

**STATE and LOCAL  
FISCAL IMPACT**

**Drafting Number:** LLS 10-0403

**Date:** January 29, 2010

**Prime Sponsor(s):** Sen. Heath  
Rep. Ferrandino

**Bill Status:** Senate Business, Labor and Technology  
**Fiscal Analyst:** Josh Abram (303-866-3561)

**TITLE:** CONCERNING THE REGULATION OF APPRAISAL MANAGEMENT COMPANIES.

<b>Fiscal Impact Summary</b>	<b>FY 2010-2011</b>	<b>FY 2011-2012</b>
<b>State Revenue</b>		
Cash Funds		
Division of Real Estate Cash Fund*	\$254,200	\$124,000
Fines Collection Cash Fund	< 10,000	< 10,000
Identification Unit Cash Fund	1,194	-
<b>State Expenditures</b>		
Cash Funds		
Division of Real Estate Cash Fund	\$220,783	\$99,153
Identification Unit Cash Fund	1,194	-
<b>FTE Position Change</b>	1.5 FTE	1.4 FTE
<b>Effective Date:</b> August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
<b>Appropriation Summary for FY 2010-2011:</b> See State Appropriations section.		
<b>Local Government Impact:</b> See Local Government Impact section.		

\* *Fee revenue in the Division of Real Estate Cash Fund exceeds state expenditures in order to pay for costs noted in the Expenditures Not Included section of this fiscal note.*

**Summary of Legislation**

This bill establishes a regulatory program for appraisal management companies (AMC) in the Division of Real Estate in the Department of Regulatory Agencies (DORA). The Board of Real Estate Appraisers will adopt rules for the program. An AMC hires licensed appraisers and coordinates the conduct of real estate appraisals for buyers and lenders. The AMC also conducts panel reviews of appraisals before delivery to a client.

Senate Bill 10-077 requires that AMCs register annually with the division and pay a fee. The bill sets the requirements for application and approval, including the requirement that a primary contact for the AMC submit fingerprints and consent to a criminal history check. Applicants are required to pay a fee for the record check. It is a misdemeanor to act as an AMC without valid registration. The bill sets misdemeanor penalties for both persons and entities that operate without valid AMC registration.

The bill details prohibited acts for AMCs and gives the division the authority to investigate registrants and take disciplinary actions, including imposing fines.

**State Revenue**

*In FY 2010-11, this bill will increase state revenue from fees and fines by an estimated \$265,394. In FY 2011-12, increased fee and fine revenue is estimated at \$134,000.*

**Fee Impact on Appraisal Management Companies.** Section 2-2-322, C.R.S., requires legislative service agency review of measures that create or increase any fee collected by a state agency. The table below identifies the fee impact of this bill. Fee calculations are based on the estimated costs of the bill and the estimated number of registrations provided. Information on costs are detailed in the State Expenditures section of this fiscal note. The total number of AMCs to be registered is unknown; however, a review of regulatory programs in other states reveals that Colorado can anticipate 31 companies, all of whom are required to renew annually.

<b>Table 1. Fee Impact on Appraisal Management Companies</b>			
<b>Type of Fee</b>	<b>Proposed Fee</b>	<b>Number Affected</b>	<b>Total Fee Impact</b>
<i>Division of Real Estate Cash Fund</i>			
FY 2010-11 Initial Registration	\$8,200	31	\$254,200
FY 2011-12 Renewal Registration	\$4,000	31	\$124,000
<i>Colorado Bureau of Investigations</i>			
Fingerprint Based Criminal History Check*	\$38.50	31	\$1,194
<b>2 YEAR TOTAL</b>			<b>\$379,394</b>

\*Assumes that background checks are required for initial registration only.

AMCs will be required to pay a separate fee to the Colorado Bureau of Investigations in the Department of Public Safety for conducting fingerprint-based criminal history checks. The current fee for the record check is \$38.50 and total additional fee revenue is \$1,194.

**Fines.** The bill may increase state revenue from fines, although *less than \$10,000* in new state revenue is expected per year. For persons, the bill sets an unclassified misdemeanor penalty of up to 6 months imprisonment in a county jail, a fine up to \$500, or both. For entities, the penalty is a fine up to \$5,000. Second violations by persons are punishable by up to 6 months imprisonment, a fine up to \$1,000, or both; entities shall be punished for second offenses by a fine up to \$5,000. Fine revenue that is not otherwise appropriated is deposited into the Fines Collection Cash Fund. Because the courts have the discretion of incarceration, imposing a fine, or both, the precise impact to state revenue cannot be determined.

**State Expenditures**

*In FY 2010-11, this bill will result in total costs of \$221,977 and 1.5 FTE. State expenditures will be in the Department of Regulatory Agencies, the Department of Law, and the Department of Public Safety. In FY 2010-11, total costs are \$99,153 and 1.4 FTE.* Major cost components are summarized in Table 2 and discussed below.

<b>Cost Components</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
Personal Services	\$51,090	\$51,090
FTE	1.5	1.4
Operating Expenses and Capital Outlay	5,620	950
Legal Services	64,073	47,113
Information Technology System Modifications	100,000	-
Fingerprint-Based Criminal History Check	1,194	-
<b>TOTAL</b>	<b>\$221,977</b>	<b>\$99,153</b>

**Program Administration.** The DORA requires FTE beginning in FY 2010-11. Operational staff is needed to assist with program administration and to assist the board in adopting rules. This staff will also handle registration inquiries, coordinate background checks and information gathering, and assist with enforcement activities. Investigative staff is required to monitor compliance with the bill and to initiate disciplinary action for unlicensed activity.

**Legal Services.** The Department of Law will provide legal services to the DORA to assist in establishing rules and procedures for the program, and to prosecute violators referred by the DORA. It is estimated that the department will provide 850 hours of legal services in FY 2010-11 and in FY 2011-12 at a blended rate of \$75.38 per hour. This amount of legal service is equivalent to 0.5 FTE in the first year and 0.4 FTE in the second year. Legal services FTE is in the Department of Law.

**Information Technology.** This bill requires a new registration type and changes to existing records management systems for enforcement, reporting, and licensing of real estate appraisers. These changes will also allow existing license types for appraisers to be correlated with the new AMC license type. Total estimated IT cost for these changes is \$100,000.

**Fingerprint-based Criminal History Checks.** The Colorado Bureau of Investigations in the Department of Public Safety is responsible for conducting the background checks. This fiscal note assumes that criminal history checks will not be required for a renewal registration.

**Expenditures Not Included**

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 3.

<b>Table 3. Expenditures Not Included Under SB 10-077*</b>		
<b>Cost Components</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$7,171	\$7,171
Supplemental Employee Retirement Payments	1,900	2,312
Indirect Costs	12,291	12,291
Leased Space	4,200	4,200
Workers Compensation & Risk Management	268	268
<b>TOTAL</b>	<b>\$25,830</b>	<b>\$26,242</b>

*\*More information is available at: <http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133924>*

**Local Government Impact**

The misdemeanor penalties in the bill include possible imprisonment in a county jail, a fine, or both. Because the courts have the discretion of incarceration or imposing a fine, the impact at the local level cannot be determined. The cost to house an offender in county jails varies from \$45 to \$50 per day in smaller rural jails to \$62 to \$65 per day for larger Denver-metro area jails. For the current fiscal year, the state reimburses county jails a daily rate of \$50.44 to house state inmates. It is assumed that the impact of this new misdemeanor will be minimal and will not create the need for additional county jail space.

**State Appropriations**

In FY 2010-11, this bill requires an appropriation of \$220,783 from the Division of Real Estate Cash Fund and 1.5 FTE to the Department of Regulatory Agencies. Of this amount, the Department of Law requires \$64,073 reappropriated funds and 0.5 FTE.

The Department of Public Safety requires an appropriation of \$1,194 from the Identification Unit Cash Fund.

**Departments Contacted**

Judicial      Law      Personnel      Public Safety      Regulatory Agencies