

Agency Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	538.56	(4.00)	0.00	534.56	(8.00)	0.00	530.56	530.56	
Personal Services	18,569,050	1,246,594	0	19,815,644	1,264,414	0	19,833,464	39,649,108	
Operating Expenses	11,634,282	1,047,129	214,580	12,895,991	1,396,556	199,200	13,230,038	26,126,029	
Equipment	40,177	(7,155)	71,484	104,506	(7,155)	0	33,022	137,528	
Capital Outlay	0	0	0	0	0	0	0	0	
Local Assistance	13,812,774	41,121,618	0	54,934,392	41,121,618	0	54,934,392	109,868,784	
Debt Service	6,834	0	0	6,834	0	0	6,834	13,668	
<b>Total Costs</b>	<b>\$44,063,117</b>	<b>\$43,408,186</b>	<b>\$286,064</b>	<b>\$87,757,367</b>	<b>\$43,775,433</b>	<b>\$199,200</b>	<b>\$88,037,750</b>	<b>\$175,795,117</b>	
General Fund	39,981,718	42,821,972	286,064	83,089,754	43,119,426	199,200	83,300,344	166,390,098	
State/Other Special	252,985	(39,340)	0	213,645	(39,771)	0	213,214	426,859	
Federal Special	1,997,926	133,655	0	2,131,581	183,304	0	2,181,230	4,312,811	
Proprietary	1,830,488	491,899	0	2,322,387	512,474	0	2,342,962	4,665,349	
<b>Total Funds</b>	<b>\$44,063,117</b>	<b>\$43,408,186</b>	<b>\$286,064</b>	<b>\$87,757,367</b>	<b>\$43,775,433</b>	<b>\$199,200</b>	<b>\$88,037,750</b>	<b>\$175,795,117</b>	

### Agency Description

The Department of Revenue collects revenue from and enforces regulations for over 30 state taxes and fees. The department also regulates the sale and distribution of alcoholic beverages in the state. The department is organized into five core processes with overall agency direction and management coordinated from the director's office.

### Supplemental Appropriation Description

The executive has included a request for the department of \$35,575 general fund in HB 3, the Supplemental Appropriations Bill up for consideration by the 2001 legislature. The department request is identified as funding for costs associated with change of administration. Funds would be used to pay for accumulated leave balances for staff originally appointed by the former Governor and who will not be staying under the new administration.

#### LFD COMMENT

The executive has included a "worst case scenario for this funding request in the event that the maximum number of personnel changes takes place. This figure may be adjusted later.

#### LFD ISSUE

This agency is not headed by an elected official with personal staff who would also be terminated from employment as a result of the change in administration. For this reason, possible terminations are very limited. Additionally, termination costs are a normal part of agency operating costs; given term limits, terminations due to administrative changes are not an emergency that could not have been anticipated, a requirement of a supplemental appropriation. Finally, in an agency of this size, an additional cost of this magnitude could easily be absorbed.

### Agency Discussion

#### Customer Service Center

##### Creation of the Customer Service Center

The department's Customer Service Center provides certain centralized services for the department and other agencies that subscribe to its services, including: 1) customer service for registration and application inquiries; 2) mail and remittance processing; 3) data capture; 4) accounts receivable collections; 5) account maintenance; and 6) record retention.

The 1999 legislature moved all funding for the Customer Service Center (CSC) from the governmental fund types (general fund, state special revenue, and federal special revenue) to the proprietary fund type (internal service fund). The legislature also made direct appropriations of the CSC internal service fund in the other departmental programs supporting the CSC with various centralized functions.

CSC provides services for other programs and also receives services from other programs of the department. Internal service funds are used to pay for all of these services. The exchange of services between the CSC and the other programs of the department is as follows:

- ?? The CSC provides services to other programs of the department on a cost reimbursement basis. Payments for these services are budgeted by the respective programs and are supported with funds other than the CSC internal service fund.
- ?? The programs that provide centralized services in support of the CSC recover their costs through a direct appropriation of the CSC internal service fund.

**LFD  
ISSUE**

**Adjusted Base Funding Shifts**

As stated, the CSC internal service fund is appropriated in programs of the department; programs then use the appropriations to support the CSC. The adjusted bases for the programs with appropriations of CSC Internal Service Fund include funding shifts that increase the reliance on the CSC internal funds. According to an agreement between the Legislative Fiscal Analyst and the Governor's Budget Director, funding shifts should have been presented to the legislature for consideration and approval as new proposal requests. Table 1 shows how the funding of the adjusted base has changed compared to base funding.

In Table 1, the base amount column shows the base funding for the three programs with appropriations of CSC internal service fund. The base percent column indicates the base funding for each fund type as a percent of total program funding. For fiscal years 2002 and 2003, the columns provide the same information for the base amount and the percent each fund type contributes to total program funding. The growth column indicates, in total and by fund type, the change from base funding. Table 1 illustrates how the adjusted base amounts for all three programs rely more heavily on direct appropriations of CSC internal service fund than occurred in the base. When approving the base for these programs, the legislature should be aware of these funding shifts.

	Base		Adj. Base 2002			Adj. Base 2003		
	Amount	Percent	Amount	Percent	Growth	Amount	Percent	Growth
<b>Directors Office (01)</b>								
general fund	\$2,631,010	94.91%	\$2,662,043	92.16%	1.18%	\$2,537,965	91.70%	-3.54%
state special	574	0.02%	300	0.01%	-47.74%	0	0.00%	-100.00%
federal special	805	0.03%	800	0.03%	-0.62%	0	0.00%	-100.00%
proprietary	139,673	5.04%	225,240	7.80%	61.26%	229,721	8.30%	64.47%
total	\$2,772,062		\$2,888,383		4.20%	\$2,767,686		-0.16%
<b>Information Technology (02)</b>								
general fund	\$1,899,468	79.11%	\$1,743,746	71.33%	-8.20%	\$1,740,235	70.83%	-8.38%
federal special	178,339	7.43%	190,662	7.80%	6.91%	196,382	7.99%	10.12%
proprietary	323,088	13.46%	510,309	20.87%	57.95%	520,461	21.18%	61.09%
total	\$2,400,895		\$2,444,717		1.83%	\$2,457,078		2.34%
<b>Resource Management (05)</b>								
general fund	\$1,166,663	46.03%	\$1,160,233	42.50%	-0.55%	\$1,160,181	42.14%	-0.56%
proprietary (CSC)	201,096	7.93%	323,783	11.86%	61.01%	330,223	11.99%	64.21%
proprietary (Liquor)	<u>1,166,631</u>	<u>46.03%</u>	<u>1,246,128</u>	<u>45.64%</u>	<u>6.81%</u>	<u>1,263,055</u>	<u>45.87%</u>	<u>8.27%</u>
total	\$2,534,390		\$2,730,144		7.72%	\$2,753,459		8.64%
<b>Total of Three Programs</b>								
general fund	\$5,697,141	87.10%	\$5,566,022	69.03%	-2.30%	\$5,438,381	68.17%	-4.54%
state special	574	0.01%	300	0.00%	-47.74%	0	0.00%	-100.00%
federal special	179,144	2.74%	191,462	2.37%	6.88%	196,382	2.46%	9.62%
proprietary (CSC)	663,857	10.15%	1,059,332	13.14%	59.57%	1,080,405	13.54%	62.75%
proprietary (Liquor)	1,166,631	17.84%	1,246,128	15.45%	6.81%	1,263,055	15.83%	8.27%
total	\$6,540,716		\$8,063,244		23.28%	\$7,978,223		21.98%

**LFD ISSUE  
CONTINUED**

The funding shift that increases departmental reliance on proprietary funding is significant because the majority of the revenue that funds the CSC internal service fund is derived from general fund payments. Shifting funding from the general fund to proprietary funds gives the impression that general fund is being decreased by \$1 for every \$1 increase of proprietary fund. As it's pointed out in a later section of this discussion, general fund provides over half of the funding for payments to the CSC. Therefore, when considering any increases funded with the CSC internal service fund, the legislature should be aware that an increase of \$0.53 to the general fund is indirectly implied for each \$1 increase of the CSC internal service fund.

*Statewide Use of the Customer Service Center*

When the Customer Service Center was presented to the 1999 legislature, it was envisioned that more agencies would use the center. This vision has not come to fruition as fast as the department had hoped. Currently, the Department of Revenue is the major customer for the center, and as the largest customer, provides the highest amount of revenue. Table 2 shows the funding sources that comprise the Department of Revenue share of payments to the Customer Service Center. Table 2 shows that for the 2003 biennium, general fund would provide roughly \$8.7 million, or 78.3 percent of department funding to pay for the services provided by the CSC. Federal special revenue funds would provide roughly 17.8 percent, liquor enterprise proprietary funds would provide roughly 3.8 percent, and state special revenue would provide the rest of the funding.

The Department of Revenue provides roughly 68 percent of the payments to the Customer Service Center. The remaining 32 percent is provided by the following agencies or functions:

- ?? Department of Public Health and Human Resources (DPHHS) - new hire notification in support of child support enforcement;
- ?? Accounts receivable collections for a number of other agencies;
- ?? Unclaimed property;
- ?? Department of Agriculture - state hail insurance premiums; and
- ?? Department of Livestock - per capita tax on livestock.

With the department providing 68 percent of the payments with a 78.3 percent share of general fund support, each dollar increase in CSC internal service fund expenditures would effectively increase general fund expenditures by \$0.53.

Program	General Fund	State Special Revenue	Federal Special Revenue	Liquor Enterprise Proprietary	Program Total
Director's Office	\$795,543	\$0	\$0	\$0	\$795,543
Resource Management	521,859	0	0	421,698	943,557
Compliance Valuation and Resolution	<u>7,343,407</u>	<u>3,857</u>	<u>1,971,747</u>	<u>0</u>	<u>9,319,011</u>
Agency 2003 Biennium Total	<u>\$8,660,809</u>	<u>\$3,857</u>	<u>\$1,971,747</u>	<u>\$421,698</u>	<u>\$11,058,111</u>

**Agency Narrative**

The Executive Budget for the Department of Revenue increases by nearly 33.7 percent for the 2003 biennium. General fund increases by \$43.2 million or 35.1 percent. The largest and most significant change can be attributed to the annual

reimbursements to local governments directed by SB 184 of the 1999 legislature to cover losses of tax base resulting from the passage of tax-related legislation during the 1999 legislative session. Another factor behind the growth is the addition of just over \$673,000 general fund for the biennium to pay local governments for rent in county-owned buildings, as allowed by SB 270 in the 1999 legislature.

## Agency Issues

### POINTS

#### History

The 1997 legislature passed HB 188, which authorized state general obligation bonds for information technology projects during the 1999 biennium. HB 188 authorized \$14 million in bond authority for the department to develop an integrated revenue and tax system for income tax, unemployment insurance contributions, income tax modernization and property tax integration. The project was later named POINTS, which stands for Process Oriented Integrated System. In HB 15, the 1999 legislature provided \$18 million in additional bonding authority to complete the project and to realign the department's business processes.

#### Phased Approach

POINTS was implemented through a phased approach:

- ?? Phase 1 built the shared infrastructure that will support data and common processes for all tax types. Phase 1 replaced eight of the department's legacy systems with five core modules -(case management, registration, returns processing, accounting, and forms and correspondence), which were designed to support all tax types. Phase 1 has been completed.
- ?? Phase 2 will add modules for property, individual income, corporate, and natural resource taxes. Phase 2 should replace up to 15 legacy systems.
- ?? Beyond phase 2, miscellaneous tax types that currently reside on legacy or personal computer based systems or are new taxes will be added. These miscellaneous taxes will be integrated into the POINTS environment with existing agency staff and resources.

#### LFD ISSUE

The implementation of POINTS raises two issues that may concern the legislature.

##### 1) Lack of Performance Measures

POINTS was funded by the legislature with few project details or performance measures provided. As a result, there are few benchmarks to independently determine system successes or shortcomings.

##### 2) Data Adjustments

When developing general fund revenue estimates for the 2001 legislature, adjustments that netted roughly \$18.0 million were made to correct revenues recorded on the statewide accounting system in order to accurately reflect general fund revenues in the Comprehensive Annual Financial Report (CAFR) for fiscal 2000. Roughly \$13.1 million of these adjustments were made to revenue categories processed using POINTS. The magnitude of adjustments identifies the potential for problems associated with POINTS, POINTS related processes, or an interface system that involves POINTS. Even so, no determination has been made that any problems truly exist or, if problems exist, that POINTS is the cause or source of the problems.

In addition to the general fund adjustments mentioned above, adjustments needed to be made to non-general fund sources. For example, adjustments that netted roughly \$7.15 million were needed to accurately reflect revenues into the Resource Indemnity Trust (RIT) and five funds that derive income for the RIT.

Because POINTS is a common element in nearly three-quarters of these adjustments, the legislature may wish to ask the department to explain the need for such an unusually large number of adjustments and ask for a delineation of actions it plans to take to minimize future adjustments of this nature.

**LFD ISSUE  
CONTINUED**

In anticipation that the legislature would request that the department address this concern and provide an update on the status of POINTS, the following information has been requested of the department for presentation to the legislature during the appropriations hearings of the 2001 legislature:

- 1) Project implementation plan;
- 2) Project status and relationship to the implementation plan;
- 3) POINTS problems identified by the department with plans for addressing the problems;
- 4) Agency resources used to implement POINTS;
- 5) Impacts on the agency core business processes as a result of supporting POINTS implementation;
- 6) History of tax audits performed for the five years prior to and during the implementation of POINTS, including estimated revenues resulting from the tax audit activity;
- 7) The actions taken by or planned by the department to identify the cause of the unusually high number of post-closing adjustments of revenues; and
- 8) The factors the department has identified as causes for the accounting system entries that necessitated the adjustments.

Biennium Budget Comparison									
Budget Item	Present Law Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	Present Law Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Biennium Fiscal 00-01	Total Exec. Budget Fiscal 02-03	
FTE	534.56	0.00	534.56	530.56	0.00	530.56	0.00	530.56	
Personal Services	19,815,644	0	19,815,644	19,833,464	0	19,833,464	38,161,359	39,649,108	
Operating Expenses	12,681,411	214,580	12,895,991	13,030,838	199,200	13,230,038	22,368,773	26,126,029	
Equipment	33,022	71,484	104,506	33,022	0	33,022	276,035	137,528	
Capital Outlay	0	0	0	0	0	0	3,056	0	
Local Assistance	54,934,392	0	54,934,392	54,934,392	0	54,934,392	70,584,392	109,868,784	
Debt Service	6,834	0	6,834	6,834	0	6,834	43,943	13,668	
<b>Total Costs</b>	<b>\$87,471,303</b>	<b>\$286,064</b>	<b>\$87,757,367</b>	<b>\$87,838,550</b>	<b>\$199,200</b>	<b>\$88,037,750</b>	<b>\$131,437,558</b>	<b>\$175,795,117</b>	
General Fund	82,803,690	286,064	83,089,754	83,101,144	199,200	83,300,344	123,147,652	166,390,098	
State/Other Special	213,645	0	213,645	213,214	0	213,214	505,839	426,859	
Federal Special	2,131,581	0	2,131,581	2,181,230	0	2,181,230	4,082,975	4,312,811	
Proprietary	2,322,387	0	2,322,387	2,342,962	0	2,342,962	3,701,092	4,665,349	
<b>Total Funds</b>	<b>\$87,471,303</b>	<b>\$286,064</b>	<b>\$87,757,367</b>	<b>\$87,838,550</b>	<b>\$199,200</b>	<b>\$88,037,750</b>	<b>\$131,437,558</b>	<b>\$175,795,117</b>	

**New Proposals**

The table below summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Prgm	FTE	-----Fiscal 2002-----				-----Fiscal 2003-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - GIS Maintenance 01	0.00	286,064	0	0	286,064	0.00	199,200	0	0	199,200
<b>Total</b>	<b>0.00</b>	<b>\$286,064</b>	<b>\$0</b>	<b>\$0</b>	<b>\$286,064</b>	<b>0.00</b>	<b>\$199,200</b>	<b>\$0</b>	<b>\$0</b>	<b>\$199,200</b>

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	38.50	0.00	0.00	38.50	0.00	0.00	38.50	38.50	
Personal Services	1,894,413	62	0	1,894,475	9,907	0	1,904,320	3,798,795	
Operating Expenses	877,649	146,239	214,580	1,238,468	8,317	199,200	1,085,166	2,323,634	
Equipment	0	0	71,484	71,484	0	0	0	71,484	
Debt Service	0	0	0	0	0	0	0	0	
<b>Total Costs</b>	<b>\$2,772,062</b>	<b>\$146,301</b>	<b>\$286,064</b>	<b>\$3,204,427</b>	<b>\$18,224</b>	<b>\$199,200</b>	<b>\$2,989,486</b>	<b>\$6,193,913</b>	
General Fund	2,631,010	61,013	286,064	2,978,087	(70,445)	199,200	2,759,765	5,737,852	
State/Other Special	574	(274)	0	300	(574)	0	0	300	
Federal Special	805	(5)	0	800	(805)	0	0	800	
Proprietary	139,673	85,567	0	225,240	90,048	0	229,721	454,961	
<b>Total Funds</b>	<b>\$2,772,062</b>	<b>\$146,301</b>	<b>\$286,064</b>	<b>\$3,204,427</b>	<b>\$18,224</b>	<b>\$199,200</b>	<b>\$2,989,486</b>	<b>\$6,193,913</b>	

### Program Description

The Director's Office provides management control, policy direction, strategic planning, and legal services to assist the tax and liquor programs in fulfilling their responsibilities. Legal services advises all agency programs and handles tax appeals before the State Tax Appeal Board and state courts. The Director's Office also includes the Policy and Performance Management Unit, the Tax Policy and Research Unit, and the Office of Dispute Resolution.

The Policy and Performance Management Unit supports the department's core processes and is responsible for coordinating the strategic development of operating policies, budgets, rules, performance management, change management, and strategic planning for the department. The Tax Policy and Research (TPR) Unit is responsible for estimating state revenues, coordinating Department of Revenue (DOR) legislation and fiscal notes, reviewing all legislation related to revenue, and conducting revenue-related research. The Office of Dispute Resolution has consolidated the department's dispute resolution efforts, including informal tax appeals, into a single location and process.

### Funding

Funding for the program comes primarily from the general fund and proprietary funds. A small part (less than 1 percent) of program funding is provided with state and federal special revenues. The proprietary funding comes from a direct appropriation of the internal service fund used to account for the Customer Service Center, established by the 1999 legislature. The proprietary funding is used for the Customer Service Center's share of Director's Office fixed administration costs that are incurred for services to the Customer Service Center and based on FTE counts.

	-----Fiscal 2002-----					-----Fiscal 2003-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					54,384					64,534
Vacancy Savings					(54,322)					(54,627)
Inflation/Deflation					(654)					(607)
Fixed Costs					116,916					(13,676)
<b>Total Statewide Present Law Adjustments</b>					<b>\$116,324</b>					<b>(\$4,376)</b>
DP 2 - Increased Use Costs for Customer Service Center										
	0.00	29,977	0	0	29,977	0.00	22,600	0	0	22,600
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$29,977</b>	<b>\$0</b>	<b>\$0</b>	<b>\$29,977</b>	<b>0.00</b>	<b>\$22,600</b>	<b>\$0</b>	<b>\$0</b>	<b>\$22,600</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$146,301</b>					<b>\$18,224</b>

**Executive Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - Increased Use Costs for Customer Service Center - This request would increase funding for services provided by the Customer Service Center. The increase is due to an anticipated growth in transaction volumes and the requested increases in the Customer Service Center rates.

<b>LFD COMMENT</b>	For a further discussion of the rates proposed by the Customer Service Center, see the Agency Discussion and Proprietary Rates sections for the Customer Service Center Program.
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	-----Fiscal 2002-----					-----Fiscal 2003-----					
	Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1 - GIS Maintenance											
01	0.00	286,064	0	0	286,064	0.00	199,200	0	0	199,200	
<b>Total</b>	<b>0.00</b>	<b>\$286,064</b>	<b>\$0</b>	<b>\$0</b>	<b>\$286,064</b>	<b>0.00</b>	<b>\$199,200</b>	<b>\$0</b>	<b>\$0</b>	<b>\$199,200</b>	

**New Proposals**

DP 1 - GIS Maintenance - This request would fund the acquisition of hardware and software and provide for the ongoing costs of maintaining data in the Geographical Information System (GIS) database layer that identifies the owner of record of every land parcel in the state. The executive requests that \$86,864 of the fiscal 2002 appropriation be designated as one-time-only. One-time expenditures would be used for the acquisition of hardware and software that would be deployed throughout the state to maintain the cadastral database. The remaining and on-going costs would fund database updates caused by land parcel ownership changes such as:

- 1) parcel transfers;
- 2) "splitting" of parcels; and
- 3) changes in classification of land.

The executive has stated that this request is based on the premise that the department will be able to establish cooperative agreements with at least nine of the larger counties. If this assumption were not fulfilled, the cost to maintain the data would likely be higher in future fiscal years.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	37.25	0.00	0.00	37.25	0.00	0.00	37.25	37.25	
Personal Services	1,672,539	36,837	0	1,709,376	48,494	0	1,721,033	3,430,409	
Operating Expenses	728,356	5,849	0	734,205	108,303	0	836,659	1,570,864	
Debt Service	0	0	0	0	0	0	0	0	
<b>Total Costs</b>	<b>\$2,400,895</b>	<b>\$42,686</b>	<b>\$0</b>	<b>\$2,443,581</b>	<b>\$156,797</b>	<b>\$0</b>	<b>\$2,557,692</b>	<b>\$5,001,273</b>	
General Fund	1,899,468	(156,858)	0	1,742,610	(58,619)	0	1,840,849	3,583,459	
Federal Special	178,339	12,323	0	190,662	18,043	0	196,382	387,044	
Proprietary	323,088	187,221	0	510,309	197,373	0	520,461	1,030,770	
<b>Total Funds</b>	<b>\$2,400,895</b>	<b>\$42,686</b>	<b>\$0</b>	<b>\$2,443,581</b>	<b>\$156,797</b>	<b>\$0</b>	<b>\$2,557,692</b>	<b>\$5,001,273</b>	

**Program Description**

The Information Technology Program is responsible for planning, coordinating, delivering, and controlling information resources for the department. The program is responsible for managing all computing services provided to the department, including integrating and managing desktop, mid-tier, and mainframe applications as well as network support services.

**Funding**

The Information Technology Program is funded with general fund, federal special revenue, and proprietary funds. The federal special revenue funding comes from reimbursements for administering unemployment insurance taxes. The proprietary funding is from a direct appropriation of the internal service fund used to account for the Customer Service Center and is for the Customer Service Center share of Information Technology Program support costs. The allocation is based on FTE counts.

Present Law Adjustments									
-----Fiscal 2002-----					-----Fiscal 2003-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				85,654					97,670
Vacancy Savings				(48,817)					(49,176)
Inflation/Deflation				(2,528)					(2,528)
Fixed Costs				9,513					10,217
<b>Total Statewide Present Law Adjustments</b>				<b>\$43,822</b>					<b>\$56,183</b>
DP 1 - Information Systems Support	0.00	(1,136)	0	(1,136)	0.00	100,614	0	0	100,614
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>(\$1,136)</b>	<b>\$0</b>	<b>(\$1,136)</b>	<b>0.00</b>	<b>\$100,614</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100,614</b>
<b>Grand Total All Present Law Adjustments</b>				<b>\$42,686</b>					<b>\$156,797</b>

**Executive Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Information Systems Support - This request would fund costs to support the Computer Assisted Mass Appraisal (CAMA) software system used to assist in completing mass property tax reappraisals. The request would fund contracted services in fiscal 2003 for project management and computer programming support to modify the off-the-shelf software in response to changes in Montana law and to support vendor-provided upgrades. An adjustment was also made to remove the budget for software purchased in the base, but the purchase of which will not be needed during the 2001 biennium.

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	43.00	0.00	0.00	43.00	0.00	0.00	43.00	43.00	
Personal Services	1,481,530	182,292	0	1,663,822	191,835	0	1,673,365	3,337,187	
Operating Expenses	1,023,783	412,375	0	1,436,158	423,471	0	1,447,254	2,883,412	
Equipment	28,622	0	0	28,622	0	0	28,622	57,244	
Capital Outlay	0	0	0	0	0	0	0	0	
Debt Service	455	0	0	455	0	0	455	910	
<b>Total Costs</b>	<b>\$2,534,390</b>	<b>\$594,667</b>	<b>\$0</b>	<b>\$3,129,057</b>	<b>\$615,306</b>	<b>\$0</b>	<b>\$3,149,696</b>	<b>\$6,278,753</b>	
General Fund	1,166,663	375,556	0	1,542,219	390,253	0	1,556,916	3,099,135	
Proprietary	1,367,727	219,111	0	1,586,838	225,053	0	1,592,780	3,179,618	
<b>Total Funds</b>	<b>\$2,534,390</b>	<b>\$594,667</b>	<b>\$0</b>	<b>\$3,129,057</b>	<b>\$615,306</b>	<b>\$0</b>	<b>\$3,149,696</b>	<b>\$6,278,753</b>	

**Program Description**

The Resource Management Program provides services and support to the department by integrating the human resources, accounting, facilities management, communications, and training and education functions of the department. The Liquor Distribution Unit is managed in this program.

**Program Narrative**

The 1999 legislature passed SB 55, which changed budgeting statutes and directed that any proprietary funded program that transfers its ending fund balance to the general fund would require legislative review and further appropriation of funds. The tables presented for legislative consideration include appropriation requests for liquor enterprise. For the 2003 biennium, \$2,525,612 of proprietary funding is for liquor enterprise. Table 5A shows a breakdown of the liquor enterprise portion of the total program budget request. Adjustments to the base are for statewide adjustments and one present law adjustment (DP 6).

Budget Item	Base				Total Budget 2002	Base			Total Budget 2003	Biennial Budget 2002-2003
	Base Budget 2000	Adjustments 2002		New Proposals 2002		Adjustments 2003		New Proposals 2003		
		Statewide	PL			Statewide	PL			
FTE	19.00	0.00	0.00	0.00	19.00	0.00	0.00	0.00	19.00	19.00
Personal Services	\$573,326	\$101,095	\$0	\$0	\$674,421	\$105,339	\$0	\$0	\$678,665	\$1,353,086
Operating Costs	564,228	(21,598)	16,927	0	559,557	(22,186)	12,773	0	554,815	1,114,372
Equipment & Intangibles	28,622	0	0	0	28,622	0	0	0	28,622	57,244
Debt Service	455	0	0	0	455	0	0	0	455	910
<b>Total Costs</b>	<b>\$1,166,631</b>	<b>\$79,497</b>	<b>\$16,927</b>	<b>\$0</b>	<b>\$1,263,055</b>	<b>\$83,153</b>	<b>\$12,773</b>	<b>\$0</b>	<b>\$1,262,557</b>	<b>\$2,525,612</b>
Liquor Division enterprise fund	\$1,166,631	\$79,497	\$16,927	\$0	\$1,263,055	\$83,153	\$12,773	\$0	\$1,262,557	\$2,525,612

**LFD COMMENT** Personal services for fiscal years 2002 and 2003 reflect increases of 17.6 percent and 18.4 percent over the base. These increases are largely due to base year vacancies of 8.3 percent. Had personal services been fully utilized, the growth would only be 7.9 percent and 8.5 percent, respectively. The remaining growth is due to pay grade changes for five positions, which were made during the base year:

- ?? one position increased two grades from grade 16 to grade 18;
- ?? one position increased four grades from grade 8 to grade 12;
- ?? one position increased one grade from grade 10 to grade 11;
- ?? one position increased two grades from grade 7 to grade 9; and
- ?? one position decreased one graded from grade 8 to grade 7.

The net proceeds from the operation of the liquor enterprise are to be transferred to the general fund. The revenue estimates, as adopted by the Revenue and Taxation Committee for the 2003 biennium, factor in the costs to operate the liquor enterprise and project that profits transferred to the general fund will be \$6.0 million in fiscal 2002 and \$6.3 million in fiscal 2003. These increases reflect increases of 1.3 percent in fiscal 2002 and 6.2 percent in fiscal 2003 over the base of \$5.9 million.

**Funding**

The Resource Management Program is funded by the general fund and proprietary funds. The proprietary funding is from: 1) Liquor Division enterprise funds; and 2) a direct appropriation of the internal service fund used to support the Customer Service Center. The Customer Service Center proprietary funding is for the Customer Service Center share of Resource Management Program support costs incurred for providing services to the Customer Service Center and is based on FTE counts.

	-----Fiscal 2002-----				-----Fiscal 2003-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					228,932					238,771
Vacancy Savings					(46,640)					(46,936)
Inflation/Deflation					3,692					3,242
Fixed Costs					9,770					10,721
<b>Total Statewide Present Law Adjustments</b>					<b>\$195,754</b>					<b>\$205,798</b>
DP 1 - Field Office Rent										
0.00	325,533	0	0	325,533	0.00	347,881	0	0	347,881	
DP 2 - Education & Training Funding										
0.00	38,000	0	0	38,000	0.00	35,000	0	0	35,000	
DP 5 - Increased Use Costs for Customer Service Center										
0.00	18,453	0	0	18,453	0.00	13,854	0	0	13,854	
DP 6 - Increased Use Costs for Customer Service										
0.00	0	0	0	16,927 *	0.00	0	0	0	12,773 *	
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$381,986</b>	<b>\$0</b>	<b>\$0</b>	<b>\$398,913</b>	<b>0.00</b>	<b>\$396,735</b>	<b>\$0</b>	<b>\$0</b>	<b>\$409,508</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$594,667</b>					<b>\$615,306</b>

**Executive Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Field Office Rent - This request would fund the cost for a full year of rent for office space occupied by department personnel in county buildings, and provide for increased rental costs in non-county buildings. The base includes rent costs for three-quarters of a fiscal year with which to rent space in county buildings at the rates charged by the Department of Administration to state agencies for space in state buildings. This request would increase the funding for rent to cover a full fiscal year in county buildings. This request would also fund increases in rental rates in buildings not owned by the state or counties, and for the new spaces occupied in Billings, Missoula, and Bozeman, which are not included in the base.

**LFD  
COMMENT**

The 1999 legislature passed SB 270, which allows counties to charge rent for space occupied by the department in county courthouses and other county buildings. This bill took effect October 1, 1999. Rental rates were established at the same rates charged by the Department of Administration to state agencies for space in state buildings. The base year only includes rent paid to counties that have elected to charge the department for space occupied.

DP 2 - Education & Training Funding - This request would fund an enhancement in the department training program so that training could be provided in specialized areas not currently addressed, such as: 1) appraiser certification; 2) bankruptcy laws (legal); 3) cartographer software; 4) statistical analysis software (SAS); and 5) Oracle software.

DP 5 - Increased Use Costs for Customer Service Center - This request would increase funding for that part of the program funded by the general fund, for services provided by the Customer Service Center. The increase is due to an anticipated growth in transaction volumes and based on the increases requested in Customer Service Center rates.

**LFD  
COMMENT**

For a further discussion of the rates proposed by the Customer Service Center, see the Agency Discussion and Proprietary Rates sections for the Customer Service Center Program.

DP 6 - Increased Use Costs for Customer Service - This request would increase funding, allowing the Liquor Division to subscribe to the services provided by the Customer Service Center. The increase is due to an anticipated growth in transaction volumes and based on the increases requested in Customer Service Center rates.

**LFD  
COMMENT**

For a further discussion of the rates proposed by the Customer Service Center, see the Agency Discussion and Proprietary Rates sections for the Customer Service Center Program.

**Language Recommendations**

The following language is recommended in HB 2: "In the event the department is unable to meet statutory service levels due to the increase in demand for liquor products, the department is allowed to hire additional temporary employees or pay overtime, whichever is determined to be the more cost effective, to maintain required service levels to stores. The amount authorized is limited to a percentage of the approved personal services budget and is calculated as the year-to-date percentage increase in sales as compared to the same time period in the previous fiscal year. The office of budget and program planning may not authorize any increase until following the tenth month of the fiscal year."

"Liquor division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profit and taxes to appropriate accounts are appropriated to the department in amounts not to exceed \$64,200,950 in fiscal year 2002 and \$67,857,880 in fiscal year 2003."

## Proprietary Rates

### Program Description

The Customer Service Center (CSC) provides the following centralized services for the department and other subscribing agencies: 1) customer service for registration and application inquiries; 2) mail and remittance processing; 3) data capture; 4) accounts receivable collections; 5) account maintenance; and 6) record retention.

The center combines the customer intake, document and information processing, and the accounts receivable and collections functions into a single business unit designed to provide centralized and consistent customer service, data and information processing, and accounts receivable collections for the department and its partners.

The customer intake function represents the initial contact point for customers. The document and information processing function provides data capture, remittance processing, records management, direct deposit of cash receipts and revenue, and mail processing and distribution. The accounts receivable and collections function provides a single point of contact for debtors and is responsible for delinquent account collection and enforcement activities.

### Revenues and Expenses

The "Report on Internal Service and Enterprise Funds, 2003 Biennium" for accounting entity 06554 shows historic and projected revenues, expenses, and fund equity. The program is forecasting revenues of \$18.2 million over the biennium, which will come primarily from other programs within the department. The program is forecasting expenses that will match revenues in the two fiscal years of the biennium. The Department of Revenue Director's Office, Resource Management, and Compliance Valuation and Resolution programs all subscribe to the services provided by CSC; those services are supported with general, federal, and liquor enterprise funds.

Conversely, the Director's Office, Resource Management, and Information Technology programs all provide management services, accounting and human resource support, and information technology support for the CSC. Funding is provided through appropriations of CSC proprietary funds to the operating budgets of these programs.

At present, the Department of Revenue is the largest customer of the CSC. The CSC also provides:

- 1) data-capture services for the Department of Public Health and Human Services in support of new hire notifications to support child support enforcement;
- 2) registration and remittance processing for seven agencies participating in the One-Stop Licensing and Registration Program;
- 3) state hail insurance premium remittance processing;
- 4) collection of a per capita fee on livestock operations;
- 5) abandoned property administration; and
- 6) debt collection services on behalf of other agencies through offset and confiscation procedures.

Report on Internal Service & Enterprise Funds, 2003 Biennium								
Accounting Entity Number	Accounting Entity Name	Agency Number	Agency Name	Program Name				
06554	Customer Service Center	5801	Department of Revenue					
Fund Balance Information								
	<b>FY96</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>Estimated FY01</b>	<b>Estimated FY02</b>	<b>Estimated FY03</b>
Beginning Retained Earnings	(9,804)	26,954	64,085	32,998	24,550	(1,284,764)	(1,284,764)	(1,284,764)
Increases								
Fee Revenue	258,640	267,348	204,247	174,157	6,339,079	-	-	-
Investment Earnings	-	-	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-	-	-
Miscellaneous, operating	-	-	-	357	87	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
<b>Total Increases</b>	<b>258,640</b>	<b>267,348</b>	<b>204,247</b>	<b>174,514</b>	<b>6,339,166</b>	-	-	-
(Decreases)								
Personal Services	163,720	144,045	159,135	130,304	4,906,825	-	-	-
Operations	59,640	86,172	77,725	52,658	2,395,449	-	-	-
Transfers Out	-	-	-	-	345,756	-	-	-
Miscellaneous, operating	-	-	-	-	455	-	-	-
Miscellaneous, other	-	-	-	-	-	-	-	-
<b>Total Decreases</b>	<b>223,360</b>	<b>230,217</b>	<b>236,860</b>	<b>182,962</b>	<b>7,648,485</b>	-	-	-
Adjustments to Beginning Retained Earnings	1,478	-	1,526	-	5	-	-	-
<b>Ending Retained Earnings</b>	<b>26,954</b>	<b>64,085</b>	<b>32,998</b>	<b>24,550</b>	<b>(1,284,764)</b>	<b>(1,284,764)</b>	<b>(1,284,764)</b>	<b>(1,284,764)</b>
Total Contributed Capital	4,820	4,628	-	-	533,364	-	-	-
<b>Total Fund Equity</b>	<b>31,774</b>	<b>68,713</b>	<b>32,998</b>	<b>24,550</b>	<b>(751,400)</b>	<b>(1,284,764)</b>	<b>(1,284,764)</b>	<b>(1,284,764)</b>
Unreserved Fund Balance								
60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)	37,227	38,370	39,477	30,494	1,217,122	-	-	-
<u>Fee/Rate Information for Legislative Action:</u>								
						-----Estimated-----		Authority
Requested Rates for Internal Service Funds	xxxx	xxxx						
Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.								

**Rate Explanation**

Table 6A shows the proposed rates for the Customer Service Center in the 2003 biennium. The rates are based on the Customer Service Center Cost Recovery Plan.

Table 6A Proposed Customer Service Center Rates				
Service	Fiscal 2000	Fiscal 2002	Fiscal 2003	Rate Unit
One-Stop	\$4.51	\$5.29	\$5.38	per license
Forms Design		461.00	469.00	per form
Call Center		3.58	3.65	per call
Liquor License		225.00	229.00	per application
Licensing/Registration		8.10	8.25	per application
Input Manual Cash	1.21	2.10	2.10	per document
Input Mail	0.19	0.20	0.20	per document
Outgoing Mail	0.19	0.41	0.41	per document
E-File/T-File		0.0014	0.0014	per byte
Capture Image	3.91	0.0134	0.0134	per byte (per document in fiscal 2000)
Capture Paper	4.97	1.97	1.97	per document
Validation	0.18	0.28	0.28	per document
Retention-Return Processing	0.21	0.53	0.53	per document
Retention-Return Storage	0.21	0.04	0.04	per document
Warrant Writing/Mailin		0.72	0.72	per document
Manual Coupon		1.00	1.00	per document
Coupon Payment	0.25	0.46	0.46	per document
Unclaimed Property Commission		11%	11%	of amount collected per collection
Accounts Receivable Commission	10%	11%	11%	of amount collected per collection

PL1 – OBPP Budget Authority - This request would fund the addition of 6.0 FTE and operating costs to support the estimated transaction volume for programs serviced by the Customer Service Center. The Executive Budget includes estimates of the full cost of providing for the anticipated service volume and adjusted base expenditures for increases in:

- 1) rent;
- 2) utilities;
- 3) fixed costs;
- 4) allocated costs for services provided by other department programs;
- 5) personal services costs;
- 6) costs associated with maintaining and replacing computer equipment in accordance with the four-year replacement cycle; and
- 7) other expenses.

The additional staff would include:

- 1) 1.0 FTE grade 8 cashier;
- 2) 1.0 FTE grade 12 program specialist;
- 3) 1.0 FTE grade 13 administrative officer; and
- 4) 3.0 FTE grade 7 administrative support

**Rates Impact**

Table 6B shows the measurable impacts this request would have on Customer Service Center rates.

Rate Impacted	Impact	Rate Without Adjustment		Rate Unit
		Fiscal 2002	Fiscal 2003	
One-Stop	\$0.08	\$5.21	\$5.30	per license
Forms Design	4.16	456.84	464.84	per form
Call Center	0.03	3.55	3.62	per call
Liquor License	2.17	222.83	226.83	per application
Licensing/Registration	0.08	8.02	8.17	per application
Capture Paper	0.14	1.83	1.83	per document

**LFD ISSUE** Table 6C shows the estimated revenues deposited to the Customer Service Center internal service fund, and the estimated expenses to be covered by that fund. Department revenues are the total of base expenditures plus the present law adjustments in the respective programs for payments to the CSC. Fund expenses are broken down into two categories:

- 1) direct expenses made by the CSC; and
- 2) expenditures in other departmental programs funded by direct appropriations of internal service funds. Table 6C indicates that the revenues anticipated by the CSC would be roughly \$1.5 million less than would be needed to fund expenses of the CSC and meet the expenditures in programs funded by the CSC internal services fund.

**LFD ISSUE  
CONTINUED**

The base year operations of the CSC were funded with short-term loans totaling \$1.2 million at the end of fiscal 2000. The rates proposed for the CSC include repayment of these loans by the end of fiscal 2003. However, with a potential revenue deficit of \$1.5 million, the CSC would need to rely even more heavily on short-term debt to finance its 2003 biennium operations. When considering the proposed fees for the CSC, the legislature has the following options:

- ?? Approve fees as proposed and let the department manage the cash flow of the CSC with short-term debt, by increasing the volume of center use through more statewide participation, or through a combination of increased volume and short-term debt.
- ?? Request the executive provide a schedule of fees and charges that the legislature could approve that would finance the program without short-term debt, except for that used to address unanticipated costs. In this case, the legislature would need to consider increasing the appropriations in programs that pay the fees to the center.
- ?? Shift funding for the operations of the Customer Service Center back to the governmental fund types used prior to the funding switch made by the 1999 legislature. The legislature would then need to approve appropriations for the CSC and adjust funding for the appropriation of CSC Internal Service Funds for departmental programs spending the internal service fund. (These appropriations are displayed on Table 1 of the Agency Discussion Section.). Prior to moving the CSC to proprietary funding, the fiscal 2000 budget was funded with \$4,191,769 from the general fund;\$222,631 of state special revenue; and\$752,756 of federal special revenue.

Table 6C  
Customer Service Center Internal Service Fund  
Estimated Sources of Revenue/Expenses

Source/Purpose/Use	Fiscal 2002	Fiscal 2003
Department of Revenue (base plus adjustments for payment to CSC)	\$5,580,973	\$5,477,138
Accounts receivable collections	2,035,000	2,172,500
Unclaimed property	297,000	319,000
State hail insurance premiums and per capita tax on livestock	90,000	270,000
New hire reporting (DPHHS)	105,000	110,000
Total estimated revenues (statewide)	<u>\$8,107,973</u>	<u>\$8,348,638</u>
CSC direct expenses	7,881,290	7,975,099
Direct appropriation in other DOR programs	<u>1,059,332</u>	<u>1,080,405</u>
Total estimated expenses	<u>\$8,940,622</u>	<u>\$9,055,504</u>
Estimated revenue shortfall	<u>\$832,649</u>	<u>\$706,866</u>

**LFD ISSUE  
CONTINUED**

The department has been evaluating the process for developing the rates in hope of determining the cause for the revenue shortfall. One potential outcome for this evaluation is that the adjustments made to program budgets in support of paying the CSC fees were inadequate. Table 6D shows how much would need to be added to each decision package to fully fund the CSC. In this case, the legislature has two options:

- 1) increase the present law adjustments as identified in Table 6D to pay the fees to the CSC; or
- 2) approve the budgets for the programs as they are presented and make the department manage within the approved funding level.

**Table 6D**  
**Increases to Decision Packages to Pay the CSC**

Program	Decision Package	Fiscal 2002			Fiscal 2003		
		General Fund	Federal Special Revenue	Liquor Enterprise Proprietary	General Fund	Federal Special Revenue	Liquor Enterprise Proprietary
Director's Office (program 1)	DP 2	\$59,951			\$50,894		
Resource Management	DP 5	39,139			33,226		
Resource Management	DP 6			31,636			26,857
Compliance Valuation and Resolution	DP 4	<u>553,115</u>	<u>148,808</u>		<u>469,560</u>	<u>126,328</u>	
Total		<u>\$652,205</u>	<u>\$148,808</u>	<u>\$31,636</u>	<u>\$553,680</u>	<u>\$126,328</u>	<u>\$26,857</u>
CSC Estimated Revenue Shortfall		\$832,649			\$706,866		

Note: Budget increases are based on funding that is displayed in Table 2 of the Agency Discussion section for the Department of Revenue

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2000	PL Adjustment Fiscal 2002	Base New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Adjustment Fiscal 2003	Base New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03	
FTE	419.81	(4.00)	0.00	415.81	(8.00)	0.00	411.81	411.81	
Personal Services	13,520,568	1,027,403	0	14,547,971	1,014,178	0	14,534,746	29,082,717	
Operating Expenses	9,004,494	482,666	0	9,487,160	856,465	0	9,860,959	19,348,119	
Equipment	11,555	(7,155)	0	4,400	(7,155)	0	4,400	8,800	
Local Assistance	13,812,774	41,121,618	0	54,934,392	41,121,618	0	54,934,392	109,868,784	
Debt Service	6,379	0	0	6,379	0	0	6,379	12,758	
<b>Total Costs</b>	<b>\$36,355,770</b>	<b>\$42,624,532</b>	<b>\$0</b>	<b>\$78,980,302</b>	<b>\$42,985,106</b>	<b>\$0</b>	<b>\$79,340,876</b>	<b>\$158,321,178</b>	
General Fund	34,284,577	42,542,261	0	76,826,838	42,858,237	0	77,142,814	153,969,652	
State/Other Special	252,411	(39,066)	0	213,345	(39,197)	0	213,214	426,559	
Federal Special	1,818,782	121,337	0	1,940,119	166,066	0	1,984,848	3,924,967	
<b>Total Funds</b>	<b>\$36,355,770</b>	<b>\$42,624,532</b>	<b>\$0</b>	<b>\$78,980,302</b>	<b>\$42,985,106</b>	<b>\$0</b>	<b>\$79,340,876</b>	<b>\$158,321,178</b>	

### Program Description

The Compliance, Valuation, and Resolution (CVR) Program oversees audits and measures in order to verify that taxpayers are complying with the laws. The program is also responsible for consistent valuation of properties statewide for purposes of property taxation. Program employees are presently located in all 56 counties.

### Program Discussion

#### SB 184 - Revised Property Tax Laws

The 1999 legislature passed SB 184, which revised property tax laws. Changes made by SB 184 impact the Executive Budget for CVR in two ways.

- 1) SB 184 changed the property reappraisal cycle from a 3-year cycle to a 6-year cycle, but moved the beginning date for reevaluating properties in classes three, four, and ten from January 1, 2007, to January 1, 2001. This change added requirements that increased program administration costs. SB 184 made appropriations to the department for these administrative costs. The 2003 budget requests adjustments associated with the requirements that were changed by SB 184.
- 2) SB 184 also included appropriations for reimbursing local governments for revenue losses resulting from passage of property tax legislation by the 1999 legislature. SB 184 contained language that directed the Governor to include a present law base budget equal to the sum of reimbursements included in section 169 of SB 184. The sum of the reimbursements appropriated to the department equaled \$70,584,392.

### Funding

The Compliance, Valuation, and Resolution Program is funded with general fund, state and federal special revenues. The program receives state special revenue from charges for administering several taxes. It receives federal special revenue as reimbursement for auditing unemployment insurance collections.

	-----Fiscal 2002-----					-----Fiscal 2003-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					1,532,397					1,620,902
Vacancy Savings					(406,562)					(409,215)
Inflation/Deflation					(56,750)					(56,636)
Fixed Costs					175,057					192,444
<b>Total Statewide Present Law Adjustments</b>					<b>\$1,244,142</b>					<b>\$1,347,495</b>
DP 1 - Reappraisal - 2003										
	0.00	(169,570)	0	0	(169,570)	0.00	112,049	0	0	112,049
DP 2 - Leased Vehicle Request										
	0.00	127,092	0	0	127,092	0.00	296,648	0	0	296,648
DP 3 - Property Valuation Improvement Fund										
	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 4 - Increased Use Costs for Customer Service Center										
	0.00	326,221	2,188	28,445	356,854	0.00	245,784	1,669	21,696	269,149
DP 5 - Project META Efficiencies										
	(4.00)	(105,604)	0	0	(105,604)	(8.00)	(211,853)	0	0	(211,853)
DP 6 - Property Tax Reimbursements-SA										
	0.00	0	0	0	0	0.00	0	0	0	0
DP 7 - Annual Reimbursements to Local Governments										
	0.00	41,121,618	0	0	41,121,618	0.00	41,121,618	0	0	41,121,618
<b>Total Other Present Law Adjustments</b>	<b>(4.00)</b>	<b>\$41,299,757</b>	<b>\$52,188</b>	<b>\$28,445</b>	<b>\$41,380,390</b>	<b>(8.00)</b>	<b>\$41,564,246</b>	<b>\$51,669</b>	<b>\$21,696</b>	<b>\$41,637,611</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$42,624,532</b>					<b>\$42,985,106</b>

### Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Reappraisal - 2003 - This request would adjust base funding for the 6-year property reappraisal process established by the 1999 legislature when it passed SB 184. SB 184 contained an appropriation that funded SB 184-related administrative costs for the 2001 biennium. The base contains funding for ongoing costs and for one-time expenditures relative to the 6-year reappraisal process. This request removes the one-time expenditures and adjusts the base for operating costs associated with end-of-cycle efforts, thus concluding the first cycle of reappraisals. Costs would increase in fiscal 2003 to notify taxpayers of resultant changes in property value. Other end-of-cycle costs include: 1) staff training; 2) development of construction cost and depreciation tables; 3) development of computer-assisted land pricing (CALP) tables; 4) sales verifications; 5) market and income modeling (includes mailing income and expense forms to taxpayers, review of returned documents, field visits and confirmation of data, and model development); and 6) final determinations of value.

#### LFD COMMENT

As stated in the Program Discussion Section, SB 184 appropriated funds for the administration of property reappraisals that began July 1, 2000. The appropriation included funding for 21.0 FTE. However, because the reappraisals did not occur in the base year, there were no base personal services expenditures for the reappraisal effort. The executive included a base adjustment to add funding for the 21.0 FTE. This base adjustment accounts for \$666,238 in fiscal 2002 and \$668,462 in fiscal 2003 of the statewide personal services adjustments included on the program present law table.

DP 2 - Leased Vehicle Request - This request would fund the retirement of agency-owned motor vehicles and the subsequent replacement by leased vehicles from the State Motor Pool. The department currently operates a fleet of 101 owned vehicles and 57 vehicles leased from the State Motor Pool. During fiscal 2001, 15 of the owned vehicles would be replaced with leased vehicles. This request is for funding to replace 53 owned vehicles with motor pool lease vehicles during the 2003 biennium (28 in fiscal 2002 and 25 in fiscal 2003). The 53 vehicles to be replaced are the older and less reliable agency-owned vehicles.

DP 3 - Property Valuation Improvement Fund - This request would fund software license agreements, copier maintenance, and the acquisition of supplies and materials, customer service terminals, and printers and plotters. The request would also fund efforts to promote and enable public access to department-maintained data in all 56 counties. The executive is requesting that the Property Valuation Improvement Fund provide for this request.

**LFD  
COMMENT**

State law identifies the Property Valuation Improvement Fund as a state special revenue fund to be used by the department for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Revenues come from a fee charged to persons, federal agencies, state agencies, and other entities requesting the property valuation and assessment system database. The Governor's Office of Budget and Program Planning, the State Tax Appeal Board, and legislative agencies or committees are not charged this fee.

DP 4 - Increased Use Costs for Customer Service Center - This request would increase funding for the services provided by the Customer Service Center. The increase is due to an anticipated growth in transaction volumes and the requested increases in the Customer Service Center rates.

**LFD  
COMMENT**

For a further discussion of the rates proposed by the Customer Service Center, see the Agency Discussion and the Proprietary Rates sections for the Customer Service Center Program.

DP 5 - Project META Efficiencies - This request would accommodate the reduction of 4.0 FTE in fiscal 2002 and 8.0 FTE in fiscal 2003. The funding reduction would provide for staffing reductions resulting from efficiencies gained by the reorganization of the department during the 2001 biennium.

LFC COMMENT

**LFD  
COMMENT**

The department was restructured from an organization that focused on and was structured around specific tax types, to an organization structured around business processes. During the 2001 biennium, the department eliminated 29 FTE as a result of efficiencies gained from the reorganization. In the 2003 biennium, the department proposes further reductions of 4.0 FTE in fiscal 2002 and 4.0 additional FTE in fiscal 2003.

DP 7 - Annual Reimbursements to Local Governments - This request would fund annual reimbursements to local governments for the loss of tax base resulting from actions taken by the 1999 legislature.

**LFD  
ISSUE**

*Reimbursements to Local Governments*

As stated earlier, SB 184 provided appropriations so that the department could reimburse local governments for losses of tax base resulting from several tax-related pieces of legislation passed during the 1999 legislative session. Section 169 of SB 184 directed the Governor to include a present law base budget equal to the sum of reimbursements for the consideration of the 2001 legislature.

**LFD ISSUE  
CONTINUED**

*SB 184 Directions to the Governor – Interpretation*

SB 184 contained two sections that conflicted in how the present law base budget should be presented to the 2001 legislature. Section 167 provides a formula for calculating the amount of reimbursements that would be considered present law. Section 169 states that the present law base included in the Executive Budget should be the sum of the reimbursements contained in Section 169. Because the amount calculated using Section 167 would be significantly higher than the sum of reimbursements contained in Section 169, an interpretation of the intent of SB 184 was requested of the Chief Legal Counsel for the legislature. The interpretation states that Section 167 terminates on December 31, 2001, and does not impose a statutory requirement for local government reimbursements in the 2003 biennium. As a result, the appropriate amount to be considered present law is the amount derived from adding the reimbursements included in Section 169. Any adjustment for local government reimbursements above \$70,584,392 in the Department of Revenue 2003 biennium budget request should be considered a new proposal.

This present law adjustment increases the present law budget to a level above that intended by SB 184 as interpreted by the Chief Legal Counsel for the legislature. Table 8A shows how the present law adjustment was requested, as compared to the Chief Legal Counsel's opinion.

As shown, the Executive Budget includes \$39,284,392 above present law that should have been included in a new proposal. Table 8B shows totals for fully funding all reimbursements, in the case that fiscal 2001 amounts are carried forward to the 2003 biennium.

Table 8B shows that while the department requested funds to fully reimburse local governments for the loss of tax base, it did not include funding for charter forms of local government or for tax increment financing districts.

	2001 Biennium		
	Fiscal 2000	Fiscal 2001	Biennium
<b>Total 2001 Biennium Appropriations</b>			
Local Government	\$12,900,000	\$54,934,392	\$67,834,392
Charter forms of local government	0	0	2,150,000
Tax increment financing districts	0	0	600,000
	\$12,900,000	\$54,934,392	<u>\$70,584,392</u>
		2003 Biennium	
<b>Executive Budget</b>	<b>Fiscal 2002</b>	<b>Fiscal 2003</b>	<b>Biennium</b>
Local Government	\$54,934,392	\$54,934,392	\$109,868,784
Charter forms of local government	0	0	0
Tax increment financing districts	0	0	0
	\$54,934,392	\$54,934,392	<u>\$109,868,784</u>
Difference from Legal Counsel Present Law			<u>\$39,284,392</u>

Fully funded at fiscal 2001 level	2003 Biennium		
	Fiscal 2002	Fiscal 2003	Biennium
Local Government	\$54,934,392	\$54,934,392	\$109,868,784
Charter forms of local government	1,075,000	1,075,000	2,150,000
Tax increment financing districts	300,000	300,000	600,000
	\$56,309,392	\$56,309,392	<u>\$112,618,784</u>
Total request in Executive Budget			<u>\$109,868,784</u>
Difference: budget from full funding			<u>(\$2,750,000)</u>

The legislature faces two issues regarding the local government reimbursements initiated by SB 184.

1. Does the legislature wish to continue funding reimbursements to local governments at a level equal to the sum of reimbursements contained in Section 169 of SB 184, or does it wish to fund reimbursements at the level that would provide annual amounts at the fiscal 2001 level of SB 184, Section 169?

2. Does the legislature wish to continue

to fund reimbursements to: a) charter forms of local governments prohibited from increasing mills in order to compensate for lower taxable values identified in Section 169(8) of SB 184; and b) tax increment financing districts as identified in Section 169(9) of SB 184?

**LFD  
ISSUE****May 2000 Special Session Reserved \$37.0 Million**

During the May 2000 special legislative session, the legislature reserved \$37.0 million of the fiscal 2001 general fund ending balance to provide reimbursements to local governments and school districts during the 2003 biennium. While the legislature reserved the \$37.0 million, it did not appropriate the funds for reimbursements.

**Options**

The legislature has the following options for dealing with the SB 184 reimbursements:

1. Fund at the sum of SB 184 reimbursements - the necessary action would be to reduce the adjustment by \$39,284,392 general fund for the biennium;
2. Fund only local governments at the fiscal 2001 level - no changes would be required for this adjustment; or
3. Fund local governments at the fiscal 2001 level and fund tax increment financing districts and charter forms of local governments prohibited from increasing mills in order to compensate for lower taxable values - the necessary action would be to increase the adjustment by \$2,750,000 general fund for the biennium.