



Joint Budget Committee Staff

Memorandum

To: Joint Budget Committee
From: Andrew McLeer, JBC Staff (303-866-4959)
Date: Wednesday, March 5, 2025
Subject: [Staff Comeback for Department of State Figure Setting Recommendations on R2 \(Modernizing IT Division Budget\) and R3 \(Fraudulent Filings Solution\); Informational Follow-up on R4 \(Increased Security for Public Meetings\)](#)

In the Department of State figure setting presentation on February 5, 2025, the Committee asked several questions of the Department regarding the Department's R2 (Modernizing IT Division Budget) and R3 (Fraudulent Filings Solution) requests. The following are the Committee's questions, as well as the Department's responses:

R2 Modernizing IT Division Budget

- 1 [Sens. Kirkmeyer and Amabile] What goods and services are the expenditures in each of these line items for? How much are these expenditures relative appropriations (i.e., how much is reverted annually)? Why should they be combined into a single operating expenses line item?

"The IT Division's non-personnel expense appropriations are currently split across appropriations for Asset Management, Hardware/Software Maintenance, and Operating Expenses. As outlined in our request, this structure is based upon an outdated and obsolete operating and budgeting model for information technology. Historically, the Department maintained a significant data center and many of its software costs were based upon perpetual licenses. Virtually all IT vendors have transitioned to a software licensing model with monthly or annual payments. Further, the Department's on-premises data center footprint continues to shrink as more servers and workstations are virtualized. Rigid adherence to the antiquated "three bucket" budget model prevents optimal allocation of IT resources. Combining the three line items into a single Operating Expenses appropriation is consistent with the current IT industry operating model and provides the IT Division with the flexibility to more effectively allocate resources to better serve our customers by improving security, providing fluid disaster recovery, allowing dynamic resource scaling based on demand, and providing a path to adopt new technologies faster in a rapidly changing technology landscape. In addition, as we leverage a more logical spending model, we will attain a path for more efficient use of resources and set the foundation for cost savings through technology consolidation in the future.

Expenses in the Asset Management appropriation are restricted to new hardware and equipment purchases, including initial licensing and setup costs for new systems. In some years,

for example, FY 2023-24, this appropriation has been fully expended, but in other years, for example in FY 2022-23, approximately \$80,000 was reverted and could have better been spent on other IT priorities. Expenses in the Hardware/Software Maintenance appropriation consist of monthly or annual hardware and/or software licensing and subscription costs. Lastly, the Operating Expenses appropriation expenses cover a broad variety of expenses, including telecommunications charges for the Department, software licenses and subscriptions (as the IT industry has transitioned, it has become necessary to cover some license and subscription costs using this line item as well), maintenance costs (e.g., data center cleaning), data center electricity charges, non-capitalized IT equipment, security and other IT-related training for staff, office supplies, etc. In FY 2023-24, approximately \$44,000 was reverted in Hardware/Software Maintenance and \$33,000 in Operating Expenses.”

Staff continues to recommend approval of this budget neutral request, agreeing with the department that the reorganization of operational lines is more appropriate in the current IT landscape. Additionally, staff agrees that a reorganization of the IT division budget could yield efficiencies in administration and accounting.

R3 Fraudulent Filings Solution

- 2 [Sen. Kirkmeyer] Reconcile the request with the LCS fiscal note for HB 24-1137 (Implement Fraudulent Filings Group Recs). Why is the Department requesting an additional \$55,000 and 1.0 FTE? According to the fiscal note from August, the bill is currently annualized correctly in the base budget request.

“During the 2024 Session, there was a late amendment to HB 24-1137 that required the Department to meet with stakeholders to define and implement an alternative verification system for ID-deficient registered agents by July 1, 2025. The Department was transparent that the amendment would have a fiscal impact, but that it could not provide a cost estimate for a process that was not yet developed. The Department stated that after consulting with stakeholders, it would request the spending authority for the costs of implementing the alternative verification through the annual budget request process. Now, as outlined in our R-3 funding request, the Department has identified a solution that enables an ID-deficient registered agent to receive correspondence at their postal address that will direct them to the Department’s website for verification using a QR code or passcode. This solution will increase workload through the delivery of letters to registered agents and associated increase in customer engagement hours. It is this workload that accounts for the request for an additional 1.0 FTE at a cost of approximately \$55,000.”

- 3 [Sen. Kirkmeyer] Identify the extent of the current problem with fraudulent filings. Given that the rapid increase in fraudulent filings appears to be related to the filing fee being reduced to \$8 during the pandemic, has the Department identified any reduction in the number of fraudulent filings now that the fee has increased back to \$50?

“No, the Department has not identified any reduction in the number of fraudulent filings since the end of the fee credit enacted by HB22-1001 for FY2022-23. If anything, the number of fraud complaints has **increased**, not decreased.

Since 2021, The Department has been working to proactively address fraudulent business filing activity. Efforts are underway to fully staff our business fraud team that will enable the Business & Licensing Division to monitor business registry data to identify trends for targeted outreach opportunities. Further, upcoming changes to the business filing system to implement new registered agent requirements for entities and individuals will help mitigate fraudulent filings before entities are formed. Lastly, our ongoing process improvement efforts with the AG’s Office seek to reduce complaint turnaround time with the goal of flagging unauthorized or fraudulent records quickly.

Our business fraud complaint data indicate a 16% increase in complaint submissions year-over-year since the complaint process was introduced in February 2023. Additionally, of the 3,613 complaints received by our office, approximately 560 complaints have been received that identify fraudulent business entities formed during the fee credit period, which is fewer than the 1,406 complaints submitted for entities formed in the same period the following year. The business fraud complaint data suggest that the business filing fee credit, outside of a single outlier, was not a contributing factor in increased fraudulent business filing activity.”

The Department request R3 (Fraudulent Filings Solution) is driven by the adoption of L.002 to H.B. 24-1137 (Implement Fraudulent Filings Group Recs) on May 3, 2024, which called for the development of an alternative verification system for ID-deficient registered agents. Staff continues to recommend approval of the request.

The Department, in collaboration with stakeholders, developed a system for verification using mailing addresses and a QR code to verify residency before July 1, 2024. The Department reports that the stakeholder process did not result in a proposed system until fall of 2024, after the publication of the final fiscal note for the legislation. It is notable that the fiscal notes from February 6, 2024 and August 12, 2024 are identical in estimated fiscal impact, despite the adoption of the amendment to H.B. 24-1137 in the intervening period. The Department reports that they could not estimate fiscal impact of the amendment prior to developing alternative verification. Staff finds it unlikely that the adoption of an alternative system, with an estimated 50,000 verifications needed, would drive no change in the fiscal impact of the bill. Even if the required verifications were half of what the Department estimates, this would still require more than 100 verifications per business day, with a subset of these requiring further contact with the Department, such as phone calls or emails. In turn, this would further increase workload.

R4 Increased Security for Public Meetings and Hearings (Informational)

The Department also included an informational response to a question on R4 (Increased Security at Public Hearings and Meetings). The Committee has already acted on this request

and recommendation, with no further action required. The question and Department response follow:

- 4 [Sen. Kirkmeyer] What is the state currently spending on security for the Department of State? How much is being expended on security for meetings and hearings? How much is being expended on security for the Secretary of State?

“The safety and security of Department employees is of paramount importance and the State of Colorado has a duty to protect its staff. Since just 2023, the Secretary of State has received 2,476 threats of violence or death and numerous additional threats have been directed towards other Department employees. Four individuals have been convicted of, or pleaded guilty to, making threats of violence towards Secretary Griswold in recent years.

The Department expended approximately \$363,000 in state and federal funds on physical security expenses in FY 2023-24.

In FY 2023-24, for security for the Secretary, approximately \$117,000 of cash funds from the Administration Division Personal Services appropriation and \$231,000 of federal Help America Vote Act (HAVA) Election Security Grant funds were used. For staff and the public, \$15,232 of this amount was for the presence of a Colorado State Patrol Officer at select public hearings and meetings. This amount was paid from existing cash-funded appropriations.

In FY 2025-26, the number of public meetings will increase, resulting in an increased use of security services coupled with Colorado State Patrol rate increases. As a result, as detailed in our request (R-4), we expect to need an additional \$31,048 in ongoing spending authority for security services which are paid out of the Administration Division Personal Services appropriation in FY 2025-26 (ongoing). In FY 2026-27, there will be additional public hearings as a result of the November 2026 General Election, so the Department requires an incremental increase of \$6,942 in spending authority.”