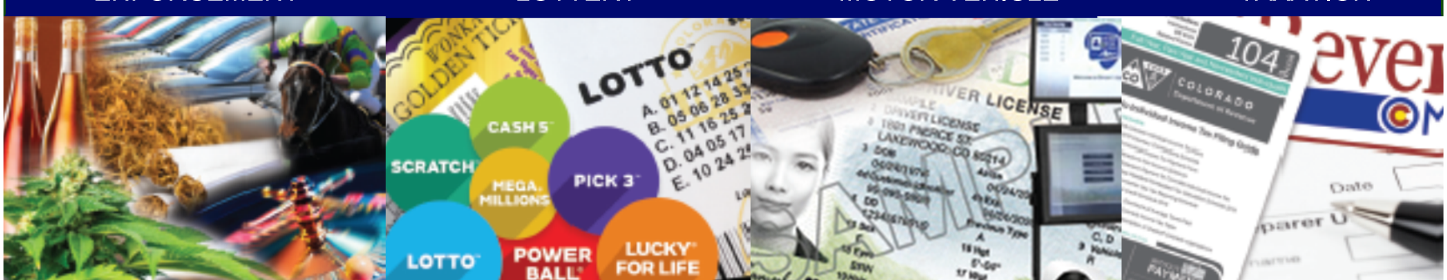
ENFORCEMENT LOTTERY MOTOR VEHICLE TAXATION



Long Range Financial Plan

Fiscal Year 2019-20
November 1, 2019

COLORADO
Department of Revenue

colorado.gov/revenue

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Contents

Purpose and Statutory Requirements

Pursuant to HB18-1430 (§2-3-209, C.R.S.), each state agency is required to submit an annual long-range financial plan beginning November 1, 2019. The statutory elements required in the plan include:

- Statement of an agency's mission
- Description of an agency's major functions
- Description of an agency's performance goals
- Performance evaluation of an agency's major programs with recommendations to improve performance
- Description of anticipated trends, conditions, or events affecting the agency
- Description of any programs funded by federal funds or gifts, grants, and donations that may decrease in the future.

This long-range financial plan covers the five-year period beginning in the current fiscal year (from FY 2019-20 through FY 2023-24). The plan is not a policy document but rather a management tool to support effective planning and resource allocation. As such, it does not reflect the impact of policy proposals. In addition, given the November 1 statutory deadline for this report, it was developed prior to the finalization of the Governor's FY 2020-21 budget request, and thus may not reflect all technical changes prepared for the budget.

The Office of State Planning and Budgeting (OSPB) has developed a statewide overview of the long-range plan submissions, which can be viewed on OSPB's website at: https://www.colorado.gov/ospb

Colorado Department of Revenue (CDOR) Department Overview

MISSION

To become a trusted partner to every Coloradan, to help them navigate the complexities of government so they can thrive.

VISION

To empower businesses and individuals through quality customer service, innovation and collaboration.

MOTTO

Always Help!

WILDLY IMPORTANT GOALS

1 Fiscal Stewardship

Implement effective and efficient business processes with a balanced emphasis on fiscal responsibility.

1A Reduce CDOR's overall operation expenses by 5%.

1B Achieve compliance with the South Dakota v. Wayfair decision.

2 Culture of Empowerment

Empower employees to always help individuals and businesses in Colorado, serving as a bridge, not a barrier, guiding and advising our stakeholders through the complexities of government.

2A Establish a DOR Net Promoter Score baseline and increase that baseline by 25%.

EXECUTIVE DIRECTOR GOALS

Program and Goal Evaluation - Metrics

EXECUTIVE DIRECTOR GOAL 1A

Reduce the Colorado Department of Revenue's overall operation expenses by 5%

FY 2019-20 Target

-5%

Key Strategies:

- Develop feedback tool to assess the performance and overall customer experience at CDOR offices
- Explore and implement new technology and tools to create and introduce efficiencies into workflows
- Track reduction in operating expenses

The Colorado Department of Revenue has a vision of process improvements, technological advances, and innovation enacted by the proposed Business Innovation Group, with the goal of a 5% savings in operational costs. The FY 2018-19 number excludes federal and informational appropriations that cannot be reduced.

As of October 1, 2019, the Department has achieved a 2.5% reduction.

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Objective	$127,595,065	-5%	-3%	-2%

Program and Goal Evaluation - Metrics

EXECUTIVE DIRECTOR GOAL 1B

Achieve compliance with the *South Dakota v. Wayfair* Decision by June 30, 2020.

FY 2019-20 Target

Compliance

Background:
The Federal Legislature is given the power to regulate interstate commerce by the US Constitution. Historically, this grant of power, known as the "Commerce Clause," has been read as a prohibition on state taxation of out-of-state retailers, i.e. on retailers that do not maintain a physical presence within the state.

Recently, South Dakota tried to impose a use tax collection requirement on out-of-state retailers, and Wayfair, Inc., a web-based retailer, sued. The case went to the US Supreme Court, and June 21, 2018 it ruled that states could in fact force out-of-state retailers to collect use taxes on behalf of in-state residents.

In Colorado, in-state retailers have always been required to collect Colorado-based sales taxes, and CDOR's existing statutory mandate required out-of-state retailers to collect use taxes in even more situations than those required by South Dakota. However, due to the then-prevailing interpretation of the Commerce Clause, CDOR never enforced those statutes, and the onus was on the recipient of the goods to remit the tax to the state.

In order to achieve compliance with its existing statutory mandate in a post-"Wayfair-decision" world, CDOR must update its existing resources to process the sales and use tax remittances from out-of-state retailers.

During the 2019 legislative session, legislation was passed to clean up outdated language in statute, make technical changes, establish a de minimis amount of sales into the state to trigger the requirement for an out-of - state business to collect (set at $100,000), and explicitly assign sales tax collection responsibilities to a type of retailer known as a marketplace facilitator.

July 1, 2019 marked the day when out-of-state retailers were required to begin collecting; marketplace facilitators began collection on October 1, 2019.

CDOR and the Governor's Office of Information Technology (OIT) are required by Senate Bill 19-006 to develop and provide a single portal sales tax administration software solution for retailers to more easily comply with the Wayfair decision and destination sourcing. The system will include a Global Information System (GIS) module for rate lookup by address, and the portal module will provide a single portal for retailers to register, report and remit sales tax for all state-collected and home rule jurisdictions (pending home-rules opting in).

The successful implementation of this system will complete the departments compliance with the *South Dakota v. Wayfair* decision.

Current status:

- Several stakeholder "statement of work" workgroups were held, including the final meeting which included several stakeholders from cities, counties, and businesses.
- Procurement process begins - Invitation to Negotiate (ITN) was released by OIT
- A partnership structure for SB 19-006 implementation has been developed to ensure there is equal representation of all potential users of the system.
- The Department estimates that as of October 1, 2019, the process of becoming compliant was 18% complete.

Program and Goal Evaluation - Metrics

EXECUTIVE DIRECTOR GOAL 2A

Establish a Colorado Department of Revenue Net Promoter Score Baseline and implement a plan to increase that baseline by 25% by June 30, 2020.

FY 2019-20 Target

+25%

A Net Promoter Score (NPS) measures customer experience and predicts business growth. The Colorado Department of Revenue (CDOR) has a comprehensive list of customer feedback surveys to gauge satisfaction and improve service delivery. The Department will add a new question to existing surveys: How likely is it that you would recommend [brand] to a friend or colleague?

Respondents are grouped as follows:

- Promoters (score 9-10) are loyal enthusiasts who will keep buying and refer others, fueling growth.
- Passives (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- Detractors (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of-mouth.

Subtracting the percentage of Detractors from the percentage of Promoters yields the Net Promoter Score, which can range from a low of -100 (if every customer is a Detractor) to a high of 100 (if every customer is a Promoter).

A procurement process is underway to secure the mechanism needed to establish a baseline Net Promoter Score for FY 2018-19. The data for FY 2018-19 will be available soon after this process is complete.

As of October 1, 2019, the Department estimates that 20% of this goal is complete.

Program and Goal Evaluation - Metrics

Executive Director Goal	Program/ Division	Divisional Goal	Status as of October 1, 2019
1A: Reduce the Colorado Department of Revenue's overall operation expenses by 5%.	Enforcement Business Group	1A.1. The Marijuana Enforcement Division seeks to decrease underage sales by 20% through increased advisory services and compliance checks.	
		1A.2. The Division of Gaming seeks to decrease underage gaming by 10% through increased advisory services and compliance checks.	
		1A.3. The Liquor Enforcement Division will track citizen and industry liquor complaints and complete 80% of investigative complaints within 90 days by the end of FY 2019-20.	
		1A.4. The Enforcement Business Group will implement online licensing across all divisions, with a target to have 50% of all licensing activities online by the end of FY 2019-20.	Currently 11.6% of online licensing activities are online.
	State Lottery Division	1A.1. Increase Colorado Lottery's proceeds transfer to the Building Excellent Schools Today (BEST) fund by 10% in FY 2019-20	3% revenue increase from the first quarter of FY 2018-19.
1B: Achieve compliance with the South Dakota v. Wayfair Decision by June 30, 2020.	CDOR-wide effort	1B.1. Provide a single portal sales tax administration software solution for retailers to more easily comply with destination sourcing.	18% complete

Program and Goal Evaluation - Metrics

Executive Director Goal	Program /Division	Divisional Goal	Status as of October 1, 2019
2A. Establish a Colorado Department of Revenue Net Promoter Score Baseline and implement a plan to increase that baseline by 25% by June 30, 2020.	Division of Motor Vehicles	2A.1: Increase FY 2018-19 customer feedback response rate goal by 25% and develop a closed loop feedback system for in-office services in the Motor Vehicle Division in order to move from a level 2 to a level 3 on the Customer Feedback Maturity Index.	
		2A.2 Reduce total customer experience times for walk-in DMV services in high-volume offices below 45 minutes and in low-volume offices below 25 minutes more than 85% of the time.	High: 80.4% Low: 78.7%
		2A.3. Increase the number of online driver license renewal (for those eligible to renew online) by 10% over the previous year on an annual basis.	For the first quarter of Fiscal Year 2019-20, the Division reports that 74% of online-renewal-eligible licenses were renewed online. This represents a 15% increase over the Fiscal Year 2018-19 rate of 59%.
		2A.4. All Division of Motor Vehicles call centers will have an average call wait time of nine minutes on an annual basis.	10:03 minutes
	Taxation Division	2A.1. Goal for FY 2019-20 is to increase response rate by 10% and implement a closed loop feedback system in the Taxation Division in order to move from a level 2 to a level 3 on the Customer Feedback Maturity Index.	
		2A.2. The Tax call center will reduce customer wait times in high seasonal volume months below thirteen minutes and thirty seconds and in average volume months below six minutes and twenty seconds in normal volume seasons entering the queue for FY 2019-20 with a 10% reduction annually in FY 2020-21 and FY 2021-22.	Low: 8:10 minutes
		2A.3. Through a usability lab study, the division will establish requirements to redesign the Revenue Online website by December and implement redesign by the end of FY 2019-20. The division's FY 2020-21 goal is a 25% increase in customer satisfaction of website usability scores in the year following the re-deployment of the improvement Revenue Online website.	Currently gathering and prioritizing requirements and user stories.
	State Lottery Division	2A.1. Achieve World Lottery Association level 2 certification in responsible gaming and submit application for level 3 certification by May 1, 2020.	

Long Bill Appropriations History

(1) Executive Director's Office	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total Funds
FY 2015-16 †	$31,638,671	$27,810,628	$4,652,176	-	$64,101,475
FY 2016-17 †	30,808,320	27,743,652	5,781,724	-	64,333,696
FY 2017-18 ††	36,326,180	33,582,896	5,495,896	-	75,404,972
FY 2018-19 ††	36,376,810	32,739,479	5,488,504	-	74,604,793
Current Long Bill Appropriation	$37,057,265	$37,661,064	$5,315,991	-	$80,034,320

†Hearings Division recorded in EBG ††Includes Hearings Division in EDO

Programs under Executive Director's Office include Administration, Human Resources, Communications, Internal Audit, Hearings, and Financial Services.

(2) Information Technology	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total Funds
FY 2015-16	$957,265	$3,751,162	-	-	$4,708,427
FY 2016-17	957,265	3,744,012	-	-	4,701,277
FY 2017-18	1,209,976	4,182,967	-	-	5,392,943
FY 2018-19	1,209,976	3,632,279	-	-	4,842,255
Current Long Bill Appropriation	$1,209,976	$3,632,279	-	-	$4,842,255

Programs under Information Technology include System Support and DRIVES Support for County Offices.

(3) Taxation Division (No Informational Appropriations)	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total Funds
FY 2015-16	$35,166,692	$2,031,642	$220,085	-	$37,418,419
FY 2016-17	37,246,793	2,019,744	271,468	-	39,538,005
FY 2017-18	39,871,365	2,046,760	317,368	-	42,235,493
FY 2018-19	38,997,129	2,025,746	317,368	-	41,340,243
Current Long Bill Appropriation	$42,809,420	$2,334,441	$317,368	-	$45,461,229

Does not include pass-through appropriations. Pass-through appropriations are not under the Department's control.

Programs under the Taxation Division include Administration, the Taxation and Compliance Division, the Taxpayer Service Division, and Tax Conferee.

(4) Division of Motor Vehicles	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	Total Funds
FY 2015-16	$8,291,032	$34,074,564	$174,024	-	$42,539,620
FY 2016-17	4,385,815	42,416,260	174,024	-	46,976,099
FY 2017-18	4,426,890	46,412,516	175,939	-	51,015,345
FY 2018-19	4,535,028	51,164,771	241,471	-	55,941,270
Current Long Bill Appropriation	$4,853,648	$60,744,891	$181,895	-	$65,780,434

Programs under Division of Motor Vehicles include Administration, Driver Services, and Vehicle Services.

Long Bill Appropriations History

(5) Enforcement Business Group					
	General Fund	**Cash Funds**	**Reappropriated Funds**	**Federal Funds**	**Total Funds**
FY 2015-16†	$369,951	$56,176,786	$267,885	-	$56,814,622
FY 2016-17†	361,940	58,700,065	295,372	-	59,357,377
FY 2017-18††	181,305	54,207,788	256,043	-	54,645,136
FY 2018-19††	186,090	56,554,264	334,567	-	57,074,921
Current Long Bill Appropriation††	$190,294	$64,126,350	$334,567	-	$64,651,211

† Includes Hearings Division in EBG ††Hearings Division recorded in EDO

Programs under Enforcement Business Group include Administration, Limited Gaming Division, Liquor and Tobacco Enforcement Division, Division of Racing Events, Auto Industry Division, and Marijuana Enforcement.

(6) State Lottery Division					
	General Fund	**Cash Funds**	**Reappropriated Funds**	**Federal Funds**	**Total Funds**
FY 2015-16	-	$98,013,919	-	-	$98,013,919
FY 2016-17	-	98,312,238	-	-	98,312,238
FY 2017-18	-	98,320,468	-	-	98,320,468
FY 2018-19	-	102,489,413	-	-	102,489,413
Current Long Bill Appropriation	-	$103,879,248	-	-	$103,879,248

The only program that falls under State Lottery Division is the Colorado State Lottery.

Total Colorado Department of Revenue					
	General Fund	**Cash Funds**	**Reappropriated Funds**	**Federal Funds**	**Total Funds**
FY 2015-16	$76,423,611	$221,858,701	$5,314,170	-	$303,596,482
FY 2016-17	73,760,133	232,935,971	6,522,588	-	313,218,692
FY 2017-18	82,015,716	238,753,395	6,245,246	-	327,014,357
FY 2018-19	81,305,033	248,605,952	6,381,910	-	336,292,895
Current Long Bill Appropriation	$86,120,603	$272,378,273	$6,149,821	-	$364,648,697

Capital Expenditures

	Controlled Maintenance	Capital Renewal & Recapitalization	Capital Expansion	IT Projects
FY 2015-16	$187,504	-	-	$10,223,860
FY 2016-17	588,591	-	-	20,346,449
FY 2017-18	-	-	-	18,735,736
FY 2018-19	-	-	-	15,090,823
Current Long Bill Appropriation	-	-	-	-

These figures represent actual capital expenditures for the years indicated, and are not reflective of appropriations or funding limits.

The expenditures for controlled maintenance were for HVAC systems at the Pierce Street CDOR location (health/life/safety), which is a Capitol Complex building.

The IT Projects expenditures were for the DRIVES system replacement for the Motor Vehicles Division, which consisted of two appropriations totaling $93.3 million for a multi-year project. The project was underexpended by 20% of the appropriation, which equaled a savings of $19 million.

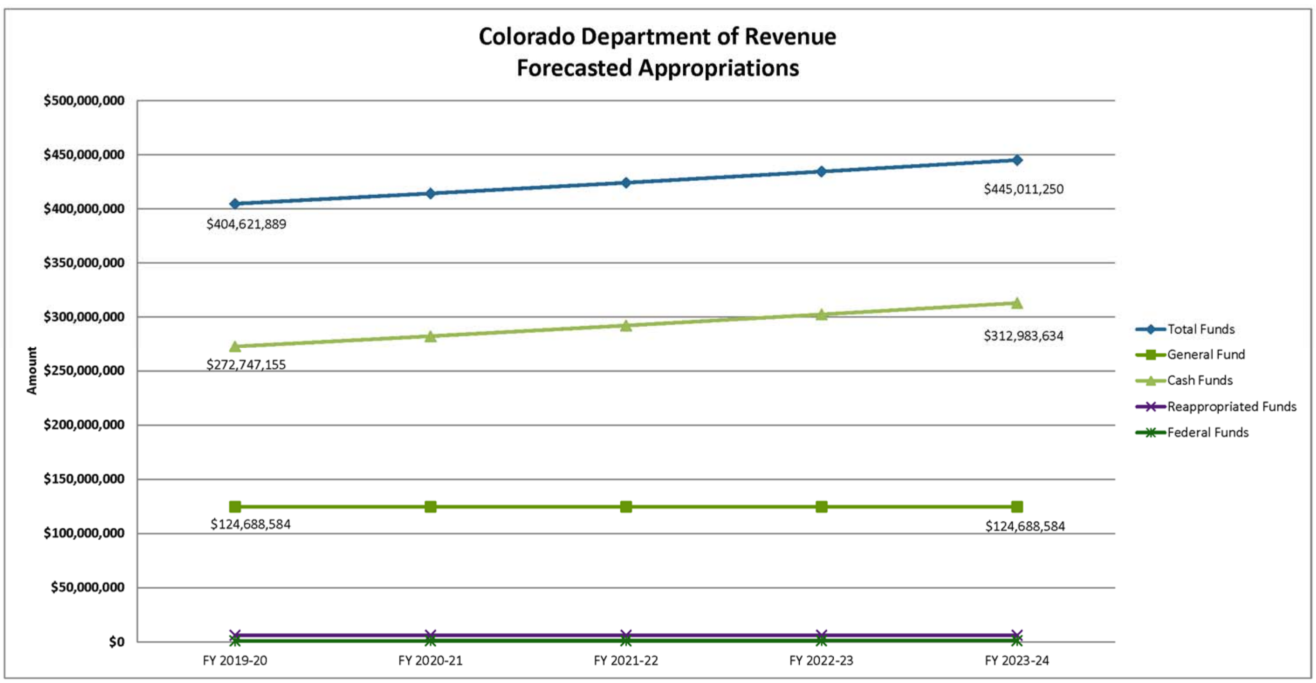
The Department has no ongoing debt obligations.

Appropriations Forecast

This Appropriations Forecast was constructed using the following assumptions:

- General Fund and Reappropriated Funds will remain constant.
- Cash Funds and Federal Funds will increase each year by the rate of population growth plus inflation. Population growth is estimated at 1.4% annually and Consumer Price Index is estimated at 2.1%, for a total rate of 3.5%.
- The Colorado Department of Revenue is not materially supported by Federal Funds.

Fiscal Year	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds
FY 2019-20	$404,621,889	$124,688,584	$272,747,155	$6,149,821	$1,036,329
FY 2020-21	414,204,311	124,688,584	282,293,305	6,149,821	1,072,601
FY 2021-22	424,122,118	124,688,584	292,173,571	6,149,821	1,110,142
FY 2022-23	434,387,048	124,688,584	302,399,646	6,149,821	1,148,996
FY 2023-24	$445,011,250	$124,688,584	$312,983,634	$6,149,821	$1,189,211



Narrative: Budget Drivers or Agency Environment

The Colorado Department of Revenue is comprised of the Division of Motor Vehicles, the Enforcement Division, the Colorado Lottery and the Taxation Division. The services provided touch almost every Colorado resident on an annual basis. In addition, CDOR works closely with different groups of stakeholders, including law enforcement, licensees (auto sales, gaming, liquor, tobacco, marijuana, and racing), fund proceeds recipients, and county and local governments.

Population change is CDOR's biggest budget driver. More Coloradans means more taxes are collected by the Taxation Division and more documents are issued by the Division of Motor Vehicles. More people means more potential business owners and future employees applying for licenses through CDOR's Enforcement Division. More residents means more people who will play the Colorado Lottery.

CDOR is primarily (68%) cash-funded, and its funding levels are therefore dependent upon industry fluctuations, which have myriad causes including new legislation, regulatory changes, and market variables including saturation.

Narrative: Downturn Scenario

As the Colorado Department of Revenue is primarily cash-funded, its operations may be impacted by an economic downturn.

The greatest impact would likely be in Enforcement and Lottery. CDOR would likely see a drop in fee and sales revenue, particularly in the Enforcement Business Group, which generates its funds by issuing new and renewal business licenses. Gaming, Racing and Lottery revenues could drop as Coloradans choose to save instead of spend. Eventually, staffing levels could be affected, including the possibility of a hiring freeze and/or a reduction in force.

It is unlikely that funds collected by the Division of Motor Vehicles would be significantly impacted, as people will continue to register and title their new and used vehicles, as well as renew their driver's licenses, even during an economic downturn. However, if new vehicle purchases were to decrease, this would cause a drop in the amount of registration fees collected. Population change would remain the biggest driver of revenue.

Narrative: Department-Specific Contingency

The Colorado Department of Revenue provides a variety of services to residents of the State of Colorado, including tax collection, administration, audit and enforcement; revenue distribution; driver license issuance, suspension, and revocation; identification document issuance; vehicle registration and titling; regulation of and license issuance for the liquor, tobacco, gaming, racing, automobile, and marijuana industries; and administration of the Colorado State Lottery.

Many of the services provided are required by law, and are therefore fairly inelastic. CDOR expects that most Colorado residents would continue to renew their driver's licenses and vehicle registrations, even in a downturn, to avoid the unpleasant legal ramifications of not doing so. It is possible that in a economic downturn, some Coloradans might postpone becoming licensed drivers to avoid paying the fees and/or due to lack of funds with which to purchase a vehicle. It is possible that fewer new vehicles would be purchased. Due to the sliding structure of the Specific Ownership Taxes, which are collected when a vehicle is registered and are based on the year of manufacture of the vehicle and its original taxable value, a decrease in the number of new vehicles purchased could cause a decline in revenue collected.

Business licenses, which are necessary both to open and to operate a business in the industries mentioned above, would likely prove to be more elastic than the driving-and-vehicle-related services. It is feasible that in a slower economy, many Coloradans would choose to save instead of spend, which can have the unfortunate side effect of causing businesses to close, resulting in a decrease in number of license renewals. Furthermore, it's likely that fewer Coloradans would have the necessary capital to start a new business, so new business license applications could decline as well.

In the case of a significant decline in business licenses issued and fee revenue collected, which would the Department could have to go to a contingency plan for the operations supported by these cash funds. This plan would likely include fee increases to bolster revenue, while potentially holding vacant positions open to lower expenditures (i.e. a hiring freeze). Cutting staff would be avoided for as long as possible, since it would have a negative impact on customer service, in addition to the obvious negative impact it would have on the employees who lost their jobs.

In addition, the Department could see a decrease in Lottery revenue. The Lottery is an enterprise fund, so a material decrease in Lottery revenue would have a direct effect on Lottery operations and proceeds distributions to beneficiaries, but not on Department operations outside of the State Lottery Division.

Narrative: Emerging Trends

Marijuana

Marijuana has been legalized in thirty-three states and the District of Columbia. However, there is still a great deal of uncertainty about the trajectory of the industry. Changes to federal law, banking regulations for the marijuana industry, the implementation of new industry regulations or the elimination of existing regulations at the state level will impact division operations and potentially the solvency of those cash funds.

Digital Driver's License

With today's increasingly technology-driven society, digital driver's licenses and identification cards are an emerging trend, which the Colorado Department of Revenue is actively working to implement for Colorado residents.

Tax Policy

Changes to federal tax policy will have a direct impact on Colorado tax policy and could result in a change to revenue collected here in Colorado.

Lottery

Lotteries around the US are following trends in Europe, including offering sports betting in some states, allowing credit card purchases, and increasing online offerings of lottery games. Other trends include working more closely with retailers like Walmart to improve technology and accountability in stores, and a growing number of lotteries creating shared service partnerships with vendors to bring best practices to market faster.

Anticipated Funding Decreases

The Colorado Department of Revenue is not materially supported by federal funds, so the Department does not anticipate reductions related to changes in funding on the federal level.

Changes to the General Fund monies that the Department receives are at the discretion of the Governor's office and the General Assembly. Cash fund balances fluctuate in relation to the economy, as fewer people apply for business licenses in a slow economy, so an economic downturn could cause a decrease in CDOR's cash funds.