

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	663.53	1.00	(18.50)	646.03	1.00	(22.00)	642.53	642.53
Personal Services	24,006,775	2,253,898	(721,385)	25,539,288	2,258,936	(836,149)	25,429,562	50,968,850
Operating Expenses	8,700,168	944,847	61,678	9,706,693	646,364	39,069	9,385,601	19,092,294
Equipment	93,435	0	0	93,435	0	0	93,435	186,870
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	6,375	0	0	6,375	0	0	6,375	12,750
Total Costs	\$32,806,753	\$3,198,745	(\$659,707)	\$35,345,791	\$2,905,300	(\$797,080)	\$34,914,973	\$70,260,764
General Fund	28,078,749	3,012,093	(659,707)	30,431,135	2,718,216	(797,080)	29,999,885	60,431,020
State/Other Special	424,485	124,671	0	549,156	128,678	0	553,163	1,102,319
Federal Special	2,328,482	43,635	0	2,372,117	33,835	0	2,362,317	4,734,434
Proprietary	1,975,037	18,346	0	1,993,383	24,571	0	1,999,608	3,992,991
Total Funds	\$32,806,753	\$3,198,745	(\$659,707)	\$35,345,791	\$2,905,300	(\$797,080)	\$34,914,973	\$70,260,764

Agency Description

The Department of Revenue (DOR) 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.

Agency Discussion

<p>Department of Revenue Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ Total funds increase of 4.3 percent over the 2003 biennium with a general fund increase of 5.0 percent ○ Reduction of 21.00 FTE ○ Request includes a net increase of \$213,540 to discontinue the development of POINTS II and maintain POINTS I
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ A request to fund an upgrade of Oracle for POINTS I is not supported by a needs assessment ○ Recommended results criteria and reporting for new compliance staff added in the August 2002 Special Session ○ Appraisal staff reductions - impacts on statutory duties

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 named Process Oriented Integrated System with the acronym "POINTS".

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 being implemented through a phased approach:

- Phase I (POINTS I) built the shared infrastructure that supports data and common processes for all tax types. It replaced eight of the department's computerized management systems with five core modules (case management, registration, returns processing, accounting, and forms and correspondence), which were designed to support all tax types. POINTS I has been completed
- Phase II (POINTS II) was originally supposed to add modules for property, individual income, corporate, and natural resource taxes. In doing so, POINTS II would have replaced up to 15 of the department stand-a-alone management systems. The department has stopped development work on POINTS II and is in the process of closing out the project

Challenging Project

The development of POINTS and the organizational change to a process oriented organizational structure have proven to be challenging efforts for the department. Because POINTS is an integrated system intended to be developed to maintain information on taxpaying entities in a common structure that is shared for all different tax types, the department organizational structure was changed to more closely match this type of structure. Prior to POINTS, the department was structured in organizational units based on major tax types. Now the department is business process oriented and structured around integrated processes that administer the state tax revenues.

The change to the current organizational structure involved the following major tasks:

- Adjusting management structures and staff assignments
- Redesigning position duties
- Moving personnel among organizations and positions

At the same time, the department began a major information technology (IT) development project to provide POINTS using a consultant contract. The project has experienced the following significant challenges:

- High level of software coding deficiencies, many with significant system performance impacts
- Contract disputes
- Project delays
- Cost over-runs

Challenged Project and Subsequent IT Governance Changes

As stated, POINTS is an example of a recent IT system development project that has experienced significant challenges during its development. A cursory review of the project can attribute much of the problems to deficiencies in pre-development planning; contract specifications, documentation, and enforcement; and initial project management.²

Current Project Status

As stated, the project was developed in phases. POINTS I built the shared infrastructure that supports data and common processes for all tax types and was delivered by the contractor and accepted by the department in 1999. The department is currently using POINTS I to perform its daily business functions. Simultaneously, the department is engaged in a project to correct software coding defects that impact the performance of the system.

² POINTS was developed, funded, and initiated prior to the 2001 legislature passing SB 131, the Information Technology Act. The Information Technology Act changed accountability, governance, and planning requirements of state IT resources. The changes contained in SB 131 came out of an interim study by the Legislative Finance Committee aimed at addressing legislative concerns over projects such as POINTS. If POINTS were developed under the requirements of the Information Technology Act, many or most of the problems may have been avoided.

A defect is defined as software coding that does not perform the intended functions as designed. The department has set December 31, 2002, as the deadline for completing POINTS I software stabilization. POINTS I software stabilization will be complete, not when all software defects have been corrected, but when all defects that impact the ability of the system to complete essential business functions are corrected and tested. According to the department, this effort would stabilize the functionality of the POINTS I software system such that core business functions operate reliably and future defects can be corrected quickly.

Schedule Change - POINTS II Discontinued

The original schedule for the POINTS development project was to implement the property and income tax modules in 2000 and the corporation tax module in 2001. Contract disputes and delays impacted this schedule. Instead of proceeding with the property tax module, the department received funding from the 2001 legislature and upgraded the Computer Assisted Mass Appraisal System (CAMAS) for use in the most recently completed property reappraisal. The property tax module of POINTS was subsequently removed from the project and in November 2002 the department made a decision to stop the development of POINTS II all together. Currently, \$2.5 million of the original \$32.0 million bonding proceeds remain unspent.

POINTS Related Budget Items

The department's budget request for the 2005 biennium contains the following decision packages, totaling \$594,541, related to POINTS or the cancellation of the POINTS II development project:

- Present law DP 203 in the Information Technology Program for an additional \$250,000 to upgrade POINTS Oracle operating system
- New proposal DP 210 in the Information Technology Program for an additional \$600,000 to maintain POINTS I
- Present law DP 804 in the Compliance Valuation and Resolution Program for \$131,000 to fund a maintenance agreement for CAMAS
- New proposal DP 809 in the Compliance Valuation and Resolution Program for a reduction of \$386,459 to discontinue POINTS II

These decision packages are listed here to provide the legislature with a view of all POINTS related requests contained in the department's budget request. Detailed discussions are provided for each individual decision package in the respective program narratives. However, the legislature may wish to consider all requests together as it evaluates the department's budget request.

Impacts From Discontinuing POINTS II

The decision to discontinue development of POINTS II has changed the long-term nature of assumptions for providing the services of the department. The department has been organized with the assumption that an integrated management system would be used to process the daily business transaction and support department operations. The legislature may want to have the department explain how it plans to operate without the integrated functionality that would have been gained from POINTS II. As part of this discussion, the department should explain how the POINTS-related budget requests factor into this plan, as well as how the POINTS II decision will impact future operating costs of the department.

Personal Service Changes

Statewide adjustments for personal services for all programs of the department are divided into two adjustments shown separately on budget tables: 1) those to fully fund all authorized positions; and 2) those to apply a vacancy savings reduction. The adjustment to fully fund all authorized positions is intended to adjust program budgets to reflect the pay levels existing when the budget development "snapshot" was taken and also to adjust for legislative pay increases scheduled to occur between the time the snapshot was taken and when the budgets would be implemented. These adjustments are for both pay scale increases and health insurance increases funded by the state. Actual vacancy rates and position pay change decisions that occurred during the base year impact the statewide adjustments in amount and

percentage growth over the base. Figure 1 breaks the statewide personal services adjustments into causes for all programs funded in HB 2. The figure shows four categories that make up the adjustments: 1) adjustments because of the difference in pay hours between the base and fiscal 2004 (Hour Difference); 2) adjustments for pay matrix adjustments and health insurance increases in HB 13 of the 2001 legislature (HB 13); 3) impacts of actual vacancy rates in the base year (Vacancies); and 4) impacts because the base does not include additional FTE added during the August 2002 Special Session (New FTE August Special Session).

The information shown on Figure 1 shows how different factors contribute to the growth from the base to the budget request for personal services. For some programs, the information serves just to show why the budget grows while not identifying any factor that contributed more significantly to the growth. However, the figure shows that the legislature may be interested in further justification from the department with regard to the high relative contribution vacancies in the Information Technology Program have on the program's personal service budget growth. For reference, the program had a vacancy rate of 8.4 percent in fiscal 2002, which accounts for 8.6 percent of the growth between the base and the request for fiscal 2004. The legislature may wish to have the agency justify the need for full funding of Information Technology Program positions.

Factors the legislature may wish to consider for the Information Technology Program personal services budget are:

- o During the base year, the department was involved with the development of POINTS which should have placed a heavy demand on Information Technology Program staff, yet the program had an 8.4 percent vacancy rate
- o The department has discontinued POINTS II development for the 2005 biennium, so demand for program staff resources should drop
- o The department is requesting funds to hire contracted information technology resources because the programming skills of Information Technology Program staff, not workload capacity, do not match the department's skill needs.

Program	Change Amount	Total Change	Hour Difference	Makeup of Change		
				HB 13	Vacancies	New FTE August Special Session
Director's Office (01)	\$ 106,664	5.3%	0.6%	2.7%	2.0%	0.0%
Information Technology (02)	231,879	13.6%	0.8%	4.2%	8.6%	0.0%
Resource Management (05)	140,344	8.4%	0.7%	3.8%	3.9%	0.0%
Customer Service Center (06)	461,009	12.6%	0.9%	6.0%	2.7%	3.0%
Compliance Valuation and Resolution (08)	2,367,068	15.8%	1.0%	6.0%	6.1%	2.8%

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
Directors Office	\$ 4,359,775	\$ -	\$ 196,906	\$ 60,144	\$ 4,616,825	6.6%
Information Technology	5,931,378	-	366,730	128,490	6,426,598	9.1%
Resource Management	2,123,064	-	194,592	2,278,827	4,596,483	6.5%
Customer Service Center	8,153,717	713,507	1,756,398	1,525,530	12,149,152	17.3%
Compliance Valuation And Resolution	<u>39,863,086</u>	<u>388,812</u>	<u>2,219,808</u>	<u>-</u>	<u>42,471,706</u>	<u>60.4%</u>
Grand Total	<u>\$ 60,431,020</u>	<u>\$ 1,102,319</u>	<u>\$ 4,734,434</u>	<u>\$ 3,992,991</u>	<u>\$ 70,260,764</u>	<u>100.0%</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	664.53	(18.50)	646.03	664.53	(22.00)	642.53	663.53	642.53
Personal Services	26,260,673	(721,385)	25,539,288	26,265,711	(836,149)	25,429,562	49,134,524	50,968,850
Operating Expenses	9,645,015	61,678	9,706,693	9,346,532	39,069	9,385,601	17,947,586	19,092,294
Equipment	93,435	0	93,435	93,435	0	93,435	129,757	186,870
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	6,375	0	6,375	6,375	0	6,375	13,209	12,750
Total Costs	\$36,005,498	(\$659,707)	\$35,345,791	\$35,712,053	(\$797,080)	\$34,914,973	\$67,225,076	\$70,260,764
General Fund	31,090,842	(659,707)	30,431,135	30,796,965	(797,080)	29,999,885	57,555,923	60,431,020
State/Other Special	549,156	0	549,156	553,163	0	553,163	868,639	1,102,319
Federal Special	2,372,117	0	2,372,117	2,362,317	0	2,362,317	4,816,085	4,734,434
Proprietary	1,993,383	0	1,993,383	1,999,608	0	1,999,608	3,984,429	3,992,991
Total Funds	\$36,005,498	(\$659,707)	\$35,345,791	\$35,712,053	(\$797,080)	\$34,914,973	\$67,225,076	\$70,260,764

New Proposals

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

Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 102 - Reduce Agency Support Functions-Policy Performance										
01	(5.00)	(265,605)	0	0	(265,605)	(5.00)	(264,995)	0	0	(264,995)
DP 210 - Discontinuing POINTS Phase II										
02	0.00	300,000	0	0	300,000	0.00	300,000	0	0	300,000
DP 504 - Reduce Agency Support Function-Resource Management										
05	(1.00)	(34,303)	0	0	(34,303)	(1.00)	(34,272)	0	0	(34,272)
DP 603 - Reduction of Computer Processing										
06	0.00	(90,000)	0	0	(90,000)	0.00	(90,000)	0	0	(90,000)
DP 606 - Treasury Offset Program										
06	0.00	27,000	0	0	27,000	0.00	18,000	0	0	18,000
DP 607 - Eliminate GenTran Maintenance Contract										
06	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
DP 805 - Eliminate Participation in External Organizations										
08	0.00	(12,600)	0	0	(12,600)	0.00	(12,600)	0	0	(12,600)
DP 806 - Reduction of Computer Replacements										
08	0.00	(140,000)	0	0	(140,000)	0.00	(140,000)	0	0	(140,000)
DP 807 - Eliminate MOU with Yellowstone County										
08	0.00	(14,000)	0	0	(14,000)	0.00	(14,000)	0	0	(14,000)
DP 808 - Reduction of Property Tax Services										
08	(9.50)	(406,791)	0	0	(406,791)	(13.00)	(531,695)	0	0	(531,695)
DP 809 - Discontinuing POINTS Phase II										
08	(3.00)	(176,391)	0	0	(176,391)	(3.00)	(210,068)	0	0	(210,068)
DP 8002 - Field Office Rent (Requires Legislation)										
08	0.00	177,983	0	0	177,983	0.00	207,550	0	0	207,550
Total	(18.50)	(\$659,707)	\$0	\$0	(\$659,707)	(22.00)	(\$797,080)	\$0	\$0	(\$797,080)

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	37.00	0.00	(5.00)	32.00	0.00	(5.00)	32.00	32.00
Personal Services	2,024,982	21,398	(252,345)	1,794,035	22,185	(251,735)	1,795,432	3,589,467
Operating Expenses	517,538	62,399	(13,260)	566,677	(74,381)	(13,260)	429,897	996,574
Equipment	15,392	0	0	15,392	0	0	15,392	30,784
Local Assistance	0	0	0	0	0	0	0	0
Total Costs	\$2,557,912	\$83,797	(\$265,605)	\$2,376,104	(\$52,196)	(\$264,995)	\$2,240,721	\$4,616,825
General Fund	2,526,235	(17,951)	(265,605)	2,242,679	(144,144)	(264,995)	2,117,096	4,359,775
State/Other Special	300	(300)	0	0	(300)	0	0	0
Federal Special	800	102,553	0	103,353	92,753	0	93,553	196,906
Proprietary	30,577	(505)	0	30,072	(505)	0	30,072	60,144
Total Funds	\$2,557,912	\$83,797	(\$265,605)	\$2,376,104	(\$52,196)	(\$264,995)	\$2,240,721	\$4,616,825

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. The legal services staff advise other program staff and handle 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 unit is responsible for estimating state revenue, coordinating Department of Revenue 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 tax and liquor appeals, into a single location and process.

Program Narrative

Department of Revenue Director's Office Major Budget Highlights
<ul style="list-style-type: none"> ○ General fund support is reduced by \$667,000 or 13.7 percent from the 2003 biennium through reductions of agency management support functions ○ 5.00 FTE are eliminated

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 2,526,235	98.8%	\$ 2,242,679	94.4%	\$ 2,117,096	94.5%
02110 Accommodation Tax Admin	300	0.0%	-	-	-	-
03928 Royalty Audit - Nrct	800	0.0%	800	0.0%	-	-
03954 Ui Administrative Grants	-	-	102,553	4.3%	93,553	4.2%
06005 Liquor Division	<u>30,577</u>	<u>1.2%</u>	<u>30,072</u>	<u>1.3%</u>	<u>30,072</u>	<u>1.3%</u>
Grand Total	<u>\$ 2,557,912</u>	<u>100.0%</u>	<u>\$ 2,376,104</u>	<u>100.0%</u>	<u>\$ 2,240,721</u>	<u>100.0%</u>

Funding for the program comes primarily from the general fund. Other funding sources are proprietary fund and federal special revenue from federal unemployment insurance funds. The proprietary funding is from a direct appropriation of Liquor Division proprietary fund and is for the Liquor Division share of Director's Office support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund.

	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					106,664					107,484
Vacancy Savings					(85,266)					(85,299)
Inflation/Deflation					5,589					5,608
Fixed Costs					56,810					(79,989)
Total Statewide Present Law Adjustments					\$83,797					(\$52,196)
Grand Total All Present Law Adjustments					\$83,797					(\$52,196)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 102 - Reduce Agency Support Functions-Policy Performance	01	(5.00)	(265,605)	0	0	(265,605)	(5.00)	(264,995)	0	0	(264,995)
Total		(5.00)	(\$265,605)	\$0	\$0	(\$265,605)	(5.00)	(\$264,995)	\$0	\$0	(\$264,995)

New Proposals

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

DP 102 - Reduce Agency Support Functions-Policy Performance - The executive recommends a reduction of \$530,600 general fund for the biennium to reduce funding for 5.00 FTE. Functions in the department associated with the staff being eliminated are change management, performance management, management specialist, and strategic planning. The duties of these positions would be consolidated under one remaining position and according to the department, minimum requirements in goals and objectives, performance indicators, strategic plan development, and change management issues will be maintained.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	36.25	0.00	0.00	36.25	0.00	0.00	36.25	36.25
Personal Services	1,711,360	154,170	0	1,865,530	154,437	0	1,865,797	3,731,327
Operating Expenses	793,176	355,707	300,000	1,448,883	113,118	300,000	1,206,294	2,655,177
Equipment	20,047	0	0	20,047	0	0	20,047	40,094
Total Costs	\$2,524,583	\$509,877	\$300,000	\$3,334,460	\$267,555	\$300,000	\$3,092,138	\$6,426,598
General Fund	2,078,658	708,192	300,000	3,086,850	465,870	300,000	2,844,528	5,931,378
Federal Special	374,214	(190,849)	0	183,365	(190,849)	0	183,365	366,730
Proprietary	71,711	(7,466)	0	64,245	(7,466)	0	64,245	128,490
Total Funds	\$2,524,583	\$509,877	\$300,000	\$3,334,460	\$267,555	\$300,000	\$3,092,138	\$6,426,598

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.

Program Narrative

<p>Department of Revenue Information Technology Program Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ Total fund budget increases by \$1.4 million or 26.7 percent with general fund increasing by \$1.6 million or 36.5 percent ○ POINTS II development is discontinued
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ Needs assessment for upgrading POINTS I Oracle system ○ IT staff skill set and contractor support ○ Impacts from discontinuing POINTS II

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 2,078,658	82.3%	\$ 3,086,850	92.6%	\$ 2,844,528	92.0%
03954 Ui Administrative Grants	374,214	14.8%	183,365	5.5%	183,365	5.9%
06005 Liquor Division	71,711	2.8%	64,245	1.9%	64,245	2.1%
Grand Total	<u>\$ 2,524,583</u>	<u>100.0%</u>	<u>\$ 3,334,460</u>	<u>100.0%</u>	<u>\$ 3,092,138</u>	<u>100.0%</u>

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 Liquor Division proprietary fund and is for the Liquor Division share of Information Technology Program support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund.

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					231,879					232,180
Vacancy Savings					(77,709)					(77,743)
Inflation/Deflation					4,993					5,137
Fixed Costs					100,714					107,981
Total Statewide Present Law Adjustments					\$259,877					\$267,555
DP 203 - Oracle Upgrade for POINTS (Restricted/Bien/OTO)	0.00	250,000	0	0	250,000	0.00	0	0	0	0
Total Other Present Law Adjustments	0.00	\$250,000	\$0	\$0	\$250,000	0.00	\$0	\$0	\$0	\$0
Grand Total All Present Law Adjustments					\$509,877					\$267,555

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 203 - Oracle Upgrade for POINTS (Restricted/Bien/OTO) - An increase of \$250,000 general fund in fiscal 2004 is requested to support POINTS upgrade efforts tied to anticipated Oracle database software upgrades. The last upgrade associated with Oracle version upgrades occurred in fiscal 2001 and is not included in the base. This request is based on the assumption that Oracle software upgrades would occur every two to three years. The executive recommends that the legislature designate an appropriation for this purpose as restricted, biennial, and one-time-only.

LFD ISSUE Assumed Need to Upgrade to the Latest Version of Oracle
 This request assumes that an upgrade of Oracle would occur in the 2005 biennium. The request further assumes that if an Oracle upgrade occurs, POINTS should be upgraded to this new version of Oracle. The department hasn't provided an assessment to determine whether upgrading the software to the latest Oracle version adds sufficient benefits to justify the cost. Since this decision package is for anticipated costs that aren't supported by a needs analysis at this time, the legislature may wish to restrict the appropriation and specify conditions for its use. Conditions could include the requirement that the department perform a needs assessment for moving to an upgraded version of Oracle. The needs assessment should evaluate the costs, risks, and benefits of upgrading to the latest Oracle version as compared with continuing to operate POINTS with the current version of Oracle. The legislature may also wish to direct the department to present the needs assessment to an appropriate interim oversight committee for comment.

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 210 - Discontinuing POINTS Phase II 02	0.00	300,000	0	0	300,000	0.00	300,000	0	0	300,000
Total	0.00	\$300,000	\$0	\$0	\$300,000	0.00	\$300,000	\$0	\$0	\$300,000

New Proposals

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

DP 210 - Discontinuing POINTS Phase II – An increase of \$600,000 general fund for the biennium is requested to maintain POINTS I. Of this request, \$500,000 would be used to fund five full-time consultant and professional information technology (IT) staff and increased mid-tier service charges paid to the Information Technology Services Division of the Department of Administration. The contracted IT staff would provide a skill set not possessed by department IT staff. The number of contracted staff represents a decrease of seven from the level funded in fiscal 2002 with bonding funds and, as such, is not included in the base. The remaining \$100,000 would fund anticipated mid-tier service charges that are not in the base because they were funded with bonding proceeds as part of POINTS development.

LFD ISSUE Department IT Staff Skills
 The department has 16 programmer analysts and 2 IT managers. Of the department IT staff, 11 programmers and 1 manager are assigned to POINTS maintenance. The department has stated the need to use contracted IT staff is because the skill sets of department IT staff do not match the skill sets needed by the department. The department did not state the contracted staff were needed because of a workload issue. As such, the legislature may wish to consider the following options for this request:

- o Do not fund the request for contracted IT staff and have the department estimate costs of providing training to existing staff that would allow them to gain the skills needed by the department
- o Reduce department IT staff to fund the cost of contracted IT staff that have the skill sets needed by the department
- o Fund the request as presented.

Earlier, it was stated that the Information Technology Program had a vacancy rate in fiscal 2002 of 8.4 percent or roughly 1.5 FTE. The legislature may wish to ask the department how the POINTS development project impacted the IT staff vacancy rate. The legislature may also wish to ask the department if it filled vacant positions with applicants that possessed the skills needed by the department how much of this request could be eliminated.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	39.50	0.00	(1.00)	38.50	0.00	(1.00)	38.50	38.50
Personal Services	1,679,893	67,535	(31,651)	1,715,777	69,573	(31,620)	1,717,846	3,433,623
Operating Expenses	560,745	(21,317)	(2,652)	536,776	(15,641)	(2,652)	542,452	1,079,228
Equipment	41,816	0	0	41,816	0	0	41,816	83,632
Capital Outlay	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$2,282,454	\$46,218	(\$34,303)	\$2,294,369	\$53,932	(\$34,272)	\$2,302,114	\$4,596,483
General Fund	1,172,470	(77,395)	(34,303)	1,060,772	(75,906)	(34,272)	1,062,292	2,123,064
Federal Special	0	97,296	0	97,296	97,296	0	97,296	194,592
Proprietary	1,109,984	26,317	0	1,136,301	32,542	0	1,142,526	2,278,827
Total Funds	\$2,282,454	\$46,218	(\$34,303)	\$2,294,369	\$53,932	(\$34,272)	\$2,302,114	\$4,596,483

Program Description

The Resource Management Program provides service 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

Department of Revenue Resource Management Program Major Budget Highlights	
○	General fund is reduced by \$221,000 or 9.4 percent below the 2003 biennium
○	1.00 FTE is eliminated

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Resource Management						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,172,470	51.4%	\$ 1,060,772	46.2%	\$ 1,062,292	46.1%
03954 Ui Administrative Grants	-	-	97,296	4.2%	97,296	4.2%
06005 Liquor Division	1,109,984	48.6%	1,136,301	49.5%	1,142,526	49.6%
Grand Total	\$ 2,282,454	100.0%	\$ 2,294,369	100.0%	\$ 2,302,114	100.0%

The Resource Management Program is funded by the general fund, federal special revenue, and proprietary funds. The proprietary funding is from a direct appropriation of Liquor Division proprietary fund and is for the Liquor Division share of Resource Management Program support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund. The federal special revenue funding comes from reimbursements for administering

unemployment insurance taxes. There was no funding from this source in the base, but federal funding for the 2005 biennium would reduce general fund by \$194,592.

The Liquor Distribution Unit is funded with a direct appropriation of Liquor Division proprietary fund. Net revenues from liquor sales are transferred to the general fund once operating costs are deducted from gross revenues.

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					140,344					142,466
Vacancy Savings					(72,809)					(72,893)
Inflation/Deflation					3,775					4,240
Fixed Costs					(25,092)					(19,881)
Total Statewide Present Law Adjustments					\$46,218					\$53,932
Grand Total All Present Law Adjustments					\$46,218					\$53,932

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 504 - Reduce Agency Support Function-Resource Management											
05	(1.00)	(34,303)	0	0	(34,303)	(1.00)	(34,272)	0	0	(34,272)	
Total	(1.00)	(\$34,303)	\$0	\$0	(\$34,303)	(1.00)	(\$34,272)	\$0	\$0	(\$34,272)	

New Proposals

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

DP 504 - Reduce Agency Support Function-Resource Management - The executive recommends a reduction of \$68,575 general fund for the biennium to reduce funding for 1.00 FTE training officer. The duties of this position would be consolidated under two remaining training officer positions.

Language Recommendations

The executive recommends the following language appropriations for the Resource Management Division.

"Liquor division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in amounts not to exceed \$67,588,169 in fiscal year 2004 and \$70,782,541 in fiscal year 2005."

"In the liquor division, upon a termination that requires a payout of accrued leave balances, liquor division proprietary funds are appropriated from the liquor enterprise fund (06005) to the department in the amount equal to the payout of the accrued leave balances, not to exceed \$30,000 for each of fiscal years 2004 and 2005."

"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 department is appropriated from the liquor enterprise fund (06005) for additional costs not to exceed \$40,000 for each of fiscal years 2004 and 2005."

**LFD
COMMENT**

Alternate Language

The above language could be made clearer through the following alternate language, which the legislature may wish to consider:

"In the event the department is unable to meet statutory service levels due to the increase in demand for liquor products, the department may hire additional temporary employees or pay overtime, whichever is determined to be the more cost effective, to maintain required service levels to stores. In fiscal year 2004 and in fiscal year 2005, the department is appropriated not more than \$40,000 each year for additional costs from the liquor enterprise fund."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	119.00	1.00	0.00	120.00	1.00	0.00	120.00	120.00
Personal Services	3,647,992	336,106	0	3,984,098	338,914	0	3,986,906	7,971,004
Operating Expenses	2,030,746	142,433	(88,000)	2,085,179	159,223	(97,000)	2,092,969	4,178,148
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$5,678,738	\$478,539	(\$88,000)	\$6,069,277	\$498,137	(\$97,000)	\$6,079,875	\$12,149,152
General Fund	3,798,469	361,447	(88,000)	4,071,916	380,332	(97,000)	4,081,801	8,153,717
State/Other Special	239,943	116,454	0	356,397	117,167	0	357,110	713,507
Federal Special	877,561	638	0	878,199	638	0	878,199	1,756,398
Proprietary	762,765	0	0	762,765	0	0	762,765	1,525,530
Total Funds	\$5,678,738	\$478,539	(\$88,000)	\$6,069,277	\$498,137	(\$97,000)	\$6,079,875	\$12,149,152

Program Description

The Customer Service Center Program (CSC) combines the document and information processing, accounts receivable and collections, and customer intake processes into a single business unit designed to collect revenue, process documents, provide taxpayer information, and process liquor licenses for the department and agency partners. The CSC provides a single point of contact for debtors and is responsible for delinquent account collection and enforcement activities.

Program Narrative

<p>Department of Revenue Customer Service Center Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ General fund is increased by \$484,000 or 6.3 percent over the 2003 biennium ○ 1.00 FTE funded with state special revenue is added ○ General fund revenue lift from Treasury Offset Program
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ Results of new positions added during the August 2002 Special Session

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 3,798,469	66.9%	\$ 4,071,916	67.1%	\$ 4,081,801	67.1%
02025 Unclaimed Property	99,910	1.8%	162,446	2.7%	162,336	2.7%
02088 One-Stop And New Hire Admin.	110,798	2.0%	161,500	2.7%	161,500	2.7%
02110 Accommodation Tax Admin	29,235	0.5%	27,451	0.5%	28,274	0.5%
02396 Sb354-Restaurnat Beer & Wine	-	-	5,000	0.1%	5,000	0.1%
03680 New Hire Admin (Federal Share)	91,761	1.6%	92,400	1.5%	92,400	1.5%
03954 Ui Administrative Grants	785,800	13.8%	785,799	12.9%	785,799	12.9%
06005 Liquor Division	762,765	13.4%	762,765	12.6%	762,765	12.5%
06554 Customer Service Center	-	-	-	-	-	-
Grand Total	<u>\$ 5,678,738</u>	<u>100.0%</u>	<u>\$ 6,069,277</u>	<u>100.0%</u>	<u>\$ 6,079,875</u>	<u>100.0%</u>

The Customer Service Center is funded with general fund, state and federal special revenue, and proprietary funds. Liquor Division proprietary funds is for the Liquor Division share of Customer Service Center support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund.

The delinquent account collection and enforcement activities are funded with internal service proprietary funds and are not included in the budget tables for the program. The proprietary section of this program discusses funding for the delinquent account collection and enforcement activities and the rate requested to finance this internal service funded portion of the program.

	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					461,009					464,057
Vacancy Savings					(164,349)					(164,479)
Inflation/Deflation					77,722					77,921
Fixed Costs					40,349					56,821
Total Statewide Present Law Adjustments					\$414,731					\$434,320
DP 602 - Restore OTO from 03B - Unclaimed Property Auditor										
	1.00	0	52,446	0	52,446	1.00	0	52,336	0	52,336
DP 604 - Compliance Staff Operating Costs										
	0.00	11,362	0	0	11,362	0.00	11,481	0	0	11,481
Total Other Present Law Adjustments										
	1.00	\$11,362	\$52,446	\$0	\$63,808	1.00	\$11,481	\$52,336	\$0	\$63,817
Grand Total All Present Law Adjustments					\$478,539					\$498,137

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 602 - Restore OTO from 03B - Unclaimed Property Auditor - An increase of nearly \$105,000 state special revenue for the biennium is requested to fund 1.00 FTE unclaimed property auditor and operating costs.

LFD COMMENT	<p>Funded in 2003 Biennium with One-Time-Only Appropriation</p> <p>The 2001 legislature funded 1.00 FTE unclaimed property auditor, but designated the appropriation for this funding as one time only. One-time funding was provided to allow the department the opportunity to demonstrate need for this function and establish performance results that could be used to evaluate a request for continuation of funding.</p> <p>The department has stated that during fiscal 2002, the unclaimed property auditor performed 39 audits with total collections of \$218,014. The department estimates that approximately 40.0 percent of the collections will be returned to the rightful owner leaving roughly \$131,000 as increased gross revenue to the state. After deducting the costs for the auditor, roughly \$87,000 increased revenues would be realized by the general fund each year</p>
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DP 604 - Compliance Staff Operating Costs - An increase of \$22,843 general fund for the biennium is requested for operating costs associated with 3.30 FTE compliance staff added during the August 2002 Special Session. Since the August 2002 Special Session occurred after the base year was completed, the operating costs for these positions are not in the base. The operating costs are for travel, rent, computer and telephone connection costs, and supplies.

LFD ISSUE	<p>Results from New Positions</p> <p>The staff were added in the Senate as an amendment to HB 2 during the August 2002 Special Session. The basis for adding the staff was that the staff would result in additional audit related revenue to the general fund. The legislature may wish to establish criteria and a periodic reporting mechanism for the department to update the legislature on the results achieved from the general fund expenditures for the new compliance staff.</p> <p>As such, the legislature may wish to provide language in HB 2 that directs the department to provide updates of tax collections attributed to compliance staff activities. The legislature may wish to consider the following language for this purpose.</p> <p>"The department of revenue shall present reports to the revenue and transportation committee that show the cost of tax compliance staff and the additional revenues generated from providing the associated tax compliance. The department shall identify the costs and revenues separately for the additional staff added during the August 2002 special legislative session. The revenue and transportation committee may determine the frequency for reporting by the department on compliance staff revenues."</p>
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New Proposals	Fiscal 2004					Fiscal 2005					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 603 - Reduction of Computer Processing	06	0.00	(90,000)	0	0	(90,000)	0.00	(90,000)	0	0	(90,000)
DP 606 - Treasury Offset Program	06	0.00	27,000	0	0	27,000	0.00	18,000	0	0	18,000
DP 607 - Eliminate GenTran Maintenance Contract	06	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
Total		0.00	(\$88,000)	\$0	\$0	(\$88,000)	0.00	(\$97,000)	\$0	\$0	(\$97,000)

New Proposals

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

DP 603 - Reduction of Computer Processing - The executive recommends a reduction of \$180,000 general fund for the biennium for computer processing service charge payments to the Information Technology Services Division of the Department of Administration.

**LFD
COMMENT**
Off-Hour Processing Would Cause a Delay in Data Posting

The department has stated they would reduce these charges by running batch-processing jobs after business hours. According to the department, the main impact of this change would be a one-day delay in updating their databases.

DP 606 - Treasury Offset Program - An increase of \$45,000 general fund for the biennium is requested to participate in the Treasury Offset Program (TOP). Through the TOP the department would send a list of eligible taxpayers with delinquent state tax debts to the United States Treasury's Financial Management Service (FMS), where eligible federal tax refunds would be applied against the state tax debts.

**LFD
COMMENT**
Potential General Fund Revenue Lift

Based on results for other states participating in the program, the department estimates that participating in this program would increase net general fund revenue by \$505,000 for the 2005 biennium.

DP 607 - Eliminate GenTran Maintenance Contract - A reduction of \$50,000 general fund for the biennium is recommended to eliminate the maintenance contract for the GenTran software. The GenTran software is used to transfer federal withholding tax information from the MTQ 941 quarterly report to the IRS. In-house technology staff have been trained on the software and would be used to maintain it.

Proprietary Rates

Program Description

The Customer Services Center provides the collection services function that collects debt associated with delinquent accounts. The collection services function serves all state agencies and is funded through a service charge for collecting on delinquent accounts.

Revenues and Expenses

The department charges a 10.0 percent commission to provide collection services on delinquent accounts. These funds are used to pay the expenses of the Collection Services Program, including 3.50 FTE. Personal services costs account for approximately 84.0 percent of program costs. The remaining costs are related to rent, computer access and processing, and a percentage of the statewide fixed costs allocated to this function.

Historical and projected revenues, expenses, and fund equity are shown on the following report for fund number 06554. This report shows that in fiscal 2003, \$400,000 of excess fund balance was transferred out. The fund balance that was transferred was the result of using a general fund supplemental appropriation to retire a general fund loan instead of drawing down fund balance and was done when all but the Collection Services Program was moved from proprietary funding to funding in HB 2. This transfer was done in the August 2002 Special Session through HB 13 that transferred excess fund balance to the general fund. After this transfer, the balance of the account was equivalent to 16.7 percent of fiscal 2002 expenditures. The report also illustrates the change made during the 2001 legislature to move all of the Customer Service Center except the Collection Services Program from proprietary funding to HB 2 funding as indicated by the stepped decrease in revenues and expenditures between fiscal years 2001 and 2002.

Rate Explanation

The accounts receivable commission is currently 10 percent of the amount of delinquent accounts collected by the program. The executive does not recommend a change in this commission rate and requests continued approval of this 10 percent commission rate for the 2005 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06554	Collection Services	58010	Department of Revenue	Customer Service Center

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Charges for Services	6,339,077	5,931,121	128,437	140,000	145,000	145,000
Net Fee Revenue			128,437	140,000	145,000	145,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	87	263	-	-	-	-
Total Operating Revenues	6,339,164	5,931,384	128,437	140,000	145,000	145,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	6,339,164	5,931,384	128,437	140,000	145,000	145,000
Operating Expenses:						
Personal Services	4,906,824	4,416,758	96,642	115,979	116,862	116,567
Other Operating Expenses	2,329,784	2,600,288	1,344	24,021	23,074	24,834
Miscellaneous, operating	63,063	45,282	74,807	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	7,299,671	7,062,328	172,793	140,000	139,936	141,401
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	7,299,671	7,062,328	172,793	140,000	139,936	141,401
Operating Income (Loss)	(960,507)	(1,130,944)	(44,356)	-	5,064	3,599
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(21,632)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(21,632)	-	-	-	-
Income (Loss) Before Operating Transfers	(960,507)	(1,152,576)	(44,356)	-	5,064	3,599
Contributed Capital	533,364	533,364	-	-	-	-
Operating Transfers In (Note 13)	-	2,812,316	-	-	-	-
Operating Transfers Out (Note 13)	(345,756)	(343,535)	(104,291)	(400,000)	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	24,550	(1,265,242)	634,495	485,848	85,848	90,912
Net Income (Loss)	(772,899)	1,849,569	(148,647)	(400,000)	5,064	3,599
Retained Earnings/Fund Balances - June 30	(748,349)	584,327	485,848	85,848	90,912	94,511
60 days of expenses (Total Operating Expenses divided by 6)	1,216,612	1,177,055	28,799	23,333	23,323	23,567
Accounts Receivables Commission			10%	10%	10%	10%

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	431.78	0.00	(12.50)	419.28	0.00	(16.00)	415.78	415.78
Personal Services	14,942,548	1,674,689	(437,389)	16,179,848	1,673,827	(552,794)	16,063,581	32,243,429
Operating Expenses	4,797,963	405,625	(134,410)	5,069,178	464,045	(148,019)	5,113,989	10,183,167
Equipment	16,180	0	0	16,180	0	0	16,180	32,360
Debt Service	6,375	0	0	6,375	0	0	6,375	12,750
Total Costs	\$19,763,066	\$2,080,314	(\$571,799)	\$21,271,581	\$2,137,872	(\$700,813)	\$21,200,125	\$42,471,706
General Fund	18,502,917	2,037,800	(571,799)	19,968,918	2,092,064	(700,813)	19,894,168	39,863,086
State/Other Special	184,242	8,517	0	192,759	11,811	0	196,053	388,812
Federal Special	1,075,907	33,997	0	1,109,904	33,997	0	1,109,904	2,219,808
Total Funds	\$19,763,066	\$2,080,314	(\$571,799)	\$21,271,581	\$2,137,872	(\$700,813)	\$21,200,125	\$42,471,706

Program Description

The Compliance Valuation and Resolution Program administers audits and appraisals to ensure the tax-paying entities are in compliance with laws. The program is responsible for consistent valuation of properties statewide for purposes of property taxation. The program is located throughout the state in eight regions.

Program Narrative

<p>Department of Revenue Compliance Valuation and Resolution Program Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ General fund is increased by \$1.7 million or 4.4 percent over the 2003 biennium ○ 16.00 FTE reduction ○ Rent request is impacted by other legislation ○ Savings from discontinuing POINTS II
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ Impacts of appraisal staff reductions ○ Results of new positions added during the August 2002 Special Session ○ Increases for CAMAS maintenance

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 18,502,917	93.6%	\$ 19,968,918	93.9%	\$ 19,894,168	93.8%
02110 Accommodation Tax Admin	96,833	0.5%	109,803	0.5%	113,097	0.5%
02320 Property Value. Improv. Fund	49,956	0.3%	49,956	0.2%	49,956	0.2%
02396 Sb354-Restaurant Beer & Wine	5,000	0.0%	-	-	-	-
02432 Oil & Gas Era	32,453	0.2%	33,000	0.2%	33,000	0.2%
03928 Royalty Audit - Nrct	146,003	0.7%	180,000	0.8%	180,000	0.8%
03954 Ui Administrative Grants	<u>929,904</u>	<u>4.7%</u>	<u>929,904</u>	<u>4.4%</u>	<u>929,904</u>	<u>4.4%</u>
Grand Total	<u>\$ 19,763,066</u>	<u>100.0%</u>	<u>\$ 21,271,581</u>	<u>100.0%</u>	<u>\$ 21,200,125</u>	<u>100.0%</u>

The Compliance Valuation and Resolution Program is funded with general fund, state special revenue, and federal special revenue. State special revenue is from charges for administering several taxes. The program also receives federal special revenue as reimbursement for auditing unemployment insurance collections and for performing natural resource royalty audits.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					2,367,068					2,366,161
Vacancy Savings					(692,379)					(692,334)
Inflation/Deflation					90,938					119,537
Fixed Costs					95,201					116,759
Total Statewide Present Law Adjustments					\$1,860,828					\$1,910,123
DP 801 - Request for Leased Vehicles	0.00	84,756	0	0	84,756	0.00	92,659	0	0	92,659
DP 803 - Compliance Staff Operating Costs	0.00	69,230	0	0	69,230	0.00	69,590	0	0	69,590
DP 804 - Increase in Contract Costs for CAMA System	0.00	65,500	0	0	65,500	0.00	65,500	0	0	65,500
Total Other Present Law Adjustments	0.00	\$219,486	\$0	\$0	\$219,486	0.00	\$227,749	\$0	\$0	\$227,749
Grand Total All Present Law Adjustments					\$2,080,314					\$2,137,872

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 801 - Request for Leased Vehicles - An increase of \$177,415 general fund for the biennium is requested to lease an additional 21 vehicles from the State Motor Pool. Currently the department has 83 owned vehicles and 74 vehicles leased from the State Motor Pool. As a part of this request, the department would dispose of 21 of the agency owned vehicles, all of which would have been operated in excess of 100,000 miles at the time of replacement. Program personnel use the vehicles to perform field inspections, property appraisals, audits of in-state taxpayers, and for travel to training and meetings.

DP 803 - Compliance Staff Operating Costs - An increase of nearly \$139,000 general fund for the biennium is requested for operating costs associated with 10.00 FTE compliance staff added during the August 2002 Special Session. Since the August 2002 Special Session occurred after the base year was completed the operating costs for these positions are not in the base. The operating costs are for audit related travel, rent, computer and telephone connection costs, and supplies.

**LFD
ISSUE**
Results from New Positions

As with present law decision package 604 for the Customer Service Center, the staff were added in the Senate as an amendment to HB 2 during the August 2002 Special Session. The basis for adding the staff was that the staff would result in additional audit related revenue to the general fund. The legislature may wish to establish similar criteria and periodic reporting requirements for the staff added to this program as it does for the new staff in the Customer Service Center.

DP 804 - Increase in Contract Costs for CAMA System - An increase of \$131,000 general fund for the biennium is requested for cost increases to maintain the Computer Assisted Mass Appraisal System (CAMAS). The recent enhancements to CAMAS were made to support the recently completed property reappraisal cycle. The vendor supported maintenance costs for this proprietary software will increase by \$65,500 per year.

**LFD
ISSUE**
Indirect Cost of POINTS

CAMAS is a computerized management system operated by the department to administer property appraisals. A new property tax module of the Process Oriented Integrated System (POINTS) would have replaced this system during POINTS development. However, project delays and contract issues contributed to a decision by the department to postpone the development of the property tax module and request a \$219,100 general fund supplemental appropriation from the 2001 legislature to upgrade CAMAS. CAMAS was upgraded and used during the most recent property reappraisal cycle. It is this upgrade that has triggered the increased maintenance costs that are driving this request. Had the POINTS project been completed on schedule, upgrades to this system would not have been need and costs to upgrade and maintain this system could have been avoided.

The legislature may wish to consider the following factors when evaluating this decision package:

- Four years of increased support costs for CAMAS maintenance will exceed the costs that funded the system upgrades that are driving these higher maintenance costs
- The current reappraisal cycle for property within classes three, four, and ten is every six years
- The department has recently completed a reappraisal cycle (statutory deadline January 1, 2003)
- The department is recommending funding reductions to eliminate funding for 13.00 FTE over the biennium that would develop market and income models for the next reappraisal cycle

In light of these factors, the legislature may wish to ask the department for a cost/benefit comparison between maintaining CAMAS and only upgrading the system prior to the next property reappraisal cycle.

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 805 - Eliminate Participation in External Organizations										
08	0.00	(12,600)	0	0	(12,600)	0.00	(12,600)	0	0	(12,600)
DP 806 - Reduction of Computer Replacements										
08	0.00	(140,000)	0	0	(140,000)	0.00	(140,000)	0	0	(140,000)
DP 807 - Eliminate MOU with Yellowstone County										
08	0.00	(14,000)	0	0	(14,000)	0.00	(14,000)	0	0	(14,000)
DP 808 - Reduction of Property Tax Services										
08	(9.50)	(406,791)	0	0	(406,791)	(13.00)	(531,695)	0	0	(531,695)
DP 809 - Discontinuing POINTS Phase II										
08	(3.00)	(176,391)	0	0	(176,391)	(3.00)	(210,068)	0	0	(210,068)
DP 8002 - Field Office Rent (Requires Legislation)										
08	0.00	177,983	0	0	177,983	0.00	207,550	0	0	207,550
Total	(12.50)	(\$571,799)	\$0	\$0	(\$571,799)	(16.00)	(\$700,813)	\$0	\$0	(\$700,813)

New Proposals

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

DP 805 - Eliminate Participation in External Organizations - The executive recommends a reduction of \$25,200 general fund for the biennium to eliminate payment of dues to the Federation of Tax Administrators (FTA).

DP 806 - Reduction of Computer Replacements - The executive recommends a reduction of \$280,000 general fund for the biennium by reducing personal computer and related hardware purchases.

DP 807 - Eliminate MOU with Yellowstone County - A reduction of \$28,000 general fund for the biennium is recommended to discontinue the memorandum of understanding between the department and Yellowstone County for startup costs related to the Geographic Information System. In the future the department will provide in-kind services rather than cash payment to Yellowstone County for work on the system. This adjustment continues a reduction that occurred in fiscal 2003 as part of the Governor's 17-7-140, MCA, reduction plan.

DP 808 - Reduction of Property Tax Services - A reduction of \$938,486 general fund for the biennium is recommended to eliminate funding for 9.50 FTE in fiscal 2004 and an additional 3.50 FTE in fiscal 2005, and operating expenses for payment of a service agreement to the Information Technology Services Division (ITSD) of the Department of Administration for geographic information system (GIS) support. This adjustment would eliminate positions that perform the following functions associated with the department's annual appraisal work:

- o Regional lead (1.00 FTE)
- o Industrial appraiser (1.00 FTE)
- o Appraisal specialist (3.00 FTE)
- o Property valuation specialist (1.00 FTE)
- o Appraisers (7.00 FTE)

This adjustment includes elimination of \$91,000 for payments to ITSD for GIS cadastral application and database support services.

**LFD
ISSUE****Impacts on Statutory Duties**

In an effort to meet general fund budget reductions imposed by the Governor's budget office, the department proposed this reduction of property tax services. According to the department, this reduction in staff and operational expenses would reduce property tax staffing levels to the lowest levels in the last ten years and would impact the department's ability to complete annual appraisal work and provide future reappraisals. The staff reductions associated with this adjustment would curtail many of the key reappraisal activities associated with market model and income model development.

The most recent statutory reappraisal would be completed by the beginning of the 2005 biennium. The next reappraisal of classes three, four, and ten properties isn't due until January 1, 2009. Because of the six-year reappraisal cycle, this staff reduction would not have the adverse impacts on the department as it would have in other biennia coinciding with a reappraisal cycle.

The legislature may wish to have the department present a plan for achieving its statutory appraisal and reappraisal duties with the reduced level of staff that would result from this reduction. The legislature may also wish to have the department identify the impacts this reduction would have on the abilities of the department to provide appraisal services with the reduced staffing levels, such as delays and impacts to local governments.

DP 809 - Discontinuing POINTS Phase II - A reduction of \$386,459 general fund for the biennium is recommended as a result of discontinuing development work on POINTS II. The reduction includes a reduction of \$168,180 to eliminate funding for 3.00 FTE who tested system changes in support of POINTS development. With this reduction 3.00 FTE would remain to test future system changes and defect remediation associated with POINTS I maintenance. The reduction would also reduce rent by \$218,280 when agency personnel who are currently housed in the old Helena National Guard armory building are relocated to available space at the liquor warehouse or other available space as the system development team is dismantled.

DP 8002 - Field Office Rent (Requires Legislation) - An increase of \$385,533 general fund for the biennium is requested for increases to rent payments made for space department staff occupy outside of Helena. For staff working outside of Helena, the department pays rent for county building office space and private office space where county space is not available.

**LFD
COMMENT****Fiscal 2003 Rent Rate Low Due to Subsidy**

State law 15-8-102, MCA, allows county commissioners to charge rent for space provided to Department of Revenue personnel in county buildings. This statute limits the rate for the rent payments to the level the Department of Administration (DOA) charges state agencies for space in state buildings. The department has stated they developed their request based on the assumption that the legislature would amend 15-8-102, MCA, through legislation expected to be introduced during the legislative session to freeze the rate counties can charge the department for rent in county buildings at the fiscal 2003 amount of \$4.881 per square foot per month.

When the 2001 legislature approved the 2003 biennium rental rates for DOA the rental rates were subsidized by \$1.87 million Capitol Land Grant Trust funds for the 2003 biennium. This subsidy resulted in the per square foot rental rates being artificially below the amounts DOA would have charged without the use of Capitol Land Grant Trust funds. For the 2005 biennium, DOA is requesting rental rates that are \$1.43 per square foot per month higher in fiscal 2004 and \$1.66 per square foot per month higher in fiscal 2005 than the fiscal 2003 rate that would establish as the rental rates for department use of county office space. If the legislation passes, the rate counties would be allowed to charge the department for rent would be lower than that charged to other state agencies. However, the department would be fully funded for rent payments. On the other hand, if the legislation doesn't pass and assuming the legislature approves the DOA rental rates as currently requested, counties could charge the same rent as DOA charges for state buildings. If this happens, the department would be under-funded for rent paid to counties. The department estimates that the funding deficit would be \$136,720 for the 2005 biennium.