

CHANGE REQUEST for FY 2009-10 BUDGET REQUEST CYCLE

Department:	Revenue
Priority Number:	DI-4
Change Request Title:	Microfilm Rate Increase

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 requests \$61,739 General Fund in FY 2009-10 for microfilm services resulting from a rate increase and a change in the volume of documents that need to be microfilmed.

Background and Appropriation History:

Pursuant to Section 39-21-113 (3), C.R.S. (2008), the Department of Revenue must preserve all income tax reports and returns for at least four years; all other taxes must be retained for at least three years. Microfilming is the preferred method for the official storage of forms submitted by taxpayers. As part of the Department's retention policy pursuant to Section 24-80-102.7, C.R.S. (2008), the Department has further delineated its record retention needs. In general, all microfilmed documents are retained for ten years. For those documents that are too large to justify microfilming, the retention period varies from two total years to 18 total years.

The Department of Revenue is required to use the Department of Personnel and Administration (DPA) for certain centralized services (see Section 24-30-1104, C.R.S., (2008)). Among those centralized services is microfilming. There are three

classifications of documents that are microfilmed for the Department of Revenue: (1) income tax documents; (2) business tax documents; and (3) special projects. The special projects class includes documents that are microfilmed on an irregular basis.

Microfilming Rates from FY 2004-05 to FY 2008-09				
Fiscal Year	Income Tax		Business Tax	
	DPA Rate	Percent Increase	DPA Rate	Percent Increase
FY 2006-07	\$0.0420	n/a	\$0.0383	n/a
FY 2007-08	\$0.0495	17.9%	\$0.0489	27.7%
FY 2008-09	\$0.0540	9.1%	\$0.0530	8.4%

The Department received a supplemental and budget amendment as a result of a rate increase imposed during FY 2007-08.

General Description of Request:

Pending a formal rate release from the Department of Personnel and Administration, the Department of Revenue has been notified that the rates it charges to agencies for microfilming services will increase for FY 2008-09. The rate charged for income tax documents will increase by 9.1 percent and the rate for business tax documents will increase by 8.4 percent. The rate increase which is effective July 1, 2008, will drive the Department to exceed its current appropriation of \$383,187. The Department requests a \$61,739 increase in its FY 2009-10 microfilm line item to account for this rate increase. The Department is statutorily required to preserve all tax reports and returns. Documents required for retention include income tax, sales tax, estate tax reports and returns, etc.

Microfilming costs are driven by its volume of documents to be imaged. With the rate increase, the current appropriation will not allow documents to be microfilmed at historical levels. Maintaining the current level of microfilming will allow the tax programs to operate efficiently and effectively. This includes, but is not limited to effective account management and account error resolution.

Consequences if Not Funded:

If this request is not funded, the current level of microfilming services can not be maintained, which will reduce the effectiveness of the Department. Both the Taxpayer

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Services Division and Taxation and Compliance Division will experience increased processing time when tax returns and associated documents are required. That will result in delays in working taxpayer account errors for the Taxpayer Services Division and will result in reduced revenues from audits in progress for Taxation and Compliance.

Calculations for Request:

Summary of Request FY 2009-10	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
Total Request	\$61,739	\$61,739	\$0	\$0	\$0	0.0
Microfilming Need for Income Tax Documents	\$57,239	\$57,239	\$0	\$0	\$0	0.0
Microfilming Need for Business Tax Documents	\$3,329	\$3,329	\$0	\$0	\$0	0.0
Microfilming Need for Special Projects	\$1,171	\$1,171	\$0	\$0	\$0	0.0

Summary of Request FY 2010-11	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
Total Request	\$61,739	\$61,739	\$0	\$0	\$0	0.0
Microfilming Need for Income Tax Documents	\$57,239	\$57,239	\$0	\$0	\$0	0.0
Microfilming Need for Business Tax Documents	\$3,329	\$3,329	\$0	\$0	\$0	0.0
Microfilming Need for Special Projects	\$1,171	\$1,171	\$0	\$0	\$0	0.0

Cash Funds Projections:

This section is not applicable.

Assumptions for Calculations:

Microfilming projections for FY 2009-10 are based on the document volume used to build the appropriation in FY 2008-09. Known changes for the upcoming year plus population growth factors are accounted for when projections are calculated.

Summary of Microfilmed Documents and Rates Charged by the Department of Personnel and Administration				
Tax Type	Estimated FY 2008-09 Documents*	Estimated FY 2009-10 Documents	Actual FY 2008-09 Rate	Estimated FY 2009-10 Rate
Income Tax	5,882,493	6,452,250	\$0.0495	\$0.0540
Business Tax	1,549,040	1,492,013	\$0.0489	\$0.0530

* Estimated documents for FY 2008-09 are based on figures used to calculate the FY 2008-09 appropriation during figure setting. These figures were estimates and do not reflect current estimates. The Department has revised its current year estimates and will request a revision to its current year funding when appropriate.

For FY 2009-10, the Department estimated its required microfilming need – income tax, business tax, and special projects – and multiplied it by the current respective rates (aside from the Department of Revenue’s special projects). The totals were compared to the current appropriation. The Department of Revenue projects its microfilming need will be \$444,926 which exceeds the current appropriation by \$61,739.

Comparison of Microfilming Needs Between FY 2008-09 and FY 2009-10			
Tax Type	FY 2008-09 Appropriation	FY 2009-10 Estimated Cost*	Difference
Income Tax	\$291,183	\$348,422	\$57,239
Business Tax	\$75,748	\$79,077	\$3,329
Special Projects	\$16,256	\$17,427	\$1,171
TOTAL	\$383,187	\$444,926	\$61,739

*Note: This figure does not include \$169 associated with H.B. 07-1106.

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

Cost Benefit Analysis: The state collects approximately \$9.0 billion annually through its efforts to administer state taxes. The cost-benefit analysis for this request is based on the amount of tax compliance effected by the availability of these microfilmed documents. As noted in the request, these documents are used to expedite customer service efforts as well as improve compliance activity on delinquent accounts. For purposes of this analysis, the

Department was extremely conservative and assumed just one-hundredth of one percent (0.0001) of total compliance is attributable to the availability of microfilmed documents.

Benefits	Cost	Ratio
Incremental tax compliance realized through the use of microfilmed documents	The total amount that is requested is \$61,739.	Benefit / Cost ratio is: \$900,000 / \$61,739 = 14.6

Implementation Schedule:

Microfilming needs are fluid and are not tied to a specific implementation schedule. The Department will utilize the resources provided in this request as soon as possible.

Statutory and Federal Authority:

24-30-1104, C.R.S. (2008), Central services functions of the department - definitions - repeal. (1) Within the counties of Adams, Arapahoe, and Jefferson and the city and county of Denver only, the department of personnel shall perform the following functions for the executive branch of the state of Colorado, its departments, institutions, and agencies, under the direction of the executive director:

(k) Establish, in consultation with other state departments, institutions, and agencies, techniques and standards for microfilm, digital imaging, and digital conversion and evidentiary certification of photographs, microphotographs, or reproductions;

39-21-113, C.R.S. (2008), Reports and returns. (3) All reports and returns of taxes received by the department, other than income tax returns, covered by this article shall be preserved for three years and thereafter until the executive director of the department of revenue orders them to be destroyed. Income tax returns received by the department of revenue shall be preserved for four years and thereafter until the executive director orders them to be destroyed.

24-80-102.7, C.R.S. (2008), *Records management programs - records liaison officers - repeal.* (1) As used in this section, unless the context otherwise requires, "state agency" means any department, division, board, bureau, commission, institution, or agency of the state.

(2) No later than January 1, 2004, each state agency shall:

(a) Establish and maintain a records management program for the state agency and document the policies and procedures of such program. The state agency shall ensure that such program satisfies the administrative and technical procedures for records maintenance and management established by the executive director of the department of personnel pursuant to this part 1.

Performance Measures:

The Department of Revenue interacts with every Colorado citizen. In its role of collecting tax revenues, the Department strives for quick, accurate refunds and resolution of disputes. It is the Department's goal to reduce wait times and increase accessibility in driver's license offices. The Department believes that quick resolutions for its external and internal customers are paramount for exceptional customer service.

Performance Measure	Outcome	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Appropriation	FY 2009-10 Request
Percent of income and business tax account issues with an age of 60 days or less handled by the Taxpayer Services Account Services program.	Benchmark	75.0%	75.0%	75.0%	75.0%
	Actual	75.0%	75.0%	TBD	TBD