

Schedule 13

Funding Request for the FY 2025-26 Budget Cycle

State

Request Title

R-03 Fraudulent Filings Solution

Dept. Approval By: Christopher Beall, Deputy Secretary of State

Supplemental FY 2024-25

 X

Change Request FY 2025-26

OSPB Approval By: OSPB Approval Not Required

Budget Amendment FY 2025-26

Summary Information	Fund	FY 2024-25		FY 2025-26		FY 2026-27
		Initial Appropriation	Supplemental Request	Base Request	Elected Official	Budget Estimate
	Total	\$4,380,696	\$0	\$4,603,668	\$55,033	\$0
Total of All Line Items Impacted by Change Request	FTE	47.9	0.0	50.6	1.0	0.0
	GF	\$551	\$0	\$579	\$0	\$0
	CF	\$4,380,145	\$0	\$4,603,089	\$55,033	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2024-25		FY 2025-26		FY 2026-27
		Initial Appropriation	Supplemental Request	Base Request	Elected Official	Budget Estimate
	Total	\$788,937	\$0	\$779,656	\$2,235	\$0
	FTE	0.0	0.0	0.0	0.0	0.0
IT Operating Expenses	GF	\$551	\$0	\$579	\$0	\$0
	CF	\$788,386	\$0	\$779,077	\$2,235	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0
					Column 4 Total Funds	Column 5 Total Funds

					Column 4 Total	Column 5 Total
					Funds	Funds
	Total	\$3,398,444	\$0	\$3,649,447	\$47,298	\$0
	FTE	47.9	0.0	50.6	1.0	0.0
Business & Licensing Personal Services	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$3,398,444	\$0	\$3,649,447	\$47,298	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

					Column 4 Total	Column 5 Total
					Funds	Funds
	Total	\$193,315	\$0	\$174,565	\$5,500	\$0
	FTE	0.0	0.0	0.0	0.0	0.0
Business & Licensing Operating Expenses	GF	\$0	\$0	\$0	\$0	\$0
	CF	\$193,315	\$0	\$174,565	\$5,500	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

CF Letternote Text Revision Required	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	If Yes, see schedule 4 fund source detail.
RF Letternote Text Revision Required	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	
FF Letternote Text Revision Required	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	
Requires Legislation?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	
Type of Request?	State Prioritized Request				
Interagency Approval or Related Schedule No Other Agency Impact					



Department Priority: R-03 Fraudulent Filings Solution

Summary of Funding Change for FY 2025-26

Fund Type	FY 2025-26 Base Request	FY 2025-26 Incremental Request	FY 2026-27 Incremental Request
Total Funds ¹	\$4,603,089	\$55,033	\$0
General Fund	\$0	\$0	\$0
Cash Funds	\$4,603,089	\$55,033	\$0
Reappropriated Funds	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0
FTE	50.6	1.0	0.0

Summary of Request

Problem or Opportunity:

The Business and Licensing Division (B&L Division) of the Colorado Department of State (Department) registers entities formed in Colorado and maintains a public database of business registrations and other related filings for LLCs, corporations, and other business entities. In recent years, business identity theft and other fraudulent filings have become an increasing problem. HB 24-1137 provided 4.5 additional FTE (Technician I) to the B&L Division for implementation of the recommendations from the Fraudulent Filings Working Group created by SB 22-034, including the verification of the registered agent’s residency status. However, a late amendment to HB 24-1137 directs the Department to develop an alternative policy for ID-deficient registered agents and is scheduled to go into effect on July 1, 2025. The Department, at the time, was unable to accurately project the fiscal impact of this policy and specified that it would instead address the need through the FY 2025-26 budget process. Based on analysis of the method the Department will use for this alternative policy for ID-deficient registered agents, an additional 1.0 Technician I (ongoing) is required.

Proposed Solution:

Pursuant to HB 24-1137, the B&L Division will deploy an alternative policy to require filers who list an individual as their registered agent and who are unable to confirm the registered agent’s identity and Colorado residency with an official state-issued identification card to provide a postal address for correspondence to be delivered to the registered agent for verification of the register agent’s name and Colorado residency. This work will be executed in parallel with the other elements of HB 24-1137 (e.g., requiring affidavit and identity verification attestations for the reinstatements of dissolved and delinquent entities after two years and five years, respectively).

¹ This request impacts three appropriations: B&L Division: Personal Services, B&L Division: Operating Expenses, and IT Division: Operating Expenses.

Fiscal Impact of Solution:

Inclusive of Centrally Appropriated costs, the total fiscal impact is \$73,495 and 1.0 FTE in FY 2025-26 (ongoing). Excluding Centrally Appropriated costs, the total impact is \$55,033 and 1.0 FTE in FY 2025-26 (ongoing). The breakdown by appropriation is provided in the table below.

Appropriation	Amount
Business & Licensing: Personal Services	\$47,298 1.0 FTE
Business & Licensing: Operating Expenses	\$5,500
IT: Operating Expenses	\$2,235
Centrally Appropriated	\$18,462
Total	\$73,495

Requires Legislation	Revenue Impacts	Impacts Another Department?	Statutory Authority
No	No	No	§ 7-90-701 C.R.S.

Background and Opportunity

The B&L Division registers entities formed in Colorado and maintains a public database of business registrations and related filings for LLCs, corporations, and other business entities. In recent years, business identity theft and other fraudulent filings have become an increasing problem in Colorado. HB 24-1137 provided 4.5 additional FTE (Technician I) to the B&L Division for implementation of the recommendations from the Fraudulent Filings Working Group created by SB 22-034. Those positions were needed for the work required in the initial bill to address the sizeable increase in complaints the Department is receiving through the bill’s expansion of the fraud complaint program to allow law enforcement agencies to file complaints, in addition to victims, and for the work to process the bill’s requirements for restoration of dissolved or delinquent entities. An additional 1.0 FTE from our R-05 Customer Support for Fraud Complaints decision item was also included in our FY 2024-25 Budget Request to address workload issues related to the business fraud complaint process.

However, it’s important to appreciate that those additions did not address the impact of the late amendment to HB 24-1137 which directs the Department to develop an alternative policy for ID-deficient registered agents and is scheduled to go into effect on July 1st, 2025. The Department, at that time, was unable to accurately project the fiscal impact of how that policy would be implemented because the Legislature required the Department to first conduct stake-holding meetings with affected interest groups to assess whatever method is selected to implement the policy. As a result, the Department specified that it would instead address the need through the FY 2025-26 budget process. The work associated with this process represents the deployment and execution of an additional process not accounted for in previously appropriated funding. Based on analysis of the method the Department intends to use for ID-deficient registered agents, an additional 1.0 Technician I (ongoing) is required.

Proposed Solution and Anticipated Outcomes

Following the deployment of a yet-to-be executed alternate identity verification process (HB 24-1137, Section 4), the B&L Division will be responsible for delivering yet-to-be defined postal correspondence to a subset of all filers with our office who list an individual as a registered agent. This solution will have increased support costs related to the delivery of this correspondence along with an associated increase in customer engagement. To meet these additional support costs, the B&L Division needs to hire an additional Technician I for the Division's dedicated Business Fraud Unit (currently being formed).

This process will ultimately require filers who choose to list an individual as a registered agent and who are unable to confirm the registered agent's Colorado residency with official state-issued identification to provide the registered agent's name and address for a mailing to registered agent as a means of confirmation of Colorado residency. Upon delivery, the registered agent will be required to access our site (based on a QR code, pin letter, or some other means of access) to confirm their Colorado residency. Upon confirmation, the associated filing will be finalized and become publicly accessible in the Department's registry.

Increased staffing to address this workload will help us maintain turnaround times, improve customer experience, and increase effectiveness in our efforts to protect our constituents from being the victims of fraud.

Our estimates suggest that current staffing for the Business Fraud Unit is inadequate to cover the additional workload of the alternative identity verification process. Without the addition of the requested 1.0 FTE to cover the alternative identity process, we will experience backlogs not only in this set of tasks but in other Business Fraud Unit duties.

Assumptions and Calculations

The following assumptions and calculations represent a better understanding of the additional workload of the alternative identity verification process. As this solution is still in development and its usage volume is not yet finalized, we based our cost calculations on the following assumptions derived from our ongoing work to develop the solution.

Registered Agent Verification

- All transaction types that utilize a Registered Agent are impacted by this legislation.
- There were 909,205 transactions of this type in calendar year 2023.
- 643,448 (calendar year 2023) transactions elected an individual as the registered agent (rather than an entity).

Of the 643,448, we assume 20 percent, or 128,689 of filers who historically have used individuals as their registered agent or initially elect this option, will choose instead to elect an entity as their registered agent.

- It is estimated that as high as 10 percent of the remaining 514,759 filers (51,476) that use individuals as registered agents are likely to use this alternative identity verification solution.
- Those filers that adopt the alternative verification solution will need to be sent letters that will include processing by this FTE.
- Upon receipt of the letters the filer will take an affirmative action within the system to validate the registered agent address/residency to finalize the filing.
- The tasks associated with this work will be completed by Technician I.

All costs associated with the new FTE are calculated using the FY 2025-26 Budget Request FTE Calculations Template.