

The Legislative Fiscal Division

Presents:

Profile of...

Department of Revenue

State of Montana



Agency Profile

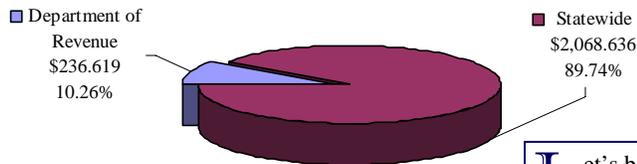
This agency profile will discuss...

- structure and funding
- primary functions and
- historical expenditures

The profile also includes information on how decisionmakers can effect change in the agency's expenditures along with a listing of pertinent statistics. For an explanation of terms used in this profile, consult the "Background on the Agency Profiles" at: <http://leg.mt.gov/css/fiscal/default.asp>

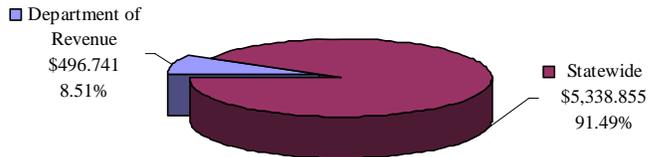
Oct. 2008

General Fund Statewide Comparison
FY 2008 (In Millions)



Let's begin by putting the agency's size in perspective by comparing it to state government as a whole.

Total Funds Statewide Comparison
FY 2008 (In Millions)



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Section A
General Government



What the Agency Does

The Department of Revenue administers state taxes except for gasoline and motor fuel taxes administered by the Department of Transportation, insurance taxes administered by the State Auditor, and video gaming tax administered by the Department of Justice. The department:

- Administers and enforces Montana's tax laws
- Appraises all property subject to state and local property taxes
- Administers the Montana Alcoholic Beverage Code
- Enforces the Montana Cigarette Sales Act
- Administers abandoned property

The department collects and distributes revenue from and enforces regulations for over 38 state taxes and fees. The department also regulates the sale and distribution of alcoholic beverages in the state. In doing so, the department buys, imports, stores, sells, and delivers liquors to agency liquor stores.

Total FY 2008 FTE: 649.03 FTE all sources of authority (645.53 FTE HB 2, 3.50 FTE proprietary)

How Services Are Provided

In order to administer the state taxes under its purview, the department is organized into a Director's Office and five divisions with the following functions:

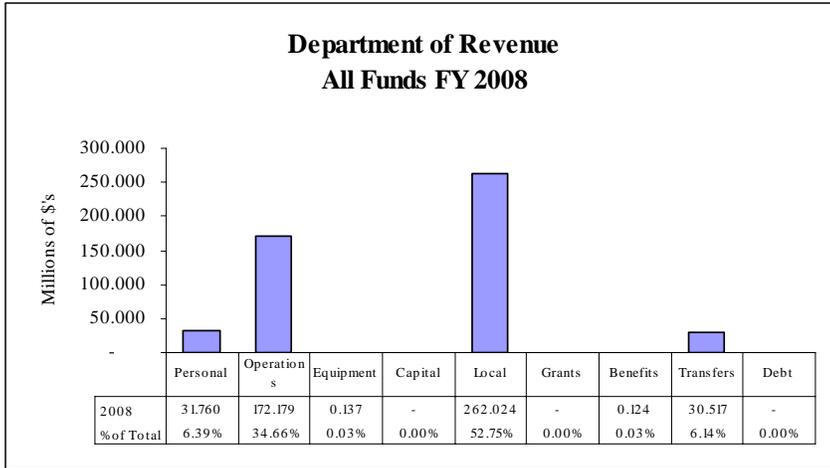
- **Director's Office** supports the agency's director and is composed of four work units. The basic function for each unit is (48.98 FTE all funded in HB 2):
 - **Legal Services** supervises the overall legal efforts of the department, which includes rules, policies, bankruptcy, disclosure officer and the Office of Dispute Resolution
 - **Tax, Policy and Research** is responsible for the preparation of legislative fiscal notes that affect revenue, the analysis of legislative proposals affecting the department, and department economic data and tax compliance analysis



- **Human Resources** manages the personnel activities of the department. The office includes three functional units for: human resources, payroll and benefits, and education and training
- **Executive Office** provides budget analyst, public relations and administrative support for the department
- **Information Technology** provides application development and support services, as well as network services in the areas of data, desktop, information security and help desk support. The division also processes tax returns and payments for the department and for state agency partners (87.25 FTE all funded in HB 2)
- **Liquor Control** administers the state's alcoholic beverage code, which governs the control, sale, and distribution of alcoholic beverages. The division includes liquor distribution and liquor licensing. (29.00 FTE all funded in HB 2)
- **Citizens Services and Resource Management** provides service to Montana citizens, businesses, and nonresident taxpayers through a call center, one-stop licensing, forms design, and other taxpayer services. The division also provides service and support to the department in the areas of accounting, purchasing, and facilities and asset management. (28.00 FTE all funded in HB 2)
- **Business and Income Taxes** oversees audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property. The division also seeks to return unclaimed property (lost money and other properties) to its rightful owners. (145.95 FTE funded in HB 2, 3.50 FTE proprietary)
- **Property Assessment** 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 regional areas. There is a local Department of Revenue office located in each county seat within the regional areas. (308.35 FTE all funded in HB 2)



The Department of Revenue provides services and functions through the employment of state FTE, who conduct property valuations and appraisals, audit taxpaying entities, operate the state liquor warehouse, process tax payments, and administer the day-to-day support functions behind the department processes. The department employs contracted information technology consultants to augment state FTE in support of agency information management systems.



How Services Are Funded

Department of Revenue expenditures are funded with a combination of general fund, state special revenue, federal special revenue, and proprietary funds. General fund expenditures were \$236.6 million, or 47.6 percent of total funds, in FY 2008. The FY 2008 general fund expenditures were nearly 4.6 times the \$51.5 million expended in FY 2000. After adjusting to remove a one time property tax rebate of nearly \$95.0 million, general fund at \$142.0 million would only be 2.8 times the FY 2000 level.

State special revenue expenditures were \$171.4 million, or 34.5 percent of total funds, in FY 2008. The FY 2008 state special revenue expenditures were nearly 3.6 times the \$48.1 million expended in FY 2000 and up from the 31.1 percent of FY 2000 total fund expenditures. State special revenue is dominated heavily by distributions of Montana oil production tax revenues to local governments, which stood at \$149.8 million in FY 2008 and 30.2 percent of total funds. Distributions of other taxes, such as tobacco and cigarette, beer and wine tax, and various mineral and natural resources taxes comprise most of the remaining state special revenue expenditures.



Federal special revenue expenditures were \$2 million, or 0.04 percent of total funds, in FY 2008. The FY 2008 federal special revenue expenditures are only 10.0 percent of the \$2.0 million expenditures in FY 2000. Federal special revenue is for activities associated with work on mineral royalty audits and new hire administration.

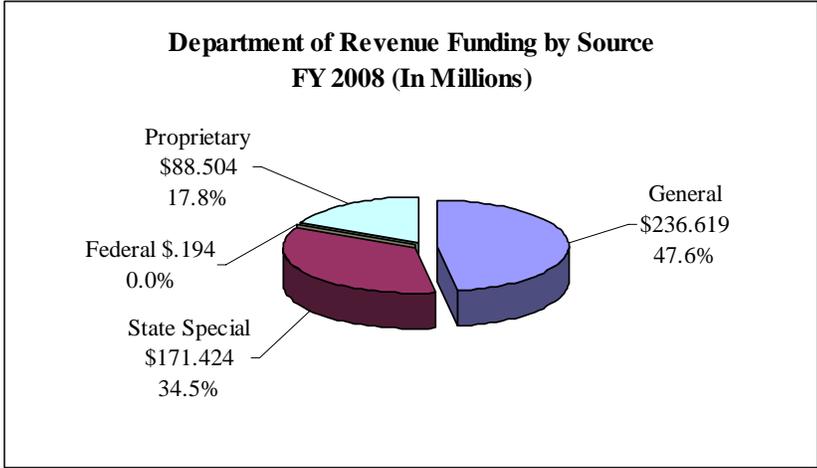
Proprietary funds, primarily from liquor sales activities, accounted for \$88.5 million of FY 2008 expenditures or 17.8 percent of total funding. Proprietary funds are up from the \$52.8 million in FY 2000 but down as a percentage of total funding, which as 34.2 percent in FY 2000.





Only 28.0 percent, or \$139.0 million, of expenditures in FY 2008 were funded through appropriations made by the legislature in the general appropriations act or the pay plan bill. Of the amount authorized in temporary appropriations made by the legislature, 62.1 percent or \$86.2 million are made through language appropriations. Language appropriations are dominated by proprietary funds of the Liquor Division for purchasing liquor products for sale and transferring the profits to the appropriate funds as directed by statute.

In addition to language, pay plan, and general appropriations made to the department, statutory appropriations account for \$355.2 million of FY 2008 funding, or 71.5 percent. In FY 2008, statutory appropriations were dominated by distributions of special natural resource tax collections and the combined distribution to local governments and the \$400 tax rebate to homeowners.





Related Data & Statistics

<i>Element</i>	<i>2000</i>	<i>2006</i>	<i>Significance of Data</i>
Number of income tax returns processed	457,859	459,917	Estimate of workload (income tax processing)
Number of income tax returns with refunds	292,522	313,615	Estimate of workload (income tax processing)
Number of corporation tax returns processed	35,625 (2003)	36,233	Estimate of workload (corporation tax processing)
Number of metalliferous mine producers filing returns	5	4	Estimate of workload (metal mines tax processing)
Number of off-premise liquor licenses issued	1,040 (2004)	1,036	Estimate of workload (liquor license processing)
Number of on-premise liquor licenses issued	2,260 (2004)	2,266	Estimate of workload (liquor license processing)
Number of wholesaler liquor licenses issued	35 (2004)	39	Estimate of workload (liquor license processing)
Number of supplier liquor licenses (breweries/wineries) issued	562 (2004)	712	Estimate of workload (liquor license processing)
Number of parcels - reappraisal valuation	903,450 (2005)	930,731 (2007)	Estimate of workload (reappraisal valuation)

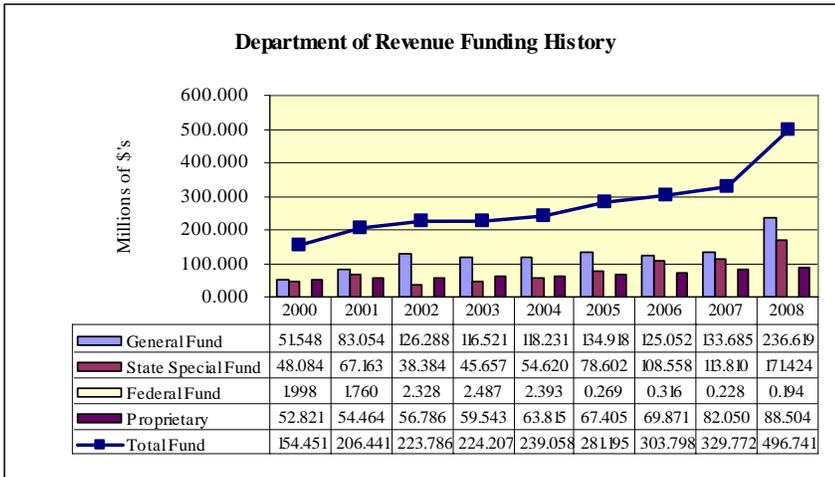
Source: Biennial Report of the Montana Department of Revenue, July 1, 2004 to June 30, 2006, therefore 2006 is the latest published data available.



Expenditure History

Total fund expenditures from all sources of authority have increased from \$154.5 million in FY 2000 to \$496.7 million in FY 2008, or nearly 3.2 times.

In FY 2008, general fund is \$236.6 million or 4.6 times the FY 2000 amount of \$51.5 million. In FY 2008, state special revenue, at \$171.4 million, is 3.6 times and proprietary fund, at \$88.5 million, is 1.7 times their respective FY 2000 amounts of \$48.1 million and \$52.8 million.



Reasons for Expenditure Growth/Change

The spike of state special funds in FY 2001 is due primarily to a spike in gas and oil tax collections attributed to a tax dispute settlement with Shell Oil.

The growth of general fund from FY 2000 to FY 2002 is primarily due to the changes in local government assistance attributed to property tax revisions of SB 184 in the 1999 Legislature and the local government funding revisions of HB 124 in the 2001 Legislature.

The growth in general fund from FY 2007 to FY 2008 is due to a \$400 property tax rebate approved in HB 9 of the May 2007 special session. The growth in state special revenue from FY 2007 to FY 2008 is due to a rise in oil and gas production and subsequent statutory distribution of production tax proceeds to counties.



Agency Functions, State Purposes, & Customers Served

The agency is structured to perform certain functions in support of general state government purposes.

The following lists the major functions, purpose of provision of the functions, and primary customers served.

State Purpose	Major Agency Functions	Customers
<i>Infrastructure-Governmental and Physical</i>	Revenue distribution	Taxpayers, state government, local government, citizens
	Property valuation	Property owners, state government, local government
	Tax compliance	Taxpayers, state government, local government
	Agency management and administration	Taxpayers
	Information technology support	Agency programs
	Liquor operations	Liquor wholesales and retailers





How the Legislature Can Effect Change

In order to change expenditure levels and/or agency activity, the legislature must address one or more of the following basic elements that drive costs.

Tax policy changes – tax policy changes impact staff workload and costs associated with tax administering systems. The legislature can impact costs to administer and enforce state tax laws by influencing the number and type of taxes administered and the citizenry impacted by the taxes. It can impact tax administering and enforcement costs by affecting the complexity and frequency of tax policy changes. Tax policy changes also impact costs to implement, modify, and maintain computer systems used to administer taxes.

Revenue distribution – revenues collected by the department are distributed according to statutory requirements. The legislature can impact the costs to administer the distribution of revenues by influencing the statutory requirements for the frequency and complexity of revenue distributions and by the number of distribution requirement changes the department must implement. With 63.6 percent of the department budget authorized through statutory appropriations to distribute revenue for local assistance payments, the legislature can influence a significant portion of the department budget through revenue distribution requirements.





Statewide Factors With Impact

In addition to the factors above, a number of factors common to many agencies will also impact changes in expenditures over time.

- All general factors impacting overall personal services costs such as level of the pay plan and benefits due to personal services accounting for 8.2 percent of total expenditures for all types of spending authority in this agency



Statutory References

The primary statutory references defining duties and responsibilities of the department are found at the following locations.

2-15-1301, MCA - Department of Revenue -- Head
15-1-201, MCA - Administration of Revenue Laws
Title 15, MCA - Taxation





Alternative accessible formats of this document will be provided upon request. For further information, call the Legislative Fiscal Division @ 444-2986 or visit our web site @ <http://www.leg.mt.gov/css/fiscal>

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