



Legislative Council Staff

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Fiscal Note

Drafting Number: LLS 23-0748
Prime Sponsors: Rep. DeGraaf

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Bill Status: House State Affairs
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Bill Topic: **DISTRIBUTED LEDGERS VOTING**

Summary of Fiscal Impact:

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

The bill requires the use of distributed ledger technology in elections and establishes voter eligibility verification systems for in person and mail in voting. The bill increases state revenue and expenditures on an ongoing basis.

Appropriation Summary:

For FY 2023-24, the bill requires an appropriation of \$100,000 to the Department of State.

Fiscal Note Status:

This fiscal note is preliminary and reflects the introduced bill. The fiscal note will be updated if more information becomes available.

Table 1
State Fiscal Impacts Under HB 23-1170

		Budget Year FY 2023-24	Out Year FY 2024-25	Out Year FY 2025-26
Revenue	Cash Funds	\$100,000	\$2,100,000	-
	Total Revenue	\$100,000	\$2,100,000	-
Expenditures	General Fund	-	-	\$40,000,000
	Cash Funds	\$100,000	\$2,100,000	-
	Total Expenditures	\$100,000	\$2,100,000	\$40,000,000
Transfers		-	-	-
Other Budget Impacts	TABOR Refund	\$100,000	\$2,100,000	-
	General Fund Reserve	-	-	\$6,000,000

Summary of Legislation

The bill establishes a system for the use of distributed ledgers in elections. A distributed ledger allows information to be entered into a publicly available common database from multiple locations at different times. The bill creates a system of vetting registrars and observer teams to verify the eligibility of both in-person and mail in voters, and a process to assign a unique identifier and other data about the cast vote record that can be maintained in the distributed ledger. Votes counted must be entered into the distributed ledger system, unless the vote was part of a manual count.

State Revenue

The bill increases fee revenue in the Department of State by \$100,000 in FY 2023-24 and \$2.1 million in FY 2024-25 and each year until the new system is operational, assuming the Department of State adjusts its fees to cover the estimated costs paid from the Department of State Cash Fund under the bill.

Fee impact on businesses and professions. Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. Under current law, the Department of State (DOS) is authorized to adjust fees so that the revenue generated approximates its direct and indirect costs. The DOS is primarily funded through business filing fees. To cover the costs described in the State Expenditures section below, fees will likely need to be raised to cover all or some of the costs of this bill. The fees affected and the actual amount of fee charges will be set administratively by the DOS based on cash fund balance, total program costs, and the estimated number of business activities subject to fees. This revenue is subject to TABOR.

State Expenditures

The bill increases state expenditures in Department of State by \$100,000 in FY 2023-24, \$2.1 million in FY 2024-25, and \$40 million in FY 2025-26, paid from the Department of State Cash Fund in the first two years and from the General Fund in the third year. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under HB 23-1170

	FY 2023-24	FY 2024-25	FY 2025-26
Department of State			
System Development and Implementation	\$100,000	\$100,000	\$40,000,000
Statewide Hand Count Observation	-	\$2,000,000	-
Total Costs	\$100,000	\$2,100,000	\$40,000,000

Study and planning. As of this writing, it is not known if voting system technology as described in the bill is commercially or otherwise available. Thus, it is assumed that the DOS will have costs in the first two years to study and plan for implementation the system. It is assumed that a contractor with skills in this area would cost at least \$100,000 per year for two years.

System development and implementation. California's Voting Modernization initiative included funding for a project of similar scope to the one required by the bill. Of the \$200 million bond approved by California voters for election system improvements, California Senate Bill 360 (2013) appropriated \$40 million for a new statewide voter database, which is assumed to be a system of comparable scope and complexity as the distributed ledger system required by this bill. Based on this, it is assumed that DOS will required around \$40 million in FY 2025-26 to develop and implement the new system, with the goal of having it operational for the 2026 general election. Given the magnitude of this cost relative to current DOS fee revenue, it is assumed that system development costs will be paid from the General Fund. The timing and amount of these costs may differ once additional information is known. It is assumed that the DOS will request funding as needed through the annual budget process.

Statewide Hand Count Observation. The earliest election at which this system could potentially be available is the 2026 general election. Until then, all vote tabulation will must be done using a manual count. DOS will have costs of about \$2 million to observe hand counting of ballots at the 2024 statewide general election in FY 2024-25. This cost is based on the costs of observing a limited manual count at the 2022 election.

Other Budget Impacts

TABOR refunds. The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the December 2022 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25. Because TABOR refunds are paid from the General Fund, increased cash fund revenue will reduce the amount of General Fund available to spend or save.

Local Government

The voting technology required by the bill is not currently available and a system is assumed to take at least two years to develop. Therefore, county clerks will be required to conduct hand counts of ballots until the system required by the bill is available, which is assumed to be no sooner than the 2026 election. Hand-counting ballots would increase costs by for counties by approximately \$12 million statewide and delay reporting of results.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2023-24, the bill requires an appropriation of \$100,000 to the Department of State from the Department of State Cash Fund.

State and Local Government Contacts

Counties

County Clerks

Secretary of State