Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	609.53	(9.45)	12.00	612.08	(9.50)	12.00	612.03	612.03
Personal Services	24,716,824	(688,939)	960,000	24,987,885	(586,864)	0	24,129,960	49,117,845
Operating Expenses	9,381,179	3,866,110	3,150,000	16,397,289	2,433,987	2,750,000	14,565,166	30,962,455
Equipment	93,986	0	40,000	133,986	0	0	93,986	227,972
Transfers	0	0	0	0	0	0	0	0
Debt Service	2,452	16,000,000	0	16,002,452	0	0	2,452	16,004,904
Total Costs	**$34,194,441**	**$19,177,171**	**$4,150,000**	**$57,521,612**	**$1,847,123**	**$2,750,000**	**$38,791,564**	**$96,313,176**
General Fund	29,279,359	21,056,482	4,150,000	54,485,841	3,714,199	2,750,000	35,743,558	90,229,399
State/Other Special	549,014	72,907	0	621,921	83,316	0	632,330	1,254,251
Federal Special	2,362,285	(2,063,864)	0	298,421	(2,060,783)	0	301,502	599,923
Proprietary	2,003,783	111,646	0	2,115,429	110,391	0	2,114,174	4,229,603
Total Funds	**$34,194,441**	**$19,177,171**	**$4,150,000**	**$57,521,612**	**$1,847,123**	**$2,750,000**	**$38,791,564**	**$96,313,176**

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 composed of six divisions with overall agency direction and management coordinated from the Director's Office.

Agency Highlights

Department of Revenue
Major Budget Highlights

- Total fund budget would increase through adjustments totaling $27.9 million for the biennium over the base (average annual increases of 41 percent)
- General fund budget would increase through adjustments totaling $31.7 million for the biennium over the base (average annual increases of 54 percent)
- Federal special revenue budget would decrease by $4.1 million for the biennium from the base (average annual reductions of 87 percent) due primarily to the movement of the Unemployment Insurance tax collections function to the Department of Labor and Industry
- Significant budget increases for general fund are for:
  - Payoff of IRIS computer system loan ($16 million)
  - Development of a new property tax system ($5.5 million)
  - Replace the remainder of POINTS ($4 million)
  - Statewide present law adjustments ($1.8 million)
  - IRIS operating costs ($1.6 million)
  - Development of an agricultural and forest land classification and valuation system ($1.4 million)
  - Replacement of federal funds due to transferring the Unemployment Insurance tax collection function to the Department of Labor and Industry ($1.4 million)
  - Increases in field office rent payments to local governments and private landlords ($777,000)
- Statewide FTE reduction would eliminate 9.50 FTE by the end of the biennium and reduce general fund by $871,316

Agency Discussion

Adjustments Common Across the Department

Two adjustments appear in most programs of the department: 1) replacement of federal funds lost when the unemployment insurance (UI) tax collection function was transferred to the Department of Labor and Industry (DOLI); and 2) statewide FTE reduction.

Replacement of Federal Funds – UI Transfer

The 2003 Legislature passed SB 271, which directed the development of a replacement system for the Process Oriented Integrated Tax System (POINTS) and the transfer of the UI tax collection function from the department to DOLI. The department transferred 30.00 FTE to DOLI when it transferred the function. The FTE transferred to DOLI were organized as component functions in three programs:

- 1.00 FTE in the Director's Office
- 10.00 FTE in the Customer Service Center
- 21.00 FTE in the Business and Income Tax Division

Overall, the reduction of the UI FTE represented a reduction of 4.6 percent of the agency FTE for FY 2004.

When the department collected UI taxes, some administrative costs for human resources, accounting, information technology, and administrative support were funded with federal UI funds that are moved to DOLI in the 2007 biennium. Consequently, the percentage of federal funds supporting the department are reduced and general fund is increased. Figure 1 shows the funding percentage for the department as it existed before the UI function was moved to the department, just after it was moved to the department, just prior to moving it back to DOLI, and as it would exist if the legislature approved the proposed budget for FY 2006, including statewide present law adjustments and funding switch adjustments, but without other present law or new proposal adjustments. In FY 1998, prior to moving UI to the department, federal special revenue was $713,176, and in FY 2006, after removing UI funds, federal special would be $298,421. Figure 1 shows that the funding percentage between general fund and federal funds would return to roughly the same levels they were prior to moving the UI function to the department.

Figure 1
Department of Revenue
Unemployment Insurance Tax Collections
Funding Percentages

	General Fund	Federal Special Revenue	Other	
FY 1998 before moving UI to DOR	96%	3%	1%	
FY 1998 after moving UI to DOR	92%	7%	1%	
FY 2004 base	91%	7%	2%	Note 1
FY 2006 base, statewide adjustments, funding switches	97%	1%	2%	Note 1

Note 1: Budgeted Liquor Division proprietary funds are not included in total budget for FY 2006 or FY 2006 to provide consistancy with FY 1998 budgeting of proprietary

With the UI tax collection function moved to DOLI, federal UI funding is no longer available to the department. Even without the UI tax collection function, administrative functions that supported the FTE and programs in which the UI collection function resided will still remain, although at a slightly reduced level. The executive has requested to backfill 80 percent of the lost federal funds with general fund primarily due to losses of economies of scale in the provision of the centralized services. Figure 2 summarizes the adjustments contained in decision packages that are requested to make the adjustment. (Not included in Figure 2 are reductions of federal special revenue included in statewide present law adjustments for two programs and discussed in the program narratives, because the direct relationships with general fund increases are not available.)

Figure 2
Department of Revenue
Replacement of Federal Funds - UI Transfer

		2007 Biennium Total		
	DP Number	General Fund	Federal Funds	Total Funds
01 - Director's Office	101	$240,960	($240,960)	$0
02 - Information Technology	201	430,980	(430,980)	0
05 - Resource Management	501	213,354	(213,354)	0
06 - Customer Service Center	601	377,756	(479,908)	(102,152)
07 - Business and Income Tax Division	701	135,056	(499,838)	(364,782)
08 - Property Assessment Division	N/A	0	0	0
Department Total		$1,398,106	($1,865,040)	($466,934)

Statewide FTE Reduction

The 2003 Legislature imposed an additional vacancy saving on top of the 4.0 percent vacancy savings rate applied to all positions. The additional vacancy savings averaged 1.5 percent for all agencies excluding the university system units, and was imposed on positions funded with general fund. For the Department of Revenue, the additional vacancy savings was 1.6 percent or $871,296 for the 2005 biennium. In developing the budget for the 2007 biennium, the executive has reduced positions and therefore general fund by the equivalent of the additional vacancy savings imposed for the 2005 biennium. Figure 3 summarizes the statewide FTE reduction adjustments for all programs of the department. By the end of the 2007 biennium, 9.50 FTE would be eliminated as a result of the statewide FTE reduction. Refer to the decision package descriptions in the respective programs for details on the positions that would be eliminated in the department or Volume 1, Legislative Budget Analysis 2007 Biennium for a discussion of the statewide impacts of the adjustments.

Figure 3
Department of Revenue
Statewide FTE Reduction

		2007 Biennium Total			
	DP Number	General Fund	Total Funds	FY 2006 FTE	FY 2007 FTE
01 - Director's Office	104	$ (127,469)	$ (127,469)	(1.00)	(1.00)
02 - Information Technology	203	(176,589)	(176,589)	(2.00)	(2.00)
05 - Resource Management	505	(127,429)	(127,429)	(1.00)	(1.00)
06 - Customer Service Center	602	(55,004)	(55,004)	(1.00)	(1.00)
07 - Business and Income Tax Division	703	(97,205)	(97,205)	(1.30)	(1.35)
08 - Property Assessment Division	803	(287,622)	(287,622)	(3.15)	(3.15)
Department Total		$ (871,318)	$ (871,318)	(9.45)	(9.50)

IRIS

SB 271 of the 2003 Legislature directed the development of a replacement system for POINTS. A replacement system, the integrated revenue information system (IRIS), has been developed and implemented to administer rental vehicle taxes, cigarette taxes, individual income withholding taxes, oil and gas production taxes, and lodging facilities use taxes. A second phase of the project is underway and is expected to be completed prior to the beginning of the 2005 session to administer corporation license and individual income taxes. After the modules of IRIS to administer corporation license and individual income taxes are implemented, all funding authorized in SB 271 will be depleted. Additional funding would be required to complete the replacement of POINTS, as directed by SB 271.

Figure 4 summarizes the funding requested for continued development and operation of IRIS. The requests are discussed in more detail in the program narratives. Figure 4 includes funding for costs associated with development activities in both the 2005 and 2007 biennia. The figure also includes costs for replacing the property tax system. The property tax system will interface with the IRIS, but will not be a direct component. When the legislature first funded POINTS, it included funding to include a property tax component. POINTS failures that led to the legislature directing its replacement effectively eliminated the property tax system from the POINTS discussion. However, since it was first envisioned as being a part of an integrated tax system for the state, and since the property tax system would interface with IRIS as part of an integrated system, the funding for the property tax system replacement is included in Figure 4.

Figure 4
Department of Revenue
Integrated Revenue Information System Funding
2007 Biennium
(in Millions)

	General Fund	Capital Projects Fund	Total Funds
DP 105 - Pay off the IRIS computer system loan	$16.0		$16.0
DP 106 - Replace the remainder of the POINTS system	4.0		4.0
Language appropriation - SB 271 (2003 Legislature), Section 11(2)		3.0	3.0
Language appropriation - SB 271 (2003 Legislature), Section 12(1)	2.3		2.3
DP 202 - IRIS operating costs	1.6		1.6
DP 804 – Property tax computer system	5.5		5.5
Total adjustments for IRIS	$29.4	$3.0	$32.4

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.

Total Agency Funding
2007 Biennium Executive Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Director'S Office	$ 24,325,936	$ -	$ 800	$ 54,664	$ 24,381,400	25%
02 Information Technology	7,168,073	-	-	136,660	$ 7,304,733	8%
05 Resource Management	1,980,965	-	-	2,469,029	$ 4,449,994	5%
06 Customer Service Center	9,091,847	848,776	184,800	1,569,250	$ 11,694,673	12%
07 Business And Income Taxes Division	10,203,678	305,475	414,323	-	$ 10,923,476	11%
08 Property Assessment Division	37,458,900	100,000	-	-	$ 37,558,900	39%
Grand Total	$ 90,229,399	$ 1,254,251	$ 599,923	$ 4,229,603	$ 96,313,176	100%

Biennium Budget Comparison
The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	600.08	12.00	612.08	600.03	12.00	612.03	609.53	612.03
Personal Services	24,027,885	960,000	24,987,885	24,129,960	0	24,129,960	48,334,893	49,117,845
Operating Expenses	13,247,289	3,150,000	16,397,289	11,815,166	2,750,000	14,565,166	17,474,055	30,962,455
Equipment	93,986	40,000	133,986	93,986	0	93,986	167,374	227,972
Transfers	0	0	0	0	0	0	0	0
Debt Service	16,002,452	0	16,002,452	2,452	0	2,452	8,827	16,004,904
Total Costs	$53,371,612	$4,150,000	$57,521,612	$36,041,564	$2,750,000	$38,791,564	$65,985,149	$96,313,176
General Fund	50,335,841	4,150,000	54,485,841	32,993,558	2,750,000	35,743,558	56,348,979	90,229,399
State/Other Special	621,921	0	621,921	632,330	0	632,330	1,102,177	1,254,251
Federal Special	298,421	0	298,421	301,502	0	301,502	4,546,758	599,923
Proprietary	2,115,429	0	2,115,429	2,114,174	0	2,114,174	3,987,235	4,229,603
Total Funds	$53,371,612	$4,150,000	$57,521,612	$36,041,564	$2,750,000	$38,791,564	$65,985,149	$96,313,176

Reorganizations
In FY 2004, the Department of Revenue reorganized the Compliance Valuation and Resolution Program into two programs. The new programs are the Business and Income Taxes Division and the Property Assessment Division. This reorganization was completed to improve the effectiveness and efficiencies of each of the individual programs by aligning the organizational structures with the functions served. The functions of the programs are discussed further in each program section that follows.

New Proposals
The “New Proposal” table 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	Fiscal 2006					Fiscal 2007				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 804 - Property Tax Computer System										
08	0.00	2,750,000	0	0	2,750,000	0.00	2,750,000	0	0	2,750,000
DP 805 - Agricultural/Forest Land Classification System										
08	12.00	1,400,000	0	0	1,400,000	12.00	0	0	0	0
Total	**12.00**	**$4,150,000**	**$0**	**$0**	**$4,150,000**	**12.00**	**$2,750,000**	**$0**	**$0**	**$2,750,000**

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	29.00	(1.00)	0.00	28.00	(1.00)	0.00	28.00	28.00
Personal Services	1,657,995	(111,183)	0	1,546,812	(110,683)	0	1,547,312	3,094,124
Operating Expenses	670,634	3,058,951	0	3,729,585	887,057	0	1,557,691	5,287,276
Equipment	0	0	0	0	0	0	0	0
Debt Service	0	16,000,000	0	16,000,000	0	0	0	16,000,000
Total Costs	**$2,328,629**	**$18,947,768**	**$0**	**$21,276,397**	**$776,374**	**$0**	**$3,105,003**	**$24,381,400**
General Fund	2,177,182	19,071,083	0	21,248,265	900,489	0	3,077,671	24,325,936
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	121,280	(120,480)	0	800	(121,280)	0	0	800
Proprietary	30,167	(2,835)	0	27,332	(2,835)	0	27,332	54,664
Total Funds	**$2,328,629**	**$18,947,768**	**$0**	**$21,276,397**	**$776,374**	**$0**	**$3,105,003**	**$24,381,400**

Program Description

The Director's Office supports the agency's director and is composed of six work units that provide the following functions:

- Supervises the overall legal efforts of the department, includes reviewing administrative rules and policies and supporting the Office of Dispute Resolution
- Provides research and analysis of state revenue legislation and legislative proposals affecting the department, and department economic data analysis
- Consolidates the department budget
- Provides department communication activities, including information dissemination, media relations, document editing, stakeholder relations, website maintenance, public involvement, and special events
- Provides information and analysis of the adequacy and the effectiveness of department systems of internal controls, operational quality control, and compliance with established standards and management expectations
- Provides administrative support for all units in the Director's Office including, preparing for legislative committees, transcribing legal hearings, editing correspondence, and finalizing mass mailings

Program Highlights

Department of Revenue
Director's Office
Major Budget Highlights

- General fund budget would increase through adjustments totaling nearly $20 million for the biennium over the base (average annual increases of 4.6 times the base expenditure of $2.2 million)
- Federal special revenue budget would decrease to less than $1,000 from a base of $121,000, due to the movement of the Unemployment Insurance tax collections function to the Department of Labor and Industry
- Significant budget increases for general fund are for:
    - Payoff of IRIS computer system loan ($16 million)
    - Replace the remainder of POINTS ($4 million)
    - Replacement of federal funds due to transferring the Unemployment Insurance tax collection function to the Department of Labor and Industry ($241,000)

- Statewide FTE reduction would eliminate 1.00 FTE by the end of the biennium and reduce general fund by $127,469

Funding
The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table
Director'S Office

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	$ 2,177,182	93.5%	$ 21,248,265	99.9%	$ 3,077,671	99.1%
03928 Royalty Audit - Nrct	800	0.0%	800	0.0%	-	-
03954 Ui Administrative Grants	120,480	5.2%	-	-	-	-
06005 Liquor Division	30,167	1.3%	27,332	0.1%	27,332	0.9%
Grand Total	$ 2,328,629	100.0%	$ 21,276,397	100.0%	$ 3,105,003	100.0%

Funding for the program comes primarily from the general fund. For the 2005 biennium, 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. With the transfer of the unemployment insurance collections function to the Department of Labor and Industry, the federal unemployment insurance funds will no longer be available for program funding in the 2007 biennium. The remaining federal funds are from an allocation of funds in support of the mineral royalty audits.

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

Present Law Adjustments

	Fiscal 2006 FTE	Fiscal 2006 General Fund	Fiscal 2006 State Special	Fiscal 2006 Federal Special	Fiscal 2006 Total Funds	Fiscal 2007 FTE	Fiscal 2007 General Fund	Fiscal 2007 State Special	Fiscal 2007 Federal Special	Fiscal 2007 Total Funds
Personal Services					19,751					20,083
Vacancy Savings					(67,108)					(67,123)
Inflation/Deflation					(425)					(423)
Fixed Costs					59,376					(112,520)
Total Statewide Present Law Adjustments					$11,594					($159,983)
DP 101 - Replacement of Federal Funds - UI Transfer	0.00	120,480	0	(120,480)	0	0.00	120,480	0	(120,480)	0
DP 104 - Statewide FTE Reduction	(1.00)	(63,826)	0	0	(63,826)	(1.00)	(63,643)	0	0	(63,643)
DP 105 - Pay Off the IRIS Computer System Loan	0.00	16,000,000	0	0	16,000,000	0.00	0	0	0	0
DP 106 - Replace the Remainder of the POINTS System	0.00	3,000,000	0	0	3,000,000	0.00	1,000,000	0	0	1,000,000
Total Other Present Law Adjustments	**(1.00)**	**$19,056,654**	**$0**	**($120,480)**	**$18,936,174**	**(1.00)**	**$1,056,837**	**$0**	**($120,480)**	**$936,357**
Grand Total All Present Law Adjustments					$18,947,768					$776,374

DP 101 - Replacement of Federal Funds - UI Transfer - Due to the transfer of the unemployment insurance collections function to the Department of Labor and Industry and the associated loss of federal funds previously used to fund a portion of department administrative costs, the executive requests a reduction of $240,960 federal special revenue and an increase of $240,960 general fund for the biennium to replace the lost federal funds. This adjustment has no impact on the level of total funds for the biennium.

DP 104 - Statewide FTE Reduction - A reduction of $127,469 general fund for the biennium is requested to permanently eliminate 1.00 FTE from the program. The reduction continues the additional 1.6 percent vacancy savings on general fund positions imposed on the department by the 2003 Legislature as a budget balancing measure. The position that would be eliminated for this reduction is the internal quality assurance manager. The position evaluates department processes, recommends process improvements, and assists division personnel in implementing changes.

LFD COMMENT

Elimination of Internal Quality Assurance Manager - Elimination of the internal quality assurance manager would eliminate the entire function of a dedicated FTE to evaluate agency practices. The department would then rely on activities incidental to program management and operation for providing process improvements.

DP 105 - Pay Off the IRIS Computer System Loan - An increase of $16.0 million general fund for FY 2006 is recommended to pay off the loan from the Board of Investments used to fund the Integrated Revenue Information System (IRIS), developed to replace the Process Oriented Integrated Tax System (POINTS). As a result of repaying the loan, the department would be reducing approximately $3.0 million per year in payments for the next 5.5 years. The reduction of these payments would eliminate the assessment against personal income tax revenue and would restore $3.0 million revenue to the general fund each year. The executive recommends the legislature designate the appropriation for this purpose as one-time-only.

LFD ISSUE

Impacts on Montana Law - If the legislature approves this request to pay off the loan for developing IRIS, 15,1-501(5), MCA, would need to be amended to eliminate the requirement to deposit the administrative assessment proceeds, and 15-1-141, MCA would no longer be needed to make the administrative assessment that funds debt service on the loan used to fund IRIS development in the 2005 biennium. The executive is proposing legislation to amend 15-1-501, MCA, but because of the timing, legislation is not included in the list of pre-introduced legislation, so no legislation number is available for reference.

DP 106 - Replace the Remainder of the POINTS System - An increase of $4.0 million general fund for biennium is recommended to shut down the POINTS system. This funding would allow the department to contract for the implementation of the remaining tax types including: consumer counsel, contractor gross receipts, electrical energy, metal mines, nursing facility beds, public service regulation, resource indemnity, retail communication excise, wholesale energy transaction, 911, abandoned property, coal gross proceeds, coal severance, other tobacco products, telephone device for the deaf (TDD), and liquor (beer, wine, and hard cider). The executive recommends the legislature designate the appropriation for this purpose as one-time-only and biennial.

LFD ISSUE

Contingency Funding - The Montana Information Technology Act requires approval of information technology (IT) purchases by the state's chief information officer (CIO). In approving purchase of IT, agencies are required to submit an information technology procurement request (ITPR) for approval by the CIO. The legislature may want to restrict the funding for continuation of POINTS replacement for that purpose and consider making the funding contingent upon the department submitting and obtaining approval of an ITPR for the project. The CIO could certify to the Office of Budget and Program Planning and the Legislative Finance Committee that an ITPR has been completed to validate the contingency requirement.

Language

The executive recommends the following language for the Director's Office:

"Any funds remaining from the appropriation authorized in Section 11(2), Chapter 597, Laws of 2003 are reappropriated to the Department of Revenue for the 2007 biennium for the stated purpose."

LFD ISSUE

More Appropriate Language – Capital Projects Fund

Section 11, Chapter 597, Laws of 2003, (SB 271) directed that proceeds of a loan from the Board of Investments to fund the replacement of the Process Oriented Integrated Tax System (POINTS) be deposited in the capital projects fund. SB 271 appropriated up to $17 million of the capital projects fund to the Department of Administration (DOA) for replacing POINTS and specified that no funds could be expended after June 30, 2005 without legislative appropriation. The language appropriation requested by the executive would make that appropriation of all remaining funds. In addition, the appropriation would be made to the Department of Revenue (DOR) instead of the DOA. No concerns are raised with appropriating the remaining funds to DOR instead of DOA. Funds appropriated in language will not carry forward into the base for the 2009 budget. However, to make the language appropriation more consistent with legislative policies for drafting HB 2 language, a few style changes are recommended, as is insertion of a limit for the appropriation. As such, the following replacement language is recommended:

"Any funds remaining, up to $6,100,000, from the appropriation authorized in section 11(2), Chapter 597, Laws of 2003, are reappropriated to the department for the 2007 biennium for the stated purpose."

"Any funds remaining from the appropriation authorized in section 12(1), Chapter 597, Laws of 2003 are reappropriated to the Department of Revenue for the 2007 biennium for the stated purpose."

LFD ISSUE

More Appropriate Language – Transition Costs

Section 12(1), Chapter 597, Laws of 2003, (SB 271) appropriated $2,391,385 general fund for the 2005 biennium to the Department of Revenue for expenses necessary to ensure the smooth transition of existing POINTS data and systems to the replacement system. SB 271 directed the department to replace all of POINTS. POINTS replacement activities during the 2005 biennium have only replaced a portion of POINTS. SB 271 further restricted that no funds appropriated for the 2005 biennium may be expended after June 30, 2005, unless appropriated by the 2005 Legislature. The executive has requested funding to replace the remaining portions of POINTS. The above language would fund transition expenses for the remaining POINTS replacement. No concerns are raised with appropriating the remaining funds. Funds appropriate in language will not carry forward into the base for the 2009 budget. However, to make the language appropriation more consistent with legislative policies for drafting HB 2 language, a few style changes are recommended, as is insertion of a limit for the appropriation. As of the writing of the Legislative Budget Analysis 2007 Biennium, $92,463 has been expended from the section 12(1) appropriation. As such, the following replacement language is recommended:

"Any funds remaining, up to $1,600,000, from the appropriation authorized in section 11(2), Chapter 597, Laws of 2003, are reappropriated to the department for the 2007 biennium for the stated purpose."

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	31.00	(2.00)	0.00	29.00	(2.00)	0.00	29.00	29.00
Personal Services	1,410,743	142,308	0	1,553,051	141,571	0	1,552,314	3,105,365
Operating Expenses	1,394,083	379,993	0	1,774,076	1,019,833	0	2,413,916	4,187,992
Equipment	5,688	0	0	5,688	0	0	5,688	11,376
Total Costs	**$2,810,514**	**$522,301**	**$0**	**$3,332,815**	**$1,161,404**	**$0**	**$3,971,918**	**$7,304,733**
General Fund	2,530,552	733,933	0	3,264,485	1,373,036	0	3,903,588	7,168,073
Federal Special	215,490	(215,490)	0	0	(215,490)	0	0	0
Proprietary	64,472	3,858	0	68,330	3,858	0	68,330	136,660
Total Funds	**$2,810,514**	**$522,301**	**$0**	**$3,332,815**	**$1,161,404**	**$0**	**$3,971,918**	**$7,304,733**

Program Description

The Information Technology Division provides data, application, and technology support for department computer users. The division plans, coordinates, delivers, and controls information resources for the department. The division manages all computing services provided to the department, including integrating and managing desktop, mid-tier, and mainframe applications as well as network support services.

Program Highlights

Department of Revenue
Information Technology Division
Major Budget Highlights

- General fund budget would increase through adjustments totaling $2.1 million for the biennium over the base (average annual increases of 41.6 percent)
- Federal special revenue budget would be completely eliminated due to the movement of the Unemployment Insurance tax collections function to the Department of Labor and Industry
- Significant budget increases for general fund are for:
    - IRIS operating costs ($1.6 million)
    - Replacement of federal funds due to transferring the Unemployment Insurance tax collection function to the Department of Labor and Industry ($431,000)
    - Statewide present law adjustments ($230,000)
- Statewide FTE reduction would eliminate 2.00 FTE by the end of the biennium and reduce general fund by $176,589

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table
Information Technology

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	$ 2,530,552	90.0%	$ 3,264,485	97.9%	$ 3,903,588	98.3%
03954 Ui Administrative Grants	215,490	7.7%	-	-	-	-
06005 Liquor Division	64,472	2.3%	68,330	2.1%	68,330	1.7%
Grand Total	$ 2,810,514	100.0%	$ 3,332,815	100.0%	$ 3,971,918	100.0%

The Information Technology Division is funded with general fund, federal special revenue, and proprietary funds. For the 2005 biennium, 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. With the transfer of the unemployment insurance collections function to the Department of Labor and Industry, the federal unemployment insurance funds will no longer be available for program funding in the 2007 biennium and the executive seeks replacement with general fund.

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					299,120					298,095
Vacancy Savings					(68,395)					(68,352)
Inflation/Deflation					(1,813)					(1,807)
Fixed Costs					(109,859)					(109,774)
Total Statewide Present Law Adjustments					$119,053					$118,162
DP 201 - Replacement of Federal Funds - UI Transfer	0.00	215,490	0	(215,490)	0	0.00	215,490	0	(215,490)	0
DP 202 - IRIS Operating Costs	0.00	491,665	0	0	491,665	0.00	1,131,414	0	0	1,131,414
DP 203 - Statewide FTE Reduction	(2.00)	(88,417)	0	0	(88,417)	(2.00)	(88,172)	0	0	(88,172)
Total Other Present Law Adjustments	**(2.00)**	**$618,738**	**$0**	**($215,490)**	**$403,248**	**(2.00)**	**$1,258,732**	**$0**	**($215,490)**	**$1,043,242**
Grand Total All Present Law Adjustments					$522,301					$1,161,404

LFD COMMENT

FY 2004 Vacancy Rate

The statewide adjustment for personal services includes an increase to adjust base expenditures for a 24.6 percent vacancy rate of division staff. The high vacancy rate was the result of two major factors:

- Inability to attract and hire qualified applicants for vacant positions
- Management intentionally delaying hiring replacement staff due to uncertainties with resource needs that would result after POINTS is fully replaced.

DP 201 - Replacement of Federal Funds - UI Transfer - Due to the transfer of unemployment insurance tax collection function to the Department of Labor and Industry and the associated loss of federal funds previously used to fund a portion of department administrative costs, the executive requests a reduction of $430,980 federal special revenue and an increase of $430,980 general fund for the biennium to replace the lost federal funds.

DP 202 - IRIS Operating Costs - The Integrated Revenue Information System (IRIS) was not in place during the base year. An increase of $1.6 million general fund for the biennium is requested to fund on-going operating costs for IRIS. Funding would be used to pay statewide computer network service costs, vendor maintenance and support costs, and additional printing and mailing costs of account receivable statements mailed monthly with the new system.

LFD COMMENT

IRIS Operating Costs - Costs included in the IRIS operating cost request are the net result of reductions for costs associated with current POINTS applications and increases for current and future IRIS costs. Service level agreements for costs impacting state computer systems and networks were based on expected usage. Vendor costs are current costs for implemented portions of IRIS and based on vendor quotations for future portions of IRIS that are either in development or are included in budget requests. Future costs would be expected to increase in the 2009 biennium because base expenditures for the 2009 biennium would not reflect full implementation of IRIS.

DP 203 - Statewide FTE Reduction - A reduction of $176,589 general fund for the biennium is requested to permanently eliminate 2.00 FTE from the program. The reduction continues the additional 1.6 percent vacancy savings on general fund positions imposed on the department by the 2003 Legislature as a budget balancing measure. The positions that would be eliminated for this reduction are for computer programmer analysts.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	37.50	(1.00)	0.00	36.50	(1.00)	0.00	36.50	36.50
Personal Services	1,582,022	98,850	0	1,680,872	98,046	0	1,680,068	3,360,940
Operating Expenses	471,967	16,323	0	488,290	14,555	0	486,522	974,812
Equipment	57,121	0	0	57,121	0	0	57,121	114,242
Transfers	0	0	0	0	0	0	0	0
Total Costs	**$2,111,110**	**$115,173**	**$0**	**$2,226,283**	**$112,601**	**$0**	**$2,223,711**	**$4,449,994**
General Fund	862,809	128,332	0	991,141	127,015	0	989,824	1,980,965
Federal Special	106,677	(106,677)	0	0	(106,677)	0	0	0
Proprietary	1,141,624	93,518	0	1,235,142	92,263	0	1,233,887	2,469,029
Total Funds	**$2,111,110**	**$115,173**	**$0**	**$2,226,283**	**$112,601**	**$0**	**$2,223,711**	**$4,449,994**

Program Description

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

Program Highlights

Department of Revenue
Resource Management Division
Major Budget Highlights

- General fund budget would increase through adjustments totaling about $255,000 for the biennium over the base (average annual increases of 14.8 percent)
- Federal special revenue budget would be completely eliminated due to the movement of the Unemployment Insurance tax collections function to the Department of Labor and Industry
- Proprietary fund budget increases through adjustments totaling nearly $186,000 million for the biennium over the base (average annual increases of 8 percent) due to statewide present law adjustments
- Significant budget increases for general fund are for:
    - Replacement of federal funds due to transferring the Unemployment Insurance tax collection function to the Department of Labor and Industry ($213,000)
    - Statewide present law adjustment ($169,000)
- Statewide FTE reduction would eliminate 1.00 FTE by the end of the biennium and reduce general fund by $127,469

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table
Resource Management

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	$ 862,809	40.9%	$ 991,141	44.5%	$ 989,824	44.5%
03954 Ui Administrative Grants	106,677	5.1%	-	-	-	-
06005 Liquor Division	1,141,624	54.1%	1,235,142	55.5%	1,233,887	55.5%
Grand Total	$ 2,111,110	100.0%	$ 2,226,283	100.0%	$ 2,223,711	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. With the transfer of the unemployment insurance collections function to the Department of Labor and Industry, the federal unemployment insurance funds will no longer be available for program funding in the 2007 biennium.

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

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

Present Law Adjustments	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					235,351					234,323
Vacancy Savings					(72,694)					(72,655)
Inflation/Deflation					1,188					(592)
Fixed Costs					15,135					15,147
Total Statewide Present Law Adjustments					$178,980					$176,223
DP 501 - Replacement of Federal Funds - UI Transfer	0.00	106,677	0	(106,677)	0	0.00	106,677	0	(106,677)	0
DP 505 - Statewide FTE Reduction	(1.00)	(63,807)	0	0	(63,807)	(1.00)	(63,622)	0	0	(63,622)
Total Other Present Law Adjustments	**(1.00)**	**$42,870**	**$0**	**($106,677)**	**($63,807)**	**(1.00)**	**$43,055**	**$0**	**($106,677)**	**($63,622)**
Grand Total All Present Law Adjustments					$115,173					$112,601

DP 501 - Replacement of Federal Funds - UI Transfer - Due to the transfer of unemployment insurance collections function to the Department of Labor and Industry and the associated loss of federal funds previously used to fund a portion of department administrative costs, the executive requests a reduction of $213,354 federal special revenue and an increase of $213,354 general fund for the biennium to replace the lost federal funds.

DP 505 - Statewide FTE Reduction - A reduction of $127,429 general fund for the biennium is requested to permanently eliminate 1.00 FTE from the program. The reduction continues the additional 1.6 percent vacancy savings on general fund positions imposed on the department by the 2003 Legislature as a budget balancing measure. The program would eliminate a bureau chief position.

Language

The executive recommends the following language for the Resource Management Division:

"Liquor division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profit and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in amounts not to exceed $78,766,985 in fiscal year 2006 and $83,497,337 in fiscal year 2007."

"In the event the department is unable to meet statutory service levels because of 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 2006 and in fiscal year 2007, the department is appropriated not more than $40,000 each year for additional costs from the liquor enterprise fund (06005) to meet the service level requirements."

"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 2006 and 2007."

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	108.25	(1.00)	0.00	107.25	(1.00)	0.00	107.25	107.25
Personal Services	3,933,401	(441,850)	0	3,491,551	(361,351)	0	3,572,050	7,063,601
Operating Expenses	2,354,053	(55,418)	0	2,298,635	(57,940)	0	2,296,113	4,594,748
Equipment	18,162	0	0	18,162	0	0	18,162	36,324
Total Costs	**$6,305,616**	**($497,268)**	**$0**	**$5,808,348**	**($419,291)**	**$0**	**$5,886,325**	**$11,694,673**
General Fund	4,511,183	(1,301)	0	4,509,882	70,782	0	4,581,965	9,091,847
State/Other Special	359,397	62,044	0	421,441	67,938	0	427,335	848,776
Federal Special	667,516	(575,116)	0	92,400	(575,116)	0	92,400	184,800
Proprietary	767,520	17,105	0	784,625	17,105	0	784,625	1,569,250
Total Funds	**$6,305,616**	**($497,268)**	**$0**	**$5,808,348**	**($419,291)**	**$0**	**$5,886,325**	**$11,694,673**

Program Description

The Customer Service Center 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 center is responsible for electronic commerce, document capture, remittance processing, records management, direct deposit of cash receipts and revenue, and mail distribution. The center provides a single point of contact for debtors and is responsible for delinquent account collection and enforcement activities.

Program Highlights

Department of Revenue
Customer Service Center
Major Budget Highlights

- General fund budget would increase through adjustments totaling $69,500 for the biennium over the base (average annual increases of less than 1 percent)
    - Significant budget increases for general fund are for replacement of federal funds due to transferring the Unemployment Insurance tax collection function to the Department of Labor and Industry ($378,000)
- Federal special revenue budget would decrease by nearly $1.2 million for the biennium from the base (average annual reductions of 86 percent) due to the movement of the Unemployment Insurance tax collections function to the Department of Labor and Industry
- Statewide FTE reduction would eliminate 1.00 FTE by the end of the biennium and reduce general fund by $55,000

Major LFD Issues

- Reduction in seasonal returns processing staff could impact state revenues due to delays in processing tax returns

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table
Customer Service Center

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	$ 4,511,183	71.5%	$ 4,509,882	77.6%	$ 4,581,965	77.8%
02025 Unclaimed Property	162,446	2.6%	167,319	2.9%	172,339	2.9%
02088 One-Stop And New Hire Admin.	164,500	2.6%	225,000	3.9%	225,000	3.8%
02110 Accommodation Tax Admin	27,451	0.4%	29,122	0.5%	29,996	0.5%
02396 Sb354-Restaurnat Beer & Wine	5,000	0.1%	-	-	-	-
03680 New Hire Admin (Federal Share)	92,400	1.5%	92,400	1.6%	92,400	1.6%
03954 Ui Administrative Grants	575,116	9.1%	-	-	-	-
06005 Liquor Division	767,520	12.2%	784,625	13.5%	784,625	13.3%
Grand Total	$ 6,305,616	100.0%	$ 5,808,348	100.0%	$ 5,886,325	100.0%

The Customer Service Center is funded with general fund, state and federal special revenue, and proprietary funds. Liquor Division proprietary funds are 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.

For the 2005 biennium, federal special revenue comes from federal unemployment insurance funds. With the transfer of the unemployment insurance collections function to the Department of Labor and Industry (DOLI), the federal unemployment insurance funds will no longer be available for program funding in the 2007 biennium.

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2006 FTE	Fiscal 2006 General Fund	Fiscal 2006 State Special	Fiscal 2006 Federal Special	Fiscal 2006 Total Funds	Fiscal 2007 FTE	Fiscal 2007 General Fund	Fiscal 2007 State Special	Fiscal 2007 Federal Special	Fiscal 2007 Total Funds
Personal Services					(99,040)					(104,573)
Vacancy Savings					(153,381)					(153,153)
Inflation/Deflation					(40,999)					(40,996)
Fixed Costs					36,657					34,132
Total Statewide Present Law Adjustments					**($256,763)**					**($264,590)**
DP 601 - Replacement of Federal Funds - UI Transfer	0.00	188,878	0	(239,954)	(51,076)	0.00	188,878	0	(239,954)	(51,076)
DP 602 - Statewide FTE Reduction	(1.00)	(27,537)	0	0	(27,537)	(1.00)	(27,467)	0	0	(27,467)
DP 603 - Reductions in Seasonal Returns Processing Staff	0.00	(161,892)	0	0	(161,892)	0.00	(76,158)	0	0	(76,158)
Total Other Present Law Adjustments	**(1.00)**	**($551)**	**$0**	**($239,954)**	**($240,505)**	**(1.00)**	**$85,253**	**$0**	**($239,954)**	**($154,701)**
Grand Total All Present Law Adjustments					($497,268)					($419,291)

LFD COMMENT

Statewide Personal Services Adjustment

The statewide adjustment for personal services shows a decrease from the base. The decrease is due to moving 10.00 FTE from the program to the DOLI when the unemployment insurance (UI) collection function was transferred as directed by SB 271 of the 2003 Legislature. The base includes expenditures for the FTE who were moved at the beginning of FY 2005. Because the positions were funded with federal UI funds, the adjustment reduces federal funds by $670,000 for the biennium without a corresponding increase in general fund.

<u>DP 601 - Replacement of Federal Funds - UI Transfer -</u> Due to the transfer of unemployment insurance collections function back to the Department of Labor and Industry and the associated loss of federal funds previously used to fund a portion of department administrative costs, the executive requests a reduction of $479,908 federal special revenue and an increase of $377,756 general fund for the biennium to replace part of the lost federal funds. The net impact from this adjustment is a $102,152 total fund reduction for the biennium due to the need for less operating expenses such as personal computer equipment, telephone equipment, and office supplies.

<u>DP 602 - Statewide FTE Reduction -</u> A reduction of $55,004 general fund for the biennium is requested to permanently eliminate 1.00 FTE from the program. The reduction continues the additional 1.6 percent vacancy savings on general fund positions imposed on the department by the 2003 Legislature as a budget balancing measure. The position that would be eliminated for this reduction is for a grade 9, collections technician.

LFD ISSUE

Impact of FTE Reduction

The collections technician eliminated in the adjustment provides skip tracing, updates to customer accounts, and other collections related duties for the department. With the elimination of the position, a lower volume of collections would be processed and collections of state funds could be impacted. Average collections for collections clerks are about $460,000 per year per FTE.

<u>DP 603 - Reductions in Seasonal Returns Processing Staff -</u> A reduction of $238,050 general fund for the biennium is recommended to reduce personal services funding for seasonal help in the program. The reduction eliminates all funding for seasonal staffing and would require the program to use existing staff to process returns during peak times.

LFD ISSUE

Impact on State Revenues

The Customer Service Center processes all documents and collections for the department. Processing individual income tax returns of state taxpayers produces a huge spike in the volume of work for the center. Statutory deadlines associated with state and federal income tax policies, as well as human behavior control the timing of the individual income tax processing workload of the center. Processing of individual income tax returns occur in addition to processing for all other state taxes and revenues. Historical workload patterns have shown that the volume of tax returns processed by the center gradually increase from the middle of January through the end of June, with the peak period between April 15 and May 6. During the January to June period, the equivalent of 61 people are added to the staff of the Customer Service Center for an average of 13.8 weeks to process the increased workload of the center. Even with the additional temporary staff, the center historically builds backlogs in processing tax collection payments (all types of taxes) that have historically grown to nearly 35,000 taxpayer payments that have not being fully processed the day they were received.

The Customer Service Center operates to the following goals:

- Deposit all funds into the bank as quickly as possible
- Pay no interest on taxpayers refunds

To meet these goals, the center cannot simply remove and immediately deposit all funds from tax return envelopes as they are received, but must maintain a process to account for the payments received and credit the payments to the proper taxpayers. As such, a process has been established that uses a combination of human intervention and automation. The processes established to accomplish these goals starts with a sorting of documents by directing taxpayers to send returns to separate post office boxes depending upon the type of tax transaction – individual income tax returns with tax payments enclosed are sent to a different post office box than individual income tax returns requesting a refund. The contents for each post office box are segregated and processed differently when received in the center. For returns with payments enclosed, the envelopes are opened and the contents are removed. If a payment coupon is enclosed, an automated reader scans the check and coupon and the scanned data is transferred to the tax administration system (currently POINTS), the daily bank deposit and deposit report, and the state accounting system via a daily batch process. If a payment coupon is not enclosed, the payment is removed from the automated process and a coupon is created prior to returning to the same automated process mentioned above. If the automated scanning equipment fails to read a check or payment coupon, it is removed from the current batch and processed manually.

Backlogs can occur when the volume of tax returns received exceeds the capacity of the equipment used to process the return, or when the staffing levels are insufficient to process all tax returns received in that day by both manual and automated processes. Processing of tax documents is prioritized to attain the stated goals. As such, transactions that do not include tax payments or require a refund are processed, as resources are available.

The adjustment to reduce funding for seasonal return processing staff could lead to larger backlogs than were seen in the past and could delay depositing funds in the bank, which could result in reduced revenue from interest. In FY 2004 from April 15 through May 6, the center processed $163 million in revenues from all taxes. Even with seasonal staff, backlogs have resulted in an estimated $88,600 in lost interest revenues to the general fund in FY 2004. In FY 2004, no interest was paid to taxpayers for refunds made after the 45-day statutory deadline.

LFD ISSUE CONT.

However, without the seasonal staff, backlogs are likely to impact refund processing to the point where the 45-day deadline is exceeded and interest is paid to taxpayers for untimely processing of refunds. Without the seasonal staff the backlogs would be higher and the corresponding lost interest revenue to the general fund would be higher. Without the seasonal staff, an estimated $245,450 would result in combined interest paid to taxpayers and lost revenue to the general fund.

The adjustment would result in an estimated $313,700 increase in lost income to the general fund for the 2007 biennium, with a savings of $238,050, a net loss to the state.

The legislature may want to request that the executive identify how the reduction of seasonal return processing staff would impact bank deposits and interest revenues to the state.

The legislature may also want to request that the executive discuss how funding additional seasonal staff would impact tax processing backlogs and net revenues to the state.

LFD ISSUE

Revenue Trending Impact

Historically, the Customer Service Center process tax returns according to the process described above. Tax returns with payment are processed as a priority and payments are deposited into the bank and transactions are processed to record state revenues the day they are received, except when the above discussed backlogs delay processing. However, final allocation of the revenues is typically delayed during peak processing seasons until higher priority transactions are processed and resources are available. The allocation of revenues to the specific revenue sources has experienced delays, which have impacted trending of revenue collections by revenue source and regular monitoring of revenues against revenue estimates. The adjustment to eliminate funding for seasonal processing staff could lengthen the delays and could compound their impacts on revenue monitoring processes.

The legislature may want to request that the executive identify how the reduction of seasonal return processing staff would impact recording revenues and allocating the revenues to the appropriate revenue collection accounts used in trending and monitoring revenue collections and validating revenue estimate assumptions.

Language

The executive recommends the following language for the Customer Service Division:

"The Department of Revenue is appropriated up to $475,000 of general fund for the 2007 biennium. Funds are restricted for the payment of commission expenses charged by the bad debt collection agency."

Proprietary Rates

Proprietary 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.

Proprietary Revenues and Expenses

The department charges a 10 percent commission to provide collection services on delinquent accounts. The center collects the largest amount of revenues on delinquent accounts through offsets of individual income tax refunds and through offsets of refunds made by the Department of Fish, Wildlife & Parks after a permit applicant is unsuccessful in drawing a hunting permit. The timing of these two major collection sources necessitates the center maintaining a 9-month working capital balance to fund expenses throughout the year. These funds are used to pay the expenses of the center, including 3.50 FTE. Personal services costs account for approximately 74.0 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.

2007 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6554	CSD Collection Services	5801	Department of Revenue	Customer Service Division

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:						
Fee revenue						
Charges for Services	128,437	123,997	170,907	145,000	145,000	145,000
Net Fee Revenue	128,437	123,997	170,907	145,000	145,000	145,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	128,437	123,997	170,907	145,000	145,000	145,000
Operating Expenses:						
Personal Services	96,642	84,926	106,866	121,996	120,053	119,740
Other Operating Expenses	76,150	22,324	37,314	24,604	39,153	39,083
Total Operating Expenses	172,792	107,250	144,180	146,600	159,206	158,823
Operating Income (Loss)	**(44,355)**	**16,747**	**26,727**	**(1,600)**	**(14,206)**	**(13,823)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(44,355)	16,747	26,727	(1,600)	(14,206)	(13,823)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(104,291)	(400,000)	-	-	-	-
Change in net assets	(148,646)	(383,253)	26,727	(1,600)	(14,206)	(13,823)
Total Net Assets- July 1 - As Restated	50,963	485,849	102,596	129,323	127,723	113,517
Prior Period Adjustments	50,168	-	-	-	-	-
Cumulative effect of account change	533,364	-	-	-	-	-
Total Net Assets - July 1 - As Restated	634,495	485,849	102,596	129,323	127,723	113,517
Net Assets- June 30	**485,849**	**102,596**	**129,323**	**127,723**	**113,517**	**99,694**
60 days of expenses (Total Operating Expenses divided by 6)	28,799	17,875	24,030	24,433	26,534	26,471

The figure above shows the historical and projected revenues, expenses, and equity for fund number 06554. This report shows that in FY 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 FY 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 FY 2001 and FY 2002.

LFD ISSUE

Structural Balance of Customer Service Center Fund

The figure shows that revenues are projected to remain constant from FY 2005 and beyond, but expenses increase each year. As projected, the imbalance between revenues and expenses would lower the fund balance to just under $100,000 by the end of the 2007 biennium. Since the assets of the fund are almost entirely comprised of cash, the fund balance is the working capital balance. The working capital balance that would remain at the end of the 2007 biennium would still be adequate to meet current obligations for the biennium, but could signal a future cash problem. The legislature may wish to have the executive explain how it would address the fund structural imbalance in the long-term.

Proprietary 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 2007 biennium.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	102.78	(1.30)	0.00	101.48	(1.35)	0.00	101.43	101.43
Personal Services	4,491,320	(41,697)	0	4,449,623	(24,270)	0	4,467,050	8,916,673
Operating Expenses	981,685	8,347	0	990,032	9,086	0	990,771	1,980,803
Equipment	13,000	0	0	13,000	0	0	13,000	26,000
Total Costs	**$5,486,005**	**($33,350)**	**$0**	**$5,452,655**	**($15,184)**	**$0**	**$5,470,821**	**$10,923,476**
General Fund	4,091,878	1,005,076	0	5,096,954	1,014,846	0	5,106,724	10,203,678
State/Other Special	142,805	7,675	0	150,480	12,190	0	154,995	305,475
Federal Special	1,251,322	(1,046,101)	0	205,221	(1,042,220)	0	209,102	414,323
Total Funds	**$5,486,005**	**($33,350)**	**$0**	**$5,452,655**	**($15,184)**	**$0**	**$5,470,821**	**$10,923,476**

Program Description

Business and Income Taxes Division oversees audits and measures to verify tax-paying entities are complying with tax laws.

Program Highlights

Department of Revenue
Business and Income Taxes Division
Major Budget Highlights

- General fund budget would increase through adjustments totaling $2 million for the biennium over the base (average annual increases of 24.7 percent)
- Federal special revenue budget would decrease by $2.1 million for the biennium (average annual reductions of 83 percent from the base) due primarily to the movement of the Unemployment Insurance tax collections function to the Department of Labor and Industry
- Significant budget increases for general fund are for:
    - Statewide present law adjustments ($2 million)
    - Replacement of federal funds due to transferring the Unemployment Insurance tax collection function to the Department of Labor and Industry ($135,000)
- Statewide FTE reduction would eliminate 1.35 FTE by the end of the biennium and reduce general fund by $97,000

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table
Business And Income Taxe

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	$ 4,091,878	74.6%	$ 5,096,954	93.5%	$ 5,106,724	93.3%
02110 Accommodation Tax Admin	109,804	2.0%	116,490	2.1%	119,985	2.2%
02432 Oil & Gas Era	33,001	0.6%	33,990	0.6%	35,010	0.6%
03928 Royalty Audit - Nrct	177,380	3.2%	205,221	3.8%	209,102	3.8%
03954 Ui Administrative Grants	1,073,942	19.6%	-	-	-	-
Grand Total	$ 5,486,005	100.0%	$ 5,452,655	100.0%	$ 5,470,821	100.0%

The Business and Income Taxes Division is funded with general fund, state special revenue, and federal special revenue. State special revenue comes from the oil and gas tax revenues. For the 2005 biennium, the federal special revenue funding comes from reimbursements for administering unemployment insurance taxes and from reimbursements for performing mineral royalty audits. With the transfer of the unemployment insurance collections function to the Department of Labor and Industry (DOLI), the federal unemployment insurance funds will no longer be available for program funding in the 2007 biennium.

Present Law Adjustments

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

Present Law Adjustments

	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					193,649					213,162
Vacancy Savings					(187,392)					(188,181)
Inflation/Deflation					(12,397)					(12,280)
Fixed Costs					172,615					173,237
Total Statewide Present Law Adjustments					$166,475					$185,938
DP 701 - Replacement of Federal Funds - UI Transfer	0.00	67,528	0	(249,919)	(182,391)	0.00	67,528	0	(249,919)	(182,391)
DP 702 - Funding Federal Royalty Costs at FY 2004 Level	0.00	0	0	30,520	30,520	0.00	0	0	30,520	30,520
DP 703 - Statewide FTE Reduction	(1.30)	(47,954)	0	0	(47,954)	(1.35)	(49,251)	0	0	(49,251)
Total Other Present Law Adjustments	**(1.30)**	**$19,574**	**$0**	**($219,399)**	**($199,825)**	**(1.35)**	**$18,277**	**$0**	**($219,399)**	**($201,122)**
Grand Total All Present Law Adjustments					($33,350)					($15,184)

LFD COMMENT

Statewide Personal Services Adjustment

The statewide adjustment for personal services shows a decrease from the base. The decrease is due to moving 19.00 FTE from the program to the DOLI when the unemployment insurance (UI) collection function was transferred as directed by SB 271 of the 2003 Legislature. The base includes expenditures for the FTE who were moved at the beginning of FY 2005. The adjustment adjusts base funding for the positions for the 2007 biennium. Because the positions were funded with federal UI funds, the adjustment reduces federal funds by $1.7 million for the biennium without a corresponding increase in general fund.

DP 701 - Replacement of Federal Funds - UI Transfer - Due to the transfer of unemployment insurance tax collection function to the Department of Labor and Industry and the associated loss of federal funds previously used to fund a portion of department administrative costs, the executive requests a reduction of $499,838 federal special revenue and an increase of $135,056 general fund for the biennium to replace part of the lost federal funds. The net impact from this adjustment is a $364,782 total fund reduction for the biennium.

DP 702 - Funding Federal Royalty Costs at FY 2004 Level - An increase of $61,040 federal special revenue for the biennium is requested for operating costs associated with the Federal Royalty Audit Program. Base funding for the 2005 biennium was based on FY 2002 program expenditures. FY 2002 was a year in which hiring difficulties led to lower than typical operating expenditures. Increases in operating expenses in FY 2004, a more typical year, were funded with a budget amendment and were removed from base funding for the 2007 biennium. This request adjusts funding to the level typically experienced by this federally funded program.

DP 703 - Statewide FTE Reduction - A reduction of $97,205 general fund for the biennium is requested to permanently eliminate 1.35 FTE from the program. The reduction continues the additional 1.6 percent vacancy savings on general fund positions imposed on the department by the 2003 Legislature as a budget balancing measure. The positions that would be eliminated for this reduction are tax examiners.

LFD ISSUE

Impact of FTE Reduction

The tax examiners eliminated in the adjustment support state revenue collections through auditing tax compliance of state taxpayers. With the elimination of the 1.35 FTE, a lower volume of taxes would be audited and tax collections could be impacted. Average revenues generated by compliance activities are about $460,000 per year for each compliance staff for an annual reduction of tax revenues of $598,000 with the elimination of 1.35 FTE.

The legislature may wish to have the department explain how the savings from this adjustment affect revenue collections.

Program Proposed Budget

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	301.00	(3.15)	12.00	309.85	(3.15)	12.00	309.85	309.85
Personal Services	11,641,343	(335,367)	960,000	12,265,976	(330,177)	0	11,311,166	23,577,142
Operating Expenses	3,508,757	457,914	3,150,000	7,116,671	561,396	2,750,000	6,820,153	13,936,824
Equipment	15	0	40,000	40,015	0	0	15	40,030
Debt Service	2,452	0	0	2,452	0	0	2,452	4,904
Total Costs	**$15,152,567**	**$122,547**	**$4,150,000**	**$19,425,114**	**$231,219**	**$2,750,000**	**$18,133,786**	**$37,558,900**
General Fund	15,105,755	119,359	4,150,000	19,375,114	228,031	2,750,000	18,083,786	37,458,900
State/Other Special	46,812	3,188	0	50,000	3,188	0	50,000	100,000
Federal Special	0	0	0	0	0	0	0	0
Total Funds	**$15,152,567**	**$122,547**	**$4,150,000**	**$19,425,114**	**$231,219**	**$2,750,000**	**$18,133,786**	**$37,558,900**

Program Description

Property Assessment Division is responsible for the valuation and assessment of real and personal property throughout the state for property tax purposes. The division is comprised of a central office located in Helena and six regions. There is a local Department of Revenue office located in each of the county seats within the regional areas.

Program Highlights

Department of Revenue
Property Assessment Division
Major Budget Highlights

- General fund budget would increase through adjustments totaling nearly $7.3 million for the biennium over the base (average annual increases of 24 percent) due primarily for:
  - Development of a new property tax system ($5.5 million)
  - Development of an agricultural and forest land classification and valuation system ($1.4 million)
  - Increases in field office rent payments to local governments and private landlords ($777,000)
- Statewide FTE reduction would eliminate 3.15 FTE by the end of the biennium and reduce general fund by $287,622

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table
Property Assessment Divi

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	$ 15,105,755	99.7%	$ 19,375,114	99.7%	$ 18,083,786	99.7%
02320 Property Value. Improv. Fund	46,812	0.3%	50,000	0.3%	50,000	0.3%
Grand Total	$ 15,152,567	100.0%	$ 19,425,114	100.0%	$ 18,133,786	100.0%

Funding for the Property Assessment Division is from general fund and state special revenue in the percentages shown on the following figure. State special revenue is from the property valuation improvement fund and is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Revenue deposited to the fund is from a fee received as reimbursement for the cost of developing and maintaining the property valuation and assessment system database. The fee is charged to persons, federal agencies, state agencies, and other entities requesting the database or any part of the database from any department property valuation and assessment system. The fee may not be charged to the Office of Budget and Program Planning, the State Tax Appeal Board, or any legislative agency or committee.

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					285,698					290,730
Vacancy Savings					(477,061)					(477,289)
Inflation/Deflation					(60,246)					(58,599)
Fixed Costs					53,424					51,654
Total Statewide Present Law Adjustments					**($198,185)**					**($193,504)**
DP 801 - Field Office Rent	0.00	374,358	0	0	374,358	0.00	396,261	0	0	396,261
DP 802 - Request for Leased Vehicles	0.00	90,378	0	0	90,378	0.00	172,080	0	0	172,080
DP 803 - Statewide FTE Reduction	(3.15)	(144,004)	0	0	(144,004)	(3.15)	(143,618)	0	0	(143,618)
Total Other Present Law Adjustments	**(3.15)**	**$320,732**	**$0**	**$0**	**$320,732**	**(3.15)**	**$424,723**	**$0**	**$0**	**$424,723**
Grand Total All Present Law Adjustments					**$122,547**					**$231,219**

<u>DP 801 - Field Office Rent -</u> An increase of $770,619 general fund for the biennium is requested to fund increases to rent payments for office space occupied by department personnel outside of Helena. For personnel 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

Field Office Rent Increase

State law allows a local government to charge the state for rent in local government buildings. The rate local governments can charge the state is the rate the Department of Administration (DOA) charges state agencies for rent in state-owned buildings. For the 2007 biennium, the DOA rental rate for office space is proposed to grow from $5.988 per square foot in FY 2004 to $6.613 in FY 2006 and $6.681 in FY 2007, for a growth of 10 percent and 11.5 percent respectively. The majority of the nearly 300.00 FTE of the program reside in offices outside of Helena.

DP 802 - Request for Leased Vehicles - An increase of $262,458 general fund for the biennium is requested to replace department owned vehicles with State Motor Pool leased vehicles. The department would replace 25 vehicles in FY 2006 and 24 vehicles in FY 2007. The request includes increases for vehicle lease payments and partial offsetting reductions for gasoline and vehicle maintenance costs that would be included in the motor pool rental rates and are included in the base. With approval of this adjustment, the department would lease all but 11 vehicles in a fleet of 155 vehicles from the State Motor Pool. The department owns the 11 vehicles not leased from the motor pool.

DP 803 - Statewide FTE Reduction - A reduction of $287,622 general fund for the biennium is requested to permanently eliminate 3.15 FTE from the program. The reduction continues the additional 1.6 percent vacancy savings on general fund positions imposed on the department by the 2003 Legislature as a budget balancing measure. The positions that would be eliminated for this reduction are for property valuation specialists that perform personal property audits.

New Proposals

New Proposals

	Fiscal 2006					Fiscal 2007				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 804 - Property Tax Computer System										
08	0.00	2,750,000	0	0	2,750,000	0.00	2,750,000	0	0	2,750,000
DP 805 - Agricultural/Forest Land Classification System										
08	12.00	1,400,000	0	0	1,400,000	12.00	0	0	0	0
Total	12.00	$4,150,000	$0	$0	$4,150,000	12.00	$2,750,000	$0	$0	$2,750,000

DP 804 - Property Tax Computer System - An increase of $5.5 million general fund for the biennium is requested to develop and implement a new property tax computer system that would interface with IRIS. The executive recommends the legislature designate the appropriation for this purpose as biennial.

LFD COMMENT

Background – Property Tax Computer System

Currently the department uses the Computer Assisted Mass Appraisal System (CAMAS) to administer property tax appraisals. When the legislature approved funding for the Process Oriented Integrated Tax System (POINTS), it envisioned a component for property tax appraisals. However, project delays and contract issues contributed to a decision by the department to eliminate the property tax component from the POINTS project.

LFD COMMENT CONT.

The proposed property tax system is intended to be developed similar to the current IRIS project and be a commercially available off-the-shelf project. The approach to use a product with existing operating experience has been selected to minimize development risks encountered with POINTS. The project is scheduled to be developed, tested, and implemented in time for use in the next reappraisal of classes three, four, and ten properties due to begin January 1, 2009.

Project cost estimates are based on quotations from venders that provide commercially-off-the-shelf systems that would meet Montana's needs.

LFD ISSUE

One-Time Funding – Property Tax System

The request is for funding to develop a replacement system for the existing property tax computer system. System development costs are not typically ongoing costs that should continue into the base for the next biennium. The legislature may wish to further designate an appropriation approved for this purpose as one-time-only.

LFD ISSUE

Contingency Funding

The Montana Information Technology Act requires approval of information technology (IT) purchased by the state's chief information officer (CIO). In approving purchase of IT, agencies are required to submit an information technology procurement request for approval by the CIO. The legislature may want to restrict the funding for the property tax replacement system for that purpose and consider making the funding contingent upon the department submitting and obtaining approval of an information technology procurement request for the project. The CIO could certify to the Office of Budget and Program Planning and the Legislative Finance Committee that an information technology procurement request has been completed to validate the contingency requirement.

DP 805 - Agricultural/Forest Land Classification System - An increase of $1.4 million general fund for the biennium is requested to develop an agricultural/forest land classification and valuation system. Funding would add 12.00 FTE, contracted services, and operating expenses for the project. The system would come online for the 2009 tax year. The proposed system would update Montana's current agricultural and forest land classification and productive grading system, and bring the state into compliance with current law requiring that classification and grading of agricultural and forest land be kept current, equitable, and uniform. With the current system, the department has not been able to maintain current classifications and grade determinations for these lands. The executive recommends the legislature designate the appropriation for this purpose as biennial.

LFD COMMENT

Agricultural/forest Land Classification and Valuation System

The request is for funding to develop a new system to assess and value agricultural and forest lands based on productive capacity of the land. The system would update assessment and valuation algorithms using existing or upgraded cadastral and geographic information system databases. On-going costs of the system have not been estimated, but are not expected to be significant because the system is planned to be developed in a way that data from existing systems maintained by other entities would be leveraged and used to keep the data accurate with changing land uses and ownership. The project is expected to be completed in the end of calendar year 2007, so it would extend into the 2009 biennium and the system would be available for the 2009 tax year.