6.00	\$ 6.00
Surrendered License Replacement	\$ 5.00	\$ 12.33	\$ 6.00	\$ 6.00
Commercial Driver's License	\$ 35.00	\$ 15.51	\$ 42.00	\$ 15.50
CDL Drive Test	\$ 100.00	\$ 353.50	\$ 120.00	\$ 120.00
CDL Testing Unit License (Initial)	\$ 300.00	\$ 3,093.17	\$ 360.00	\$ 360.00
CDL Testing Unit License (Renewal)	\$ 100.00	\$ 1,051.49	\$ 120.00	\$ 120.00
CDL Tester License (Initial)	\$100.00	\$ 147.29	\$ 120.00	\$ 120.00
CDL Tester License (Renewal)	\$ 50.00	\$ 139.11	\$ 60.00	\$ 60.00

¹Excludes CO-RCSA S.B.13-251 fees for individuals unable to demonstrate lawful presence

²Per statute, retest fee is not to exceed \$15.00

Appendix B: Five Year Projection with Decision Item

Colorado Department of Revenue
Fund 4370 - Licensing Services Cash Fund (LSCF)
Executive Fund Summary

	FY 2015-16 Spending Authority	FY 2015-16 Projection	FY 2016-17 Requested	FY 2017-18 Projected	FY 2018-19 Projected	FY 2019-20 Projected
Beginning Fund Balance (LSCF)	\$ 4,510,927	\$ 4,510,927	\$ 5,815,032	\$ 5,003,949	\$ 2,895,839	\$ (1,677,059)
Revenue (LSCF)						
Document Fee Revenue	\$ 27,528,954	\$ 27,528,954	\$ 26,539,349	\$ 25,565,159	\$ 23,423,570	\$ 29,283,838
Special Plate Fee Revenue	\$ 2,839,263	\$ 2,839,263	\$ 2,896,484	\$ 2,954,432	\$ 3,012,017	\$ 3,024,874
Interest Income	\$ 76,121	\$ 76,121	\$ 83,316	\$ 90,511	\$ 97,706	\$ 75,126
Total Revenue	\$ 30,444,338	\$ 30,444,338	\$ 29,519,149	\$ 28,610,102	\$ 26,533,293	\$ 32,383,838
Expenditures (LSCF)						
Personal Services	\$ 15,574,529	\$ 15,574,529	\$ 16,573,591	\$ 16,961,571	\$ 17,349,550	\$ 17,737,530
Document Costs	\$ 4,365,339	\$ 5,010,902	\$ 5,201,840	\$ 5,201,840	\$ 5,201,840	\$ 5,201,840
Operating Expenses	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267
Indirect Cost Assessment	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534
Total Expenditures^{1,2}	\$ 28,494,669	\$ 29,140,232	\$ 30,330,232	\$ 30,718,212	\$ 31,106,191	\$ 31,494,171
Net Income	\$ 1,949,669	\$ 1,304,105	\$ (811,083)	\$ (2,108,109)	\$ (4,572,898)	\$ 889,667
Fund Balance Prior to HUTF Sweep	\$ 6,460,595	\$ 5,815,032	\$ 5,003,949	\$ 2,895,839	\$ (1,677,059)	\$ (787,392)
HUTF Sweep	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance (LSCF)	\$ 6,460,595	\$ 5,815,032	\$ 5,003,949	\$ 2,895,839	\$ (1,677,059)	\$ (787,392)

1. Includes growth assumptions for salary survey and merit pay in FY18, FY19, and FY20. Includes costs related to POTS.

2. Assumes 100% of Spending Authority is spent. Vacancy and turnover savings may impact this projection. In FY2015-16 a supplemental will likely be needed for the Driver's License Documents line based on current projections.

Additional Resources:						
Additional GF support	\$ 4,199,062	\$ 4,199,062	\$ -	\$ -	\$ -	\$ -
Base GF Support	\$ 4,272,405	\$ 4,272,405	\$ 4,272,405	\$ 4,325,590	\$ 4,378,775	\$ 4,431,960
Total GF support	\$ 8,471,467	\$ 8,471,467	\$ 4,272,405	\$ 4,325,590	\$ 4,378,775	\$ 4,431,960
HUTF Support	\$ -	\$ -	\$ 3,200,000	\$ 3,239,835	\$ 3,279,671	\$ 3,319,506
Total Expenditures LSCF, HUTF, and GF	\$ 36,966,136	\$ 37,611,699	\$ 37,802,637	\$ 38,283,637	\$ 38,764,637	\$ 39,245,637

Appendix C: Five Year Projection without Decision Item

Colorado Department of Revenue
Fund 4370 - Licensing Services Cash Fund (LSCF)
Executive Fund Summary

	FY 2015-16 Spending Authority	FY 2015-16 Projection	FY 2016-17 Requested	FY 2017-18 Projected	FY 2018-19 Projected	FY 2019-20 Projected
Beginning Fund Balance (LSCF)	\$ 4,510,927	\$ 4,510,927	\$ 4,808,138	\$ 797,055	\$ (4,550,890)	\$ (12,403,459)
Revenue (LSCF)						
Document Fee Revenue	\$ 27,528,954	\$ 27,528,954	\$ 26,539,349	\$ 25,565,159	\$ 23,423,570	\$ 29,283,838
Special Plate Fee Revenue	\$ 2,839,263	\$ 2,839,263	\$ 2,896,484	\$ 2,954,432	\$ 3,012,017	\$ 3,024,874
Interest Income	\$ 76,121	\$ 76,121	\$ 83,316	\$ 90,511	\$ 97,706	\$ 75,126
Total Revenue	\$ 30,444,338	\$ 30,444,338	\$ 29,519,149	\$ 28,610,102	\$ 26,533,293	\$ 32,383,838
Expenditures (LSCF)						
Personal Services	\$ 15,574,529	\$ 15,574,529	\$ 19,773,591	\$ 20,201,406	\$ 20,629,221	\$ 21,057,036
Document Costs	\$ 4,365,339	\$ 5,010,902	\$ 5,201,840	\$ 5,201,840	\$ 5,201,840	\$ 5,201,840
Operating Expenses	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267	\$ 6,135,267
Indirect Cost Assessment	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534	\$ 2,419,534
Total Expenditures^{1,2}	\$ 28,494,669	\$ 29,140,232	\$ 33,530,232	\$ 33,958,047	\$ 34,385,862	\$ 34,813,677
Net Income	\$ 1,949,669	\$ 1,304,105	\$ (4,011,083)	\$ (5,347,945)	\$ (7,852,569)	\$ (2,429,838)
Fund Balance Prior to HUTF Sweep	\$ 6,460,595	\$ 5,815,032	\$ 797,055	\$ (4,550,890)	\$ (12,403,459)	\$ (14,833,297)
HUTF Sweep	\$ 1,758,975	\$ 1,006,894	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance (LSCF)	\$ 4,701,620	\$ 4,808,138	\$ 797,055	\$ (4,550,890)	\$ (12,403,459)	\$ (14,833,297)
<p>1. Includes growth assumptions for salary survey and merit pay in FY18, FY19, and FY20. Includes costs related to POTS. 2. Assumes 100% of Spending Authority is spent. Vacancy and turnover savings may impact this projection. In FY2015-16 a supplemental will likely be needed for the Driver's License Documents line based on current projections.</p>						
Additional Resources:						
Additional GF support	\$ 4,199,062	\$ 4,199,062	\$ -	\$ -	\$ -	\$ -
Base GF Support	\$ 4,272,405	\$ 4,272,405	\$ 4,272,405	\$ 4,325,590	\$ 4,378,775	\$ 4,431,960
Total GF support	\$ 8,471,467	\$ 8,471,467	\$ 4,272,405	\$ 4,325,590	\$ 4,378,775	\$ 4,431,960
HUTF Support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Appropriation LSCF, HUTF, and GF	\$ 36,966,136	\$ 37,611,699	\$ 37,802,637	\$ 38,283,637	\$ 38,764,637	\$ 39,245,637

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

R-02 Earned Income Tax Credit

Dept. Approval By: Barbara Broshe ☒ Supplemental FY 2015-16
☒ Change Request FY 2016-17
☐ Base Reduction FY 2016-17
 OSPB Approval By: Govt. N. H. / 10/30/15 ☐ Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$53,748,761	\$0	\$54,075,275	\$1,304,530	\$1,646,329
	FTE	352.7	0.0	353.1	16.7	23.4
Total of All Line Items Impacted by Change Request	GF	\$37,996,739	\$0	\$38,546,816	\$1,304,530	\$1,646,329
	CF	\$15,597,937	\$0	\$15,348,773	\$0	\$0
	RF	\$154,085	\$0	\$179,686	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$11,429,894	\$0	\$10,597,159	\$182,321	\$229,883
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office - Health, Life, and Dental	GF	\$4,617,983	\$0	\$4,417,131	\$182,321	\$229,883
	CF	\$6,811,911	\$0	\$6,162,935	\$0	\$0
	RF	\$0	\$0	\$17,093	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

	Total	\$161,525	\$0	\$135,605	\$1,484	\$2,092
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office - Short-term Disability	GF	\$67,780	\$0	\$58,839	\$1,484	\$2,092
	CF	\$93,745	\$0	\$76,603	\$0	\$0
	RF	\$0	\$0	\$163	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

	Total	\$3,256,984	\$0	\$3,446,100	\$32,387	\$47,550
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office -	GF	\$1,364,916	\$0	\$1,491,518	\$32,387	\$47,550
Amortization	CF	\$1,892,068	\$0	\$1,950,388	\$0	\$0
Equalization	RF	\$0	\$0	\$4,194	\$0	\$0
Disbursement	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$3,145,951	\$0	\$3,410,204	\$32,048	\$47,550
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office -	GF	\$1,318,385	\$0	\$1,475,982	\$32,048	\$47,550
Supplemental	CF	\$1,827,566	\$0	\$1,930,071	\$0	\$0
Amortization	RF	\$0	\$0	\$4,151	\$0	\$0
Equalization	FF	\$0	\$0	\$0	\$0	\$0
Disbursement						
	Total	\$3,008,040	\$0	\$3,004,776	\$85,466	\$87,175
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office -	GF	\$2,670,430	\$0	\$2,668,433	\$85,466	\$87,175
Postage	CF	\$337,610	\$0	\$336,343	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$3,899,690	\$0	\$4,150,351	\$126,360	\$126,360
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office -	GF	\$682,040	\$0	\$697,150	\$126,360	\$126,360
Leased Space	CF	\$3,217,650	\$0	\$3,453,201	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$17,406,855	\$0	\$17,701,317	\$229,647	\$537,956
	FTE	239.6	0.0	239.6	5.0	11.7
03. Taxation Business Group, (B)	GF	\$16,212,135	\$0	\$16,482,205	\$229,647	\$537,956
Taxation and	CF	\$1,040,635	\$0	\$1,065,027	\$0	\$0
Compliance Division -	RF	\$154,085	\$0	\$154,085	\$0	\$0
Personal Services	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$1,075,591	\$0	\$1,062,103	\$59,775	\$11,115
	FTE	0.0	0.0	0.0	0.0	0.0
03. Taxation Business Group, (B)	GF	\$1,049,450	\$0	\$1,035,962	\$59,775	\$11,115
Taxation and	CF	\$26,141	\$0	\$26,141	\$0	\$0
Compliance Division -	RF	\$0	\$0	\$0	\$0	\$0
Operating Expenses	FF	\$0	\$0	\$0	\$0	\$0

	Total	\$6,930,494	\$0	\$7,081,088	\$523,333	\$523,333
	FTE	113.1	0.0	113.5	11.7	11.7
03. Taxation						
Business Group, (C)	GF	\$6,628,771	\$0	\$6,776,223	\$523,333	\$523,333
Taxpayer Service	CF	\$301,723	\$0	\$304,865	\$0	\$0
Division - Personal	RF	\$0	\$0	\$0	\$0	\$0
Services	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$484,891	\$0	\$459,433	\$11,115	\$11,115
	FTE	0.0	0.0	0.0	0.0	0.0
03. Taxation						
Business Group, (C)	GF	\$475,508	\$0	\$454,753	\$11,115	\$11,115
Taxpayer Service	CF	\$9,383	\$0	\$4,680	\$0	\$0
Division - Operating	RF	\$0	\$0	\$0	\$0	\$0
Expenses	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$2,948,846	\$0	\$3,027,139	\$20,594	\$22,200
	FTE	0.0	0.0	0.0	0.0	0.0
03. Taxation						
Business Group, (C)	GF	\$2,909,341	\$0	\$2,988,620	\$20,594	\$22,200
Taxpayer Service	CF	\$39,505	\$0	\$38,519	\$0	\$0
Division - Document	RF	\$0	\$0	\$0	\$0	\$0
Management	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number: Not applicable.	
Reappropriated Funds Source, by Department and Line Item Name: Not applicable.	
Approval by OIT? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Not Required <input type="checkbox"/>	
Schedule 13s from Affected Departments: Department of Personnel and Administration	
Other Information: None.	

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Cost and FTE

- The Department requests \$1,304,530 and 16.7 FTE in FY 2016-17, and \$1,646,329 and 23.4 FTE in FY 2017-18 of ongoing General Fund appropriation for the cost to implement and regulate the refundable Earned Income Tax Credit (EITC).

Current Program

- The Department's Taxation Business Group is charged with the administration, collection, auditing, and enforcement of all taxes, fees, bonds, and licenses under Colorado tax laws.
- Article 10, Section 20 of the Colorado Constitution limits the amount of revenue the state may retain, spend, or save. Under this section, the Department is required to refund \$153.6 million of FY 2014-15 revenue to taxpayers, a portion of which is refunded through the EITC.
- The EITC will be available during income tax year 2015 (refunded to taxpayers in 2016) and each year thereafter.

Problem or Opportunity

- Based on the Internal Revenue Service's (IRS's) experience, refundable tax credits such as the federal EITC have high rates of taxpayer fraud and have high auditing requirements. The fraudulent activity is tied to the financial benefit of refundable credits, which allow a taxpayer a refund whether or not the taxpayer has a tax liability.
- For FY 2012-13, the IRS maintained that 24 percent (or \$14.5 billion) of federal EITCs claimed were paid erroneously.
- Due to the complex auditing requirements combined with a complete conversion to a new tax system since the early 2000s when the EITC was last available, the Department does not currently have sufficient staff to implement or adequately regulate the EITC into the new tax system.

Consequences of Problem

- Without the funding identified in this request, the Department will not have the resources to minimize fraud to the extent possible.
- The Department will not be able to adequately address taxpayer questions that arise from the credit, and the Department will have fewer resources to respond to other taxpayer calls.

Proposed Solution

- Staff will provide up-front verification of filers to reduce the issuance of fraudulent refunds acquired through identity theft or other methods. Staff will also identify and resolve erroneous filings made to financially benefit from the credit.
- Staff will also provide call center assistance to persons with questions about the credit.
- Staff will be added to provide a review by the Department's Discovery Section. This review is needed to identify EITCs that are granted by the IRS in error and thus, disallowed at the state level.

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COLORADO

Department of Revenue

John W. Hickenlooper
Governor

Barbara Brohl
Executive Director

FY 2016-17 Funding Request | November 1, 2015

Department Priority: R-02

Request Detail: Earned Income Tax Credit

Summary of Incremental Funding Change for FY 2016-17	FTE	Total Funds	General Fund
Earned Income Tax Credit		\$1,304,530	\$1,304,530

Summary of Incremental Funding Change for FY 2017-18	FTE	Total Funds	General Fund
Earned Income Tax Credit		\$1,646,329	\$1,646,329

Summary: The Department of Revenue requests \$1,304,530 General Fund and 16.7 FTE in FY 2016-17 and \$1,646,329 General Fund and 23.4 FTE in FY 2017-18 and beyond to implement the Earned Income Tax Credit (EITC) as required by state law (Section 39-22-123 (1) (b), C.R.S.).

Problem or Opportunity:

Tax Credits and Background of the EITC. The Department is making this request due to substantial additional information about the level of fraud in the EITC at the federal level.

A tax credit can substantially reduce the amount of taxes owed or increase the size of a tax refund. However, not all tax credits are alike. Tax credits can be nonrefundable, refundable or partially-refundable. Most, if not all, tax credits are nonrefundable and can reduce a taxpayer's tax liability to zero (\$0.00), but not below. A taxpayer must have a tax liability to claim (or benefit) from a nonrefundable tax credit.

In contrast, a refundable tax credit is a credit that can reduce a taxpayer's liability below zero and thus, allow a taxpayer to receive a tax refund when the taxpayer owes little or no taxes. Refundable tax credits are often targeted toward lower income taxpayers because they generally do not benefit from nonrefundable credits. The EITC is a refundable federal state tax credit in Colorado.

The federal EITC varies depending on whether a taxpayer is single or married and the number of children in the home. The Colorado EITC is refundable and is equal to 10 percent of the federal EITC. It is one of three mechanisms used to refund revenue required by the Colorado Constitution. The Colorado EITC was last used to refund revenue in FY 2000-01. In FY 2000-01, the average EITC was \$156 and claimed by 210,942 taxpayers. The total General Fund tax refund was \$32.9 million.

The EITC was last administered by the Department in 2001, using an earlier generation computer system to process returns. When the EITC becomes available in 2015, the Department's new Colorado Integrated Tax Architecture (CITA) computer system, called GenTax, will be used to process returns.

Federal EITC Issues. According to a report by the Treasury Inspector General for Tax Administration¹ the Internal Revenue Service (IRS) has determined that EITC improper payments result from authentication and verification errors. Refundable tax credits such as the EITC have high auditing requirements due to: taxpayer fraud through identity theft, authentication issues based on the inability to authenticate qualifying child status, verification of taxpayers' filing status, claims associated with complex or nontraditional living arrangements, and income verification that includes under- and over-reporting for self-employed taxpayers. The fraudulent activity is tied to the financial benefit of refundable credits, namely, a taxpayer can claim a refund whether or not the taxpayer has a tax liability.

The Office of Management and Budget has identified the federal EITC as the only IRS program that is a high risk tax incentive¹. For FY 2012-13, the IRS maintained that 24 percent (or \$14.5 billion) of EITC's claimed, were paid erroneously due to the above identified issues—this amount has grown significantly over the years¹. From 2003 through 2013, the IRS estimates that total EITCs paid in error is between \$124 billion and \$148 billion. The Department expects that it will have similar administrative issues as the IRS in terms of the implementation of the Colorado EITC.

Current tax processing environment. When Colorado's EITC was first implemented by the Department in the early 2000s, only 27 percent of taxpayers filed electronically and taxpayer fraud was not as much of an issue for refundable state income tax credits. Currently, online filers make up nearly 84 percent of individual taxpayer filings in Colorado. To the extent that more taxpayers file electronically, there is the potential for increased fraud. When comparing Colorado's EITC with its federal counterpart, the Department will have its best opportunity to detect fraudulent returns through the up-front processes employed by the Department's Taxpayers Service Division. The following is a brief explanation of the tax submission and review process as it applies to the EITC, more details can be found in the Assumptions and Calculations section:

- The Colorado EITC eligibility and amount will be determined based on a taxpayer's federal filing. If claimed federally, a taxpayer can file for an amount equal to 10 percent of the federal credit.
- An eligible taxpayer files either online or through a paper form. Taxpayer data is entered into GenTax, either manually, or by a direct transfer of the electronic tax submission.
- An up-front review is performed on any filing flagged by GenTax for potential errors, and the Department selects filings for review based on a pre-determined criteria. This review is performed by tax examiners in the Taxpayer Services Division.
- The Department also reviews filings after the tax year has closed. Often, these reviews are verified using federal tax data by tax examiners in the Tax, Audit, and Compliance Division.

This funding request will allow the Department to implement the Colorado EITC and minimize improper payments and thus reduce fraud and other abuses. This narrative identifies the issues that the Department will focus on to administer the EITC with the fewest improper payments that include:

- taxpayer fraud;
- a greater number of taxpayer errors found in processing returns; and
- disproportionate growth in taxpayers claiming EITC refunds when compared to other state income tax credits and refunds.

1. *Treasury Inspector General For Tax Administration, 29, September 2014. Reference Number: 2014-40-093. P.5-6.*
Available at: <https://www.treasury.gov/tigta/auditreports/2014reports/201440093fr.pdf>

Proposed Solution:

The Department requests \$1,304,530 and 16.7 FTE in FY 2016-17, and \$1,646,239 and 23.4 FTE in FY 2017-18 of ongoing General Fund appropriation for the cost to implement the EITC. The Department will also require approximately \$500,311 and 4.9 FTE in FY 2015-16 to implement the EITC; however, the Department will request the FY 2015-16 funding through the supplemental budget process. Detailed expenditures for this request can be found in Appendix 1: Expenditure Detail. The narrative that follows describes the functions of the new staff and the Assumptions and Calculations section describe the assumptions used in the calculation of this request.

Minimizing fraud and filing errors. The funding in this request will add 7.1 FTE to the Department's income tax section to perform front end processes that minimize fraud and improper payments to taxpayers. The FTE will also be needed to address customer service needs of the taxpayers who will qualify for the credit. An increase of 3.3 FTE in the Department's Discovery Section (annualizing to 7.9 FTE in FY 2017-18) will play an integral role in the auditing process as a method to verify that payments are not made to taxpayers who do not qualify for the credit but receive it erroneously at the federal level.

Maintaining service delivery. Workload associated with the addition of the EITC is expected in the call center, which is responsible for answering taxpayer questions. Due to the number of potential filers, the volume of calls is expected to require an additional 6.3 FTE (annualizing to 8.4 FTE in FY 2017-18), split between the Taxpayer Services and Tax, Audit, and Compliance Divisions.

Strategic Plan. The goals in this funding request are consistent with the goals in the Department's strategic plan that promote fairness and consistency in the application of state laws that require the Department to administer Colorado's tax code. Funding will allow the Department to provide a more responsible administration of the EITC to ensure that customer service remains clear, simple, timely, and convenient to all Colorado taxpayers.

Need for funding. Without additional funding, the Department will have insufficient staff to verify and audit a portion of the EITC returns that may be fraudulent. If these costs have to be permanently absorbed, the Department would have to shift work tasks from taxpayer services, tax auditing, and taxpayer compliance to absorb new auditing and verification processes tied to the EITC. The shift in resources would result in less revenue collected by the state, potential noncompliance with the state's tax laws, and poor customer service.

Anticipated Outcomes:

If this funding request is approved, the Department will be better equipped to reduce the impact of fraud and filing errors anticipated to accompany the EITC and will be able to address the increased workload resulting from a new credit being claimed. The expected outcomes include:

- *Potential savings.* The front end auditing by the Department's Taxpayer Service Division will save the state money by reducing the dollar amount of improper payments made by the state to taxpayers. If the IRS estimate that 24 percent (\$14.5 billion) of all EITC payments were paid in error holds true for the State, approximately \$20.5 million of the \$85.5 million in payments could potentially be made in error. The Department's front end audit and verification processes would only have to prevent 1.5 percent of the \$85.5 million in EITC payments to offset this requested funding.

- *Call Center workload.* The Department's Call Center inquiries and follow-up work with taxpayers who file for the EITC will be met without impacting customer service. Without the funding, the Department will have to use its current phone staff center resources for the administration of the EITC. If current staff are used to respond to the EITC, wait times will increase.
- *Auditing functions.* The Department's Discovery Section is an integral component of reducing improper payments. The additional resources will help prevent the state from paying out significant General Fund money in improper payments. The funding retained by the state will be available for use by other programs.

Assumptions and Calculations:

The Department requests \$1,304,530 General Fund and 16.7 FTE in FY 2016-17, annualizing to \$1,646,329 and 23.4 FTE beginning in FY 2017-18. Table 1 summarizes this request by budget line item and fiscal year, additional calculations can be found in the attachments.

Table 1: Department of Revenue Funding Changes for FY 2016-17 and FY 2017-18

Budget Line-item	FY 2016-17 Decision Item		FY 2017-18 Annualized Costs	
	Funding Change	FTE	Funding Change	FTE
Personal Services	\$752,980	16.7	\$1,061,289	23.4
Operating Costs	70,890		22,230	
Leased Space	126,360		126,360	
Document Management	20,594		22,200	
Postage	85,466		87,175	
Centrally Appropriated Expenditures (salary pots)	248,240		327,075	
Total	\$1,304,530	16.7	\$1,646,329	23.4

Personal services. This new credit will require review by the Taxpayer Service Division and the Taxation and Compliance Division. This funding request for 16.7 FTE in FY 2016-17 represents a combined effort by both divisions to work together on the front-end and concluding auditing processes to address the fraudulent issues identified by the federal IRS. Essentially, the Taxpayer Service Division focuses on the initial verification of EITC claims filed prior to authorizing taxpayer refunds. The Tax Audit and Compliance Division subsequently performs a follow-up verification process utilizing federal data subsequent to corrections made at the federal level. The following illustrates how the divisions will work together to accomplish these tasks.

Taxpayer Service Division. The Department reviews EITC claims and enforces certain rules to provide assurance that taxpayers are claiming the EITC appropriately. For example, federal data may be

used to verify a taxpayers' qualifying prior year dependents for purposes of claiming the EITC. When taken in conjunction with the increased steps taken by the IRS to address this type of fraud, the Department may check up to 15 percent (57,000) of total EITC returns.

The process used by the division is a work intensive manual process requiring Department tax examiners to verify taxpayer documents to prove eligibility. The number of returns expected to require this level of scrutiny will be reduced by verification efforts, additional GenTax capacity, and additional IRS scrutiny.

It is also expected that the Taxpayer Services Division Call Center will receive calls inquiring about the EITC in line with the normal increase estimated for any new tax credit, although at a slightly higher rate. The Department estimates that the call center will receive at least 15 percent of the identified population, or 57,000 calls on the EITC. Each tax examiner handles six calls per hour.

The EITC will likely increase call wait times and blockage rates. For example, from FY 2013-14 to FY 2014-15, the call center received an additional 141,228 calls. The increase was largely due to the Department's response to an increase in fraudulent income tax filing activity. To address this issue, the Department stopped issuing tax refunds for several weeks during February and early March 2015. As a result, a significant number of taxpayers attempted to contact the call center and wait times increased from about 9 to 12 minutes per call. The rate for blocked calls increased from 23 percent to 40 percent. When the EITC is administered by the Department, call wait times will likely increase up to 2 additional minutes and the call blockage rate will also likely increase up to the same blockage rate of 40 percent that was present when the Department was responding to taxpayers who had questions about their tax refunds during March 2015.

The administration of the EITC will result in document handling costs. According to the interagency agreement between the Department and the Department of Personnel and Administration (DPA), the Department's tax correspondence is received, opened, prepped, scanned, data entered, uploaded to the Gentax system and shredded by the DPA. DPA will include these costs in the billing to the Department of Revenue.

Taxation and Compliance Division. The Discovery Section within the Taxation and Compliance Division compares information received from the IRS to the Colorado state return subsequent to corrections made at the federal level. The Department estimates that 24.0 percent of federal EITC credits may potentially be granted in error, and thus, 91,200 returns may be identified subsequent to the credit being allowed. The corrections made to the federal filings will be identified at the state level through this comparison and must be individually investigated and resolved. The Department is currently able to process 5.1 credits per hour. The 91,200 returns identified for further review are anticipated to generate calls to the section's Phone Support Unit. The unit processes 10.5 calls per hour.

Table 2 summarizes personal services costs and associated FTE for each work unit.

Table 2: Personal Services Funding Changes by Work Unit

Personal Services	New Positions	FY 2016-17		FY 2017-18	
		Funding Change	FTE	Funding Change	FTE
Taxpayer Service	Fund 7.1 FTE new staff comprised of Tax Examiner I, II, and III positions in FY 2016-17. Costs are incurred for the full year in FY 2016-17, and ongoing.	\$427,443	7.1	\$428,764	7.1
Taxpayer Service Call Center	Fund 4.6 FTE new call center staff to respond to calls about the refundable EITC. Costs are incurred for the full year in FY 2016-17, and ongoing.	252,683	4.6	253,473	4.6
Taxation and Compliance	Fund 3.3 FTE new staff in FY 2016-17 from January 1 through May (5 months), and 7.9 FTE new staff in FY 2017-18 annualized, comprised of Tax Examiner I, II, and III positions.	203,833	3.3	476,159	7.9
Taxation and Compliance Call Center	Fund 1.7 FTE new call center staff in FY 2016-17 from January 1 through May (5 months), and 3.8 FTE new staff in FY 2017-18 annualized, comprised of Tax Examiner I, II, and III positions.	117,261	1.7	229,968	3.8
Total		\$1,001,220	16.7	\$1,388,364	23.4

Operating and Other Expenditures. The Department will incur operating expenses associated with the new positions such as computers, supplies, telephones, and capital outlay expenses. In addition, ongoing costs for leased space will be needed beginning in FY 2016-17 to accommodate the requested additional FTE. Leased space is based on a cost of \$27 per square foot and 200 square feet per FTE.

The implementation of the EITC will result in additional postage, data input, and imaging costs. Document management costs are related to EITC claims filed by paper filers. The Taxpayer Service Division has estimated that approximately three additional documents will be submitted to the Department for EITC filers who submit a paper return. Approximately seventeen percent of individual taxpayers file paper returns. There will be prepping, scanning, and destruction costs for the additional documentation. Table 3 summarizes operating expenses for new positions needed to administer the EITC.

Table 3: Operating, Leased Space, Postage, and Document Management Expenses (FY 2016-17 and FY 2017-18)

Expense	FY 2016-17 Decision Item	FY 2017-18 Annualized
Computers (one-time)	\$14,391	\$0
Supplies (ongoing)	8,350	11,700
Telephones (ongoing)	7,515	10,530
Capital Outlay (one-time)	40,634	0
Leased Space (ongoing)	126,360	126,360
Postage (ongoing)	85,466	87,175
Document Management	20,594	22,200
Total	\$303,310	\$257,965

Appendix 1: Expenditure Detail

Expenditure Detail			FY 2015-16	FY 2016-17		FY 2017-18	
Personal Services:							
Taxpayer Services - Income Tax Division							
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner I	\$ 3,180	2.0	76,320	4.7	179,352	4.7	179,352
PERA			7,746		18,204		18,204
AED			3,358		8,609		8,968
SAED			3,244		8,519		8,968
Medicare			1,107		2,601		2,601
STD			168		395		395
Health-Life-Dental			15,854		39,635		39,635
Subtotal Position 1, 4.3 FTE		2.0	\$ 107,797	4.7	\$ 257,315	4.7	\$ 258,123
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner II	\$ 3,674	0.5	22,044	1.2	52,906	1.2	52,906
PERA			2,237		5,370		5,370
AED			970		2,539		2,645
SAED			937		2,513		2,645
Medicare			320		767		767
STD			48		116		116
Health-Life-Dental			7,927		15,854		15,854
Subtotal Position 2, 1.1 FTE		0.5	\$ 34,483	1.2	\$ 80,065	1.2	\$ 80,303
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner III	\$ 4,246	0.5	25,476	1.2	61,142	1.2	61,142
PERA			2,586		6,206		6,206
AED			1,121		2,935		3,057
SAED			1,083		2,904		3,057
Medicare			369		887		887
STD			56		135		135
Health-Life-Dental			7,927		15,854		15,854
Subtotal Position 3, 1.1 FTE		0.5	\$ 38,618	1.2	\$ 90,063	1.2	\$ 90,338
Taxpayer Services - Call Center							
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner I	\$ 3,180	1.9	72,504	4.6	175,536	4.6	175,536
PERA			7,359		17,817		17,817
AED			3,190		8,426		8,777
SAED			3,081		8,338		8,777
Medicare			1,051		2,545		2,545
STD			160		386		386
Health-Life-Dental			15,854		39,635		39,635
Subtotal Position 1, 4.2 FTE		1.9	\$ 103,199	4.6	\$ 252,683	4.6	\$ 253,473

Appendix 1: Expenditure Detail (continued)

Expenditure Detail		FY 2015-16		FY 2016-17		FY 2017-18	
Personal Services:							
Tax, Audit, and Compliance - Discovery							
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner I	\$ 3,180	-	-	2.3	87,768	5.3	202,248
PERA			-		8,908		20,528
AED			-		4,213		10,112
SAED			-		4,169		10,112
Medicare			-		1,273		2,933
STD			-		193		445
Health-Life-Dental			-		23,781		47,562
Subtotal Position 1, 3.6 FTE		-	\$ -	2.3	\$ 130,305	5.3	\$ 293,940
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner II	\$ 3,674	-	-	0.5	22,044	1.3	57,314
PERA			-		2,237		5,817
AED			-		1,058		2,866
SAED			-		1,047		2,866
Medicare			-		320		831
STD			-		48		126
Health-Life-Dental			-		7,927		15,854
Subtotal Position 2, 1.8 FTE		-	\$ -	0.5	\$ 34,681	1.3	\$ 85,674
Classification Title	Monthly Salary	FTE		FTE		FTE	
Tax Examiner III	\$ 4,246	-	-	0.5	25,476	1.3	66,238
PERA			-		2,586		6,723
AED			-		1,223		3,312
SAED			-		1,210		3,312
Medicare			-		369		960
STD			-		56		146
Health-Life-Dental			-		7,927		15,854
Subtotal Position 3, 1.8 FTE		-	\$ -	0.5	\$ 38,847	1.3	\$ 96,545

Appendix 1: Expenditure Detail (continued)

Expenditure Detail			FY 2015-16		FY 2016-17		FY 2017-18	
Personal Services:								
Tax, Audit, and Compliance - Call Center								
Classification Title		Monthly Salary	FTE		FTE		FTE	
Tax Examiner I		\$ 3,180	-	-	1.1	41,976	2.6	99,216
PERA				-		4,261		10,070
AED				-		2,015		4,961
SAED				-		1,994		4,961
Medicare				-		609		1,439
STD				-		92		218
Health-Life-Dental				-		15,854		23,781
Subtotal Position 1, 3.5 FTE			-	\$ -	1.1	\$ 66,801	2.6	\$ 144,646
Classification Title		Monthly Salary	FTE		FTE		FTE	
Tax Examiner II		\$ 3,674	-	-	0.3	13,226	0.6	26,453
PERA				-		1,342		2,685
AED				-		635		1,323
SAED				-		628		1,323
Medicare				-		192		384
STD				-		29		58
Health-Life-Dental				-		7,927		7,927
Subtotal Position 2, 1.8 FTE			-	\$ -	0.3	\$ 23,979	0.6	\$ 40,153
Classification Title		Monthly Salary	FTE		FTE		FTE	
Tax Examiner III		\$ 4,246	-	-	0.3	15,286	0.6	30,571
PERA				-		1,552		3,103
AED				-		734		1,529
SAED				-		726		1,529
Medicare				-		222		443
STD				-		34		67
Health-Life-Dental				-		7,927		7,927
Subtotal Position 3, 1.8 FTE			-	\$ -	0.3	\$ 26,481	0.6	\$ 45,169
Subtotal Personal Services			4.9	\$ 284,097	16.7	\$ 1,001,220	23.4	\$ 1,388,364

Appendix 1: Expenditure Detail (continued)

Expenditure Detail		FY 2015-16		FY 2016-17		FY 2017-18	
Operating Expenses							
Regular FTE Operating Expenses	500	4.9	2,450	16.7	8,350	23.4	11,700
Telephone Expenses	450	4.9	2,205	16.7	7,515	23.4	10,530
PC, One-Time	1,230	11.7	14,391	11.7	14,391	-	-
Office Furniture, One-Time	3,473	11.7	40,634	11.7	40,634	-	-
Subtotal Operating Expenses			\$ 59,680		\$ 70,890		\$ 22,230
Other Operating Expenses							
Contactor Costs - CITA Programming		-	-	-	-	-	-
Analysis	212	5	1,060	-	-	-	-
Design	212	5	1,060	-	-	-	-
Development and Coding	212	80	16,960	-	-	-	-
Testing and Validation	212	20	4,240	-	-	-	-
Change Mgmt/System Support	212	10	2,120	-	-	-	-
<i>(The following is reappropriated to DPA)</i>		-	-	-	-	-	-
Document Management Costs			19,104	-	20,594	-	22,200
Fairfax Programming	1,200	1	1,200	-	-	-	-
Postage Expenses			83,790		85,466		87,175
Subtotal Operating Expenses			\$ 129,534		\$ 106,060		\$ 109,375
Leased Space Expenses							
	Per Sq. Ft per FTE	\$27.00		\$27.00		\$27.00	
Leased Space	200	5.0	27,000	23.4	126,360	23.4	126,360
Leased Space	150	-	-	-	-	-	-
Subtotal Leased Expenses			\$ 27,000		\$ 126,360		\$ 126,360
TOTAL REQUEST		4.9	\$ 500,311	16.7	\$ 1,304,530	23.4	\$ 1,646,329

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

R-03 Postage Fund Mix Adjustment

Dept. Approval By: <u><i>Barbara Smith</i></u>	<input checked="" type="checkbox"/>	Supplemental FY 2015-16 Change Request FY 2016-17 Base Reduction FY 2016-17 Budget Amendment FY 2016-17
OSPB Approval By: <u><i>Grant H. Smith 10/30/15</i></u>	<input type="checkbox"/>	

Summary Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial	Supplemental	Base Request	Change	Continuation
		Appropriation	Request		Request	
	Total	\$3,008,040	\$0	\$3,004,776	\$0	\$0
	FTE	0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$2,670,430	\$0	\$2,668,433	(\$23,813)	(\$23,813)
	CF	\$337,610	\$0	\$336,343	\$23,813	\$23,813
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial	Supplemental	Base Request	Change	Continuation
		Appropriation	Request		Request	
	Total	\$3,008,040	\$0	\$3,004,776	\$0	\$0
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive Director's Office - Postage	GF	\$2,670,430	\$0	\$2,668,433	(\$23,813)	(\$23,813)
	CF	\$337,610	\$0	\$336,343	\$23,813	\$23,813
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number:	Various Sources Cash Funds		
Reappropriated Funds Source, by Department and Line Item Name:	Not applicable.		
Approval by OIT?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Not Required <input checked="" type="checkbox"/>
Schedule 13s from Affected Departments:	Not applicable.		
Other Information:	None.		

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Cost and FTE

- The Department requests a fund mix adjustment in FY 2016-17 and ongoing to shift \$23,813 spending authority from General Fund to cash funds in the Executive Director's Office Postage line item to align the appropriation with postage utilization. This request decreases General Fund spending authority and increases cash fund spending authority with no increase to the Department's total appropriation.

Current Program

- The Department of Revenue operates its own mail center due to the volume of mail it handles.
- The total FY 2015-16 Postage appropriation is \$3,008,040, of which \$2,670,430 is General Fund and \$337,610 is cash funds.

Problem or Opportunity

- Beginning in FY 2013-14, the Department experienced an increase in cash fund utilization due to an increase in marijuana postage expenses.
- The Department did not anticipate the full impact of increased postage expenses related to H.B. 13-1318, which established the regulatory structure for the sale of retail marijuana.
- To accommodate this increase, the Department shifted marijuana postage expenses to the Marijuana Enforcement line item that funds the program's operations.
- In FY 2014-15, the Department experienced an overall increase in cash fund utilization due to the continued increase in marijuana postage expenses along with other cash funded division utilization increases.
- The General Fund appropriation in the Postage line item is adequate to implement the fund mix adjustment and still meet the General Fund postage needs of the Department.

Consequences of Problem

- Without this request, the Department will continue to shift cash fund postage expenses to operating line items to accommodate the increase in cash fund postage utilization. This will reduce the amount of available spending authority to meet the operational needs of the Department's impacted cash fund divisions.

Proposed Solution

- The Department requests a fund mix adjustment in FY 2016-17 and ongoing in the amount of \$23,813 from the General Fund to cash funds to align the appropriation with utilization.

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COLORADO

Department of Revenue

John W. Hickenlooper
Governor

Barbara Brohl
Executive Director

FY 2016-17 Funding Request | November 1, 2015

Department Priority: R-03

Request Detail: Postage Fund Mix Adjustment

Summary of Incremental Funding Change for FY 2016-17	Total Funds	General Fund	Cash Funds
Postage Fund Mix Adjustment	\$0	(\$23,813)	\$23,813

Problem or Opportunity:

Beginning in FY 2013-14, the Department experienced an increase in cash fund utilization in the Postage line item due to an increase in marijuana postage expenses. The Department did not anticipate the full impact of increased postage expenses related to H.B. 13-1318, which established the regulatory structure for the sale of retail marijuana. To accommodate this increase, the Department shifted marijuana postage expenses to the Marijuana Enforcement line item that funds the program's operations.

In FY 2014-15, the Department experienced an overall increase in postage cash fund utilization due to the continued increase in marijuana postage expenses along with other cash funded division utilization increases.

The General Fund appropriation in the Postage line item is adequate to implement a fund mix adjustment to shift spending authority from the General Fund to cash funds and still meet the General Fund postage needs of the Department. Further, there is sufficient revenue in the impacted cash funds to support the fund mix adjustment.

Proposed Solution:

The Department requests a fund mix adjustment in FY 2016-17 and ongoing to shift \$23,813 spending authority from General Fund to cash funds in the Executive Director's Office Postage line item to align the appropriation with utilization. This request decreases General Fund spending authority and increases cash fund spending authority with no increase to the Department's total appropriation.

Anticipated Outcomes:

The fund mix adjustment will align the Department's Postage appropriation with its postage utilization and prevent the need to shift postage expenses to operating line items.

Assumptions and Calculations:

The requested fund mix adjustment amount of \$23,813 is based on an estimate of the Department's need for additional cash fund spending authority. In FY 2013-14, the Department shifted a total of \$7,452 cash fund postage expenditures from the Postage line item to the Marijuana Enforcement line item, and in FY 2014-15, the Department shifted a total of \$21,648 cash fund postage expenses to operating line items. The request accounts for a 10 percent increase over the FY 2015-16 cash fund spending authority shortfall in the event that additional unanticipated fluctuation occurs in this line item going forward.

Schedule 13

Funding Request for the FY 2016-17 Budget Cycle

Department of Revenue

Request Title

R-04 Long Bill Alignment

Dept. Approval By: *Debra Buhl* ☒ Supplemental FY 2015-16
☐ Change Request FY 2016-17
☐ Base Reduction FY 2016-17
 OSPB Approval By: *Paul M. ... 10/30/15* ☐ Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total		\$25,897,831	\$0	\$26,303,941	\$0	\$0
FTE		352.7	0.0	353.1	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$24,365,864	\$0	\$24,749,143	\$0	\$0
	CF	\$1,377,882	\$0	\$1,400,713	\$0	\$0
	RF	\$154,085	\$0	\$154,085	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17		FY 2017-18
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total		\$17,406,855	\$0	\$17,701,317	(\$586,548)	(\$586,548)
FTE		239.6	0.0	239.6	(11.0)	(11.0)
03. Taxation Business Group, (B)	GF	\$16,212,135	\$0	\$16,482,205	(\$586,548)	(\$586,548)
Taxation and Compliance Division -	CF	\$1,040,635	\$0	\$1,065,027	\$0	\$0
Personal Services	RF	\$154,085	\$0	\$154,085	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Total		\$1,075,591	\$0	\$1,062,103	(\$10,450)	(\$10,450)
FTE		0.0	0.0	0.0	0.0	0.0
03. Taxation Business Group, (B)	GF	\$1,049,450	\$0	\$1,035,962	(\$10,450)	(\$10,450)
Taxation and Compliance Division -	CF	\$26,141	\$0	\$26,141	\$0	\$0
Operating Expenses	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Total		\$6,930,494	\$0	\$7,081,088	\$586,548	\$586,548
FTE		113.1	0.0	113.5	11.0	11.0
03. Taxation Business Group, (C)	GF	\$6,628,771	\$0	\$6,776,223	\$586,548	\$586,548
Taxpayer Service Division - Personal	CF	\$301,723	\$0	\$304,865	\$0	\$0
Services	RF	\$0	\$0	\$0	\$0	\$0

	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$484,891	\$0	\$459,433	\$10,450	\$10,450
	FTE	0.0	0.0	0.0	0.0	0.0
03. Taxation						
Business Group, (C)	GF	\$475,508	\$0	\$454,753	\$10,450	\$10,450
Taxpayer Service	CF	\$9,383	\$0	\$4,680	\$0	\$0
Division - Operating	RF	\$0	\$0	\$0	\$0	\$0
Expenses	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$0	\$0	\$0	\$0	\$2,365,531
	FTE	0.0	0.0	0.0	0.0	29.6
01. Executive						
Director's Office, (B)	GF	\$0	\$0	\$0	\$0	\$178,955
Hearings Division -	CF	\$0	\$0	\$0	\$0	\$2,186,576
Personal Services	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
					0	
	Total	\$0	\$0	\$0	\$0	\$101,408
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive						
Director's Office, (B)	GF	\$0	\$0	\$0	\$0	\$2,470
Hearings Division -	CF	\$0	\$0	\$0	\$0	\$98,938
Operating Expenses	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
					0	
	Total	\$0	\$0	\$0	\$0	\$174,821
	FTE	0.0	0.0	0.0	0.0	0.0
01. Executive						
Director's Office, (B)	GF	\$0	\$0	\$0	\$0	\$0
Hearings Division -	CF	\$0	\$0	\$0	\$0	\$174,821
Indirect Cost	RF	\$0	\$0	\$0	\$0	\$0
Assessment	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$2,329,806	\$0	\$2,365,531	\$0	(\$2,365,531)
	FTE	29.6	0.0	29.6	0.0	(29.6)
05. Enforcement						
Business Group, (E)	GF	\$178,955	\$0	\$178,955	\$0	(\$178,955)
Hearings Division -	CF	\$2,150,851	\$0	\$2,186,576	\$0	(\$2,186,576)
Personal Services	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$101,408	\$0	\$101,408	\$0	(\$101,408)
	FTE	0.0	0.0	0.0	0.0	0.0
05. Enforcement						
Business Group, (E)	GF	\$2,470	\$0	\$2,470	\$0	(\$2,470)
Hearings Division -	CF	\$98,938	\$0	\$98,938	\$0	(\$98,938)
Operating Expenses	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
	Total	\$141,989	\$0	\$174,821	\$0	(\$174,821)

05. Enforcement	FTE	0.0	0.0	0.0	0.0	0.0
Business Group, (E)	GF	\$0	\$0	\$0	\$0	\$0
Hearings Division -	CF	\$141,989	\$0	\$174,821	\$0	(\$174,821)
Indirect Cost	RF	\$0	\$0	\$0	\$0	\$0
Assessment	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required? Yes ☐ No ☒ If Yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and CORE Fund Number: Various Sources Cash Funds

Reappropriated Funds Source, by Department and Line Item Name: Not applicable.

Approval by OIT? Yes ☐ No ☐ Not Required ☒

Schedule 13s from Affected Departments: Not applicable.

Other Information: In FY 2017-18, add two subgroups to the Long Bill group "01. Executive Director's Office" titled "(A) Administration and Support" and "(B) Hearings Division." Move all current line item appropriations that are in the Executive Director's Office group to the new "(A) Administration and Support" subgroup.

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Cost and FTE

- The Department requests a budget neutral alignment of the Long Bill in FY 2016-17 and ongoing for a clearer and more visible representation of the Department's organizational structure. The alignment changes are implemented over two years, FY 2016-17 and FY 2017-18

Current Program

- The protest section of the Taxation Business Group processes taxpayer responses to Department Notices of Deficiency and handles accounts receivable.
- The Hearings Division conducts administrative hearings for the Department of Revenue and its constituent agencies.
- The majority of hearings consist of Division of Motor Vehicles (DMV) hearings. Non-DMV hearings include: taxation; auto industry salesperson licensing denials and disciplinary actions; determinations by the state licensing authority on state liquor license denial and discipline; the enforcement of laws relating to the prohibition of the sale of cigarettes and tobacco products to minors; denials of retail and medical marijuana applications and discipline of retail and medical marijuana license holders; and the denial or suspension of racing licenses or imposition of fines.

Problem or Opportunity

- Duties of the protest section have shifted from the Taxation and Compliance Division to the income and business tax sections of the Taxpayer Service Division because these sections are responsible for handling taxpayer inquiries based on the Department's notices.
- The Hearings Division conducts hearings on behalf of a number of divisions in the Department. To ensure the division's independence, objectivity, and fairness, the Hearings Division Director reports to the Deputy Director in the Executive Director's Office.
- The Hearings Division is currently appropriated within the Enforcement Business Group of the Long Bill, despite the fact that it conducts hearings on behalf of numerous divisions throughout the Department.

Consequences of Problem

- If the Long Bill alignment does not occur, funding will be inconsistent with the operational structure of the Department.

Proposed Solution

- For FY 2016-17, the Department requests a shift of \$596,998 General Fund and 11.0 FTE from the Long Bill sub-group (B) *Taxation and Compliance Division* to sub-group (C) *Taxpayer Service Division*. The total consists of \$586,548 and 11.0 FTE in the Personal Services line item and \$10,450 in the Operating Expenses line item.
- For FY 2017-18, the Department requests that a new Long Bill sub-group titled (A) *Administration and Support* be created in group (1) *Executive Director's Office*, and that the Hearings Division sub-group be moved from (5) *Enforcement Business Group* to (1) *Executive Director's Office* under a new sub-group entitled (B) *Hearings Division*.

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COLORADO

Department of Revenue

John W. Hickenlooper
Governor

Barbara Brohl
Executive Director

FY 2016-17 Funding Request | November 1, 2015

Department Priority: R-4
Request Detail: Long Bill Alignment

Summary of Incremental Funding Change for FY 2016-17	Total Funds	General Fund
Long Bill Alignment	\$0	\$0

Problem or Opportunity:

The protest section in the Taxation Business Group resolves taxpayer disputes pertaining to taxpayer delinquencies and other notices sent out by the Department's tax computer system, GenTax. The protest section is currently appropriated in the Taxation and Compliance Division. However, its duties have shifted to the Taxpayer Service Division (TPS) because the TPS income and business tax sections are responsible for handling taxpayer issues that result from Department notices and other issues.

The Hearings Division conducts hearings on behalf of the majority of the divisions in the Department. To ensure the division's independence, objectivity, and fairness, the Hearings Division Director reports to the Deputy Director in the Executive Director's Office.

The Hearings Division is currently appropriated in the Enforcement Business Group of the Long Bill, which does not align with its operational position within the Department.

The protest section in the Taxation Business Group resolves taxpayer disputes pertaining to taxpayer delinquencies and other notices sent out by the Department's tax computer system, GenTax. The protest section is currently appropriated in the Taxation and Compliance Division. However, its duties have shifted to the Taxpayer Service Division (TPS) because the TPS income and business tax sections are responsible for handling taxpayer issues that result from Department notices and other issues.

Proposed Solution:

The Department requests a budget neutral alignment of the Long Bill over the course of two fiscal years. Starting in FY 2016-17, the Department requests a shift of \$596,998 General Fund and 11.0 FTE from the Long Bill sub-group (B) *Taxation and Compliance Division* to sub-group (C) *Taxpayer Service Division*. The total consists of \$586,548 and 11.0 FTE in the Personal Services line item and \$10,450 in the Operating Expenses line item.

In FY 2017-18, the Department requests that a new Long Bill sub-group titled (A) *Administration and Support* be created in group (1) *Executive Director's Office*, and that the Hearings Division sub-group be moved from group (5) *Enforcement Business Group* to group (1) *Executive Director's Office* under a new sub-group titled (B) *Hearings Division*.

Anticipated Outcomes:

This budget neutral alignment of the Long Bill provides a clearer and more visible representation of the Department's organizational structure.

Assumptions and Calculations:

The Taxation Business Group's protest section's Personal Services and Operating Expenses appropriations will shift from one Long Bill sub-group to another.

The Hearings Division line item appropriations (Personal Services, Operating Expenses, and Indirect Cost Assessment) will remain intact and simply move to the Executive Director's Long Bill group.