



Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number: LLS 21-0554
Prime Sponsors: Sen. Scott

Date: February 16, 2021
Bill Status: Senate Trans. & Energy
Fiscal Analyst: Will Clark | 303-866-4720
Will.Clark@state.co.us

Bill Topic: **FUND ELECTRONIC THIRD-PARTY VEHICLE TRANSACTIONS**

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill allows state funds to be used to implement an electronic system that allows third-party providers to offer vehicle registration and titling services, and allows the Department of Revenue to set and collect a new fee on these third-party transactions. The bill will increase state expenditures beginning in FY 2021-22, and increase ongoing state revenue beginning in FY 2022-23.

Appropriation Summary: For FY 2021-22, this bill requires an appropriation of \$1,273,993 to the Department of Revenue.

Fiscal Note Status: This fiscal note is preliminary and reflects the introduced bill. This fiscal note will be updated if more information becomes available.

Table 1
State Fiscal Impacts Under SB 21-076

		Budget Year	Out Year
		FY 2021-22	FY 2022-23
Revenue	Cash Funds	-	\$6,020,115
	Total Revenue	-	\$6,020,115
Expenditures	General Fund ¹	\$1,273,993	-
	Cash Funds	-	\$336,198
	Centrally Appropriated	\$49,208	\$46,286
	Total Expenditures	\$1,323,201	\$382,483
Total FTE		3.2 FTE	3.0 FTE
Transfers		-	-
TABOR Refund		-	-

¹ The bill allows money to be appropriated from the General Fund or the Highway Users Tax Fund. The fiscal note assumes a General Fund appropriation.

Summary of Legislation

House Bill 18-1299 allowed the Department of Revenue (DOR) to license third-party providers to perform vehicle titling and registration services for motor vehicles, off-highway vehicles, or special mobile machinery and to establish a system for electronic transmission of registration, lien and titling information between third-party providers and the DOR. Implementation of the electronic system in HB 18-1299 was contingent upon gifts, grants, or donations. To date, no gift, grant, or donation has been provided to fund implementation of the electronic system.

This bill authorizes the General Assembly to appropriate money from the General Fund or the Highway Users Tax Fund to fund the electronic system authorized through HB 18-1299. In addition, the bill allows the DOR to set and collect a fee of up to \$3 on third-party transactions. This fee revenue is credited to the newly created Electronic Transactions Fund. Money in the fund is subject to annual appropriation to facilitate the implementation of a third-party vehicle titling and registration system.

Assumptions and Data

This fiscal note assumes that the electronic system will be programmed and implemented during FY 2021-22, and will begin generating revenue from third-party transactions in FY 2022-23. This fiscal note also assumes that the DOR will set the third-party service fee at the maximum allowable amount of \$3 per transaction.

In FY 2019-20 there were about 9.7 million title and registration transactions completed by the DOR and county clerks and recorders. This fiscal note assumes that these transactions will increase by about 1.6 percent annually, and that 20 percent of all transactions will be completed using the new electronic system. This will result in about 2.0 million third-party transactions completed using the electronic system in FY 2022-23.

This fiscal note assumes that, as a result of this bill, the Colorado Correctional Industries in the Department of Corrections (DOC) will see an increase in the number of transactions filed using the Print on Demand process, which is expected to exceed the capacity of existing equipment and require additional equipment, programming, and postage costs.

State Revenue

Beginning in FY 2022-23, the bill will increase state revenue to the Electronic Transactions Fund by up to \$6.0 million per year. As discussed in the Assumptions section above, this revenue increase is based on the assumption that the DOR will assess a \$3 per transaction fee for approximately 2.0 million title and registration transactions performed by a third-party vendor. Fee revenue is an estimate only; actual fees will be set administratively by the DOR based on estimated program costs and the estimated number of transactions subject to the fee. This fee revenue will increase in future years as the number of vehicles in the state increases over time.

State Expenditures

The bill increases cost in the DOR by \$1.3 million in FY 2021-22 and \$382,483 in FY 2022-23. First-year costs are assumed to be paid from the General Fund. Out year costs will be paid from the Electronic Transactions Fund. A portion of these costs will be for print-on-demand license plate services provided by Colorado Correctional Industries in the DOC. Costs are shown in Table 2 and discussed in more detail below.

**Table 2
Expenditures Under SB 21-076**

Cost Components	FY 2021-22	FY 2022-23
Department of Revenue		
Personal Services	\$190,182	\$179,995
Operating Expenses	\$4,725	\$4,050
Capital Outlay Costs	\$24,800	-
Contract Services	\$70,262	-
Computer Programming and Maintenance	\$705,600	\$70,000
Print on Demand License Plate Services	\$278,423	\$82,153
Centrally Appropriated Costs ¹	\$49,208	\$46,286
FTE – Personal Services	3.2 FTE	3.0 FTE
Total	\$1,323,201	\$382,483
Total FTE	3.2 FTE	3.0 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Staff and contractor costs. In FY 2021-22, the DOR will require 3.2 FTE for staff to oversee the initial round of third-party vendor contracting; maintain customer support; provide training, testing and auditing; as well as managing, reconciling and distributing payments related to the system. First-year costs are prorated for the General Fund paydate shift. The DOR will also require a contractor to assist with project management duties in the first year at a cost of \$70,262. Once the electronic system for third-party registration and titling is operational, the DOR will require 3.0 FTE ongoing to support daily customer interactions, enter new third-party providers into the system, as well as perform regular system upgrades and enhancements. Personal services, operating, and capital outlay expenses for these staff are shown in Table 2 above.

Computer programming and maintenance. Preliminarily, the DOR is expected to have costs of \$705,600 to develop the electronic system for third-party registration and titling of motor vehicles. This system will need to interact with the DOR's existing systems and forms, including the Colorado Driver License, Record, Identification and Vehicle Enterprise Solution (DRIVES) system. To make changes and connections with the DRIVES system, the DOR will use its existing vendor to create the required interfaces, allow for electronic signatures, and collect transaction fees from third-party providers. Preliminarily, ongoing maintenance cost for the system is estimated at \$70,000 per year starting in FY 2022-23.

Print-on-demand license plate services. As described in the Assumptions section, use of the third-party providers for vehicle titling and registration will increase the use of and costs for

print-on-demand license plate services, which are provided by Colorado Correctional Industries in the DOC. In FY 2021-22, the DOC will have costs of at least \$278,423 related to this bill. This includes \$196,270 for equipment and programming to increase capacity for print-on-demand services. It also includes \$82,153 for postage costs for mailing license plates, which are assumed to be an ongoing cost in future years. This estimate is considered preliminary and will be updated if additional information on the use of print-on-demand services becomes available. It is assumed that these costs will be paid using funding reappropriated from the DOR.

Other impacts. The DOR will be required to negotiate contracts with third-party providers to perform electronic transactions, provide training related to the new system, and update their rules, forms, manuals and websites. This work can be accomplished within existing appropriations.

Reimbursement of system costs. Once sufficient fee revenue has accrued in the Electronic Transactions Fund, the General Assembly may choose to use this funding to reimburse the General Fund or Highway Users Tax Fund for these system implementation costs. It is assumed that such an action could occur through the annual budget process or special legislation at the discretion of the General Assembly.

Potential impact on highway funds. Currently, the fiscal note assumes that General Fund will be appropriated to the program in FY 2021-22. However, if money from the Highway Users Tax Fund is appropriated instead, as permitted by the bill, it will decrease the amount of funding transferred to the State Highway Fund for transportation-related spending by the Department of Transportation, and may impact off-the-top funding requests from the Colorado State Patrol in the Department of Public Safety.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$49,208 in FY 2021-22 and \$46,286 in FY 2022-23.

Local Government

Upon implementation of the electronic system, workload in county clerks offices is expected to decrease as a result of some customers obtaining title and registration services through third-party providers. In addition, revenue retained by county clerks from the sales tax vendor fee may decrease as a result of third-party providers collecting and remitting sales tax on a portion of transactions. For information purposes, the current vendor fee is 3.33 percent.

If funding for the electronic system is appropriated from the Highway Users Tax Fund, the amount of funding transferred to counties and municipalities from that fund will decrease.

Technical Note

As drafted, the bill repeals the Electronic Transactions Fund and the ability of the DOR to expend money from the fund to administer the program once the electronic system has been implemented. Given that the bill specifies that fee revenue generated through the electronic system from third-party transactions is deposited into the fund, the fiscal note assumes that the fund will continue and that an amendment will correct this technical error repealing the fund. If an amendment is not adopted, the fiscal note will be revised to remove this assumption.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2021-22, the bill requires a General Fund appropriation of \$1,273,993 to the Department of Revenue, and 3.2 FTE. Of this amount, \$278,423 will be reappropriated to the Department of Corrections for use by Colorado Correctional Industries.

State and Local Government Contacts

Counties	County Clerks	Information Technology
Personnel	Public Safety	Regulatory Agencies
Revenue	Transportation	Treasury
Corrections		