CHANGE REQUEST for FY 2009-10 BUDGET REQUEST CYCLE

Department:	Revenue
Priority Number:	DI-9
Change Request Title:	Document Transport Lease

SELECT ONE (click on box):

☒ Decision Item FY 2009-10
☐ Base Reduction Item FY 2009-10
☐ Supplemental Request FY 2008-09
☐ Budget Request Amendment FY 2009-10

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

☒ Not a Supplemental or Budget Request Amendment
☐ An emergency
☐ A technical error which has a substantial effect on the operation of the program
☐ New data resulting in substantial changes in funding needs
☐ Unforeseen contingency such as a significant workload change

Short Summary of Request:

The Department of Revenue requests $38,000 General Fund for FY 2009-10 to lease a Unisys Quantum 300 document transport for the Central Department Operations Remittance Processing system. This will be the first year of a three-year lease contract for the equipment which will require subsequent $38,000 General Fund appropriations in FY 2010-11 and FY 2011-12.

Background and Appropriation History:

In FY 1999-00, the Department purchased a new remittance processing system which included software, computers, printers and two Unisys DP250 document transports. The entire system's initial purchase price was $697,365 and the Department has paid $60,000 to almost $90,000 annually for software and hardware maintenance. The system was expected to have a useful life of seven years.

The document transports capture images of checks and payment coupons, endorse the checks and encode dollar amounts on the checks and a document control number on the coupons. Beginning in FY 2005-06, the Department began to experience equipment problems resulting in considerable downtime. In FY 2006-07, the Department self-

funded a "technology refresh" and upgraded aging computers, operating systems, cabling and some software components of this system. The Department also leased a new Quantum 300 document transport to replace one of the old machines. In FY 2008-09, the second DP250 will be 10 years old. The Department purchased a new computer from Unisys with updated software to operate this machine in FY 2006-07. However, the back-end image handling computer is original equipment, cannot be upgraded and runs on an operating system no longer supported by Microsoft. The Department needs to upgrade both the image handling computer and the DP250 transport equipment.

Central Department Operations			
	FY 2006-07	**FY 2007-08**	**FY 2008-09**
Line Item	**Appropriation**	**Appropriation**	**Appropriation**
Operating Expenses	$3,525,995	$1,134,446	$1,132,101
General Fund	$3,389,108	$997,559	$995,214
Cash Funds	$0	$0	$136,887
CFE/Reappropriated Funds	$136,887	$136,887	$0

Several changes have occurred in the appropriation since FY 2006-07. The largest change occurred in FY 2007-08 when approximately $2.4 million was transferred from this line item to create a dedicated postage appropriation. The other decrease resulted from a one-time appropriation in H.B. 08-1299.

General Description of Request:

While the Department now receives approximately 60 percent of tax and fee payment dollars electronically, paper checks still comprise over 75 percent of the total payment *transactions*. In fact, through May of FY 2007-08, the Department processed over 186,000 more checks than the prior year (an increase of over 6.8 percent). In FY 2007-08, approximately $4.1 billion from paper checks was deposited. The document transport equipment does more than just endorse and encode checks for deposit; it also images and assigns document control numbers to coupon documents accompanying the check payments, or in the case of sales taxes, processes the coupon tax return even when the payment is made electronically.

The Unisys Quantum 300 includes a high speed encoder module which increases the processing of coupons and checks. This equipment has been so effective that in January and April 2008 (the two busiest months of the year for check processing) the remittance processing area eliminated the need for weekend staffing. In prior years, this area has worked four or five Saturdays and the occasional Sunday during these two months. In April, the Department achieved four of the top five check deposit total days *ever* due to the speed of the new equipment. With funding to lease a second machine, the Department will have two fast, efficient machines which will continue to decrease the amount of overtime and temporary help needed during peak tax processing periods.

To be compatible with the existing remittance processing system, the document transport must be a Unisys model. The Quantum 300 model is an appropriate size for the Department's volume.

Consequences if Not Funded:

While the Department is pursuing funding to replace the current remittance processing system with a FY 2009-10 capital budget request, such a replacement system will not be functional until FY 2010-11 (and would be phased in over three years). The existing Quantum 300 lease expires in FY 2009-10. Leasing another machine will allow the Department to continue processing checks and payment coupons with existing software through FY 2011-12, when the new system should be fully operational.

It is imperative that the Department have functional equipment to deposit money in the bank and begin the tax return tracking and posting process. The technology refresh was done in response to the high amount of downtime experienced due to aging equipment. Transport downtime leads to processing backlogs and deposit delays. Not only does this impact the State, but it also can delay distributions to cities, counties and special districts.

Calculations for Request:

Summary of Request FY 2009-10 Build to Numbers in Schedule 13	**Total Funds**	**General Fund**	**Cash Funds**	**Reappropriated Funds**	**Federal Funds**	**FTE**
Total Request	$38,000	$38,000	$0	$0	$0	0.0
Operating Expenses (Unisys Quantum 300 Document Transport Lease)	$38,000	$38,000	$0	$0	$0	0.0

Summary of Request FY 2010-11 Build to Numbers in Schedule 13	**Total Funds**	**General Fund**	**Cash Funds**	**Reappropriated Funds**	**Federal Funds**	**FTE**
Total Request	$38,000	$38,000	$0	$0	$0	0.0
Operating Expenses (Unisys Quantum 300 Document Transport Lease)	$38,000	$38,000	$0	$0	$0	0.0

Cash Funds Projections: This section is not applicable.

Assumptions for Calculations: The Department obtained a projected purchase price quote from Unisys Corporation of $126,500.00. The state is required to follow Generally Accepted Accounting Principles (GAAP) and GAAP states that total lease values and terms may not exceed ninety percent of the total purchase price and three years, respectively. Therefore, ninety percent of $126,500 equals $113,850. Since the price is a projection, the lease total was rounded up to the nearest $1,000, or $114,000; which divided by three years equals an annual projected lease cost of $38,000.

Impact on Other Government Agencies: This section is not applicable.

Cost Benefit Analysis: This request is to replace existing equipment. The benefit is avoidance of downtime and the potential for total failure of the transport equipment or computers. The Department

expects that newer, faster equipment will result in faster check deposits and reductions in overtime or temporary employee services.

Implementation Schedule:

Task	Month/Year
Obtain Vendor Proposal	March 2009
Determine Lease Vendor	March 2009
Sole Source Waiver Written if Needed	March 2009
Sole Source Waiver Approved	March 2009
Lease Contract Negotiated	June 2009
Lease Contract Executed	July 2009
Quantum 300 Ordered	July 2009
Quantum 300 Delivered and Installed	August 2009
Start-Up Date	August 2009

Statutory and Federal Authority:

24-35-101, C.R.S., (2008). Functions of the department of revenue. (1) There is hereby created the department of revenue, the functions of which are the collection of the following:

(a) Taxes levied and the license fees imposed by the provisions of articles 22 and 26 to 29 of title 39, C.R.S., and section 21 of article X of the state constitution, and the administration and enforcement of said provisions;

(b) Taxes levied by the provisions of articles 23.5 and 25 of title 39, C.R.S.;

(c) Taxes levied and license fees imposed by the provisions of part 1 of article 6 and article 15 of title 12, title 42, and part 2 of article 43, C.R.S., and the administration and enforcement of said provisions;
(d) Taxes levied and license fees imposed by the provisions of article 36 and part 5 of article 47 of title 12, C.R.S., and the administration and enforcement of said provisions;

(e) Repealed.

(f) Taxes, fees, and other revenues, the payment of which is required by law, which the department may be directed by law, rule, or agreement to administer, collect, or enforce.

24-35-108, C.R.S. (2008). Functions of department of revenue - collection of state taxes. (1) In addition to any function specified in this article, the functions of the department of revenue and the duties of the executive director of the department of revenue as the head of said department or of the head of a group, division, or subordinate department appointed by the executive director in accordance with this article are:

(a) To collect delinquent taxes, assessments, and licenses under the jurisdiction of the department of revenue;

(b) To assist local tax collectors insofar as the collection of state taxes is concerned;

(c) To promulgate and establish, with the approval of the governor, rules governing not only the internal administration of the department of revenue but also the collection of taxes, assessments, and licenses and delinquencies in any thereof;

24-35-110, C.R.S. (2008) Collection for political subdivisions – contract. The executive director of the department of revenue is hereby authorized to negotiate and contract with any city, town, or city and county for the purpose of arranging for the collection by the department of revenue of any tax levied by the city, town, or city and county which is also levied and collected by the department of revenue for the state of Colorado.

Performance Measures:

The Department of Revenue seeks to enhance its revenue collections through the fair administration of Colorado's tax laws. Productivity gains and seeking initiatives with ideal returns on investment are priorities. To this end, the Department looks for ways to increase audit revenues and the number of delinquent collections.

Performance Measure	Outcome	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request
Percent of tax dollars deposited within 48 hours.	Benchmark	85%	85%	85%	85%
	Actual	83.4%	TBD	TBD	TBD