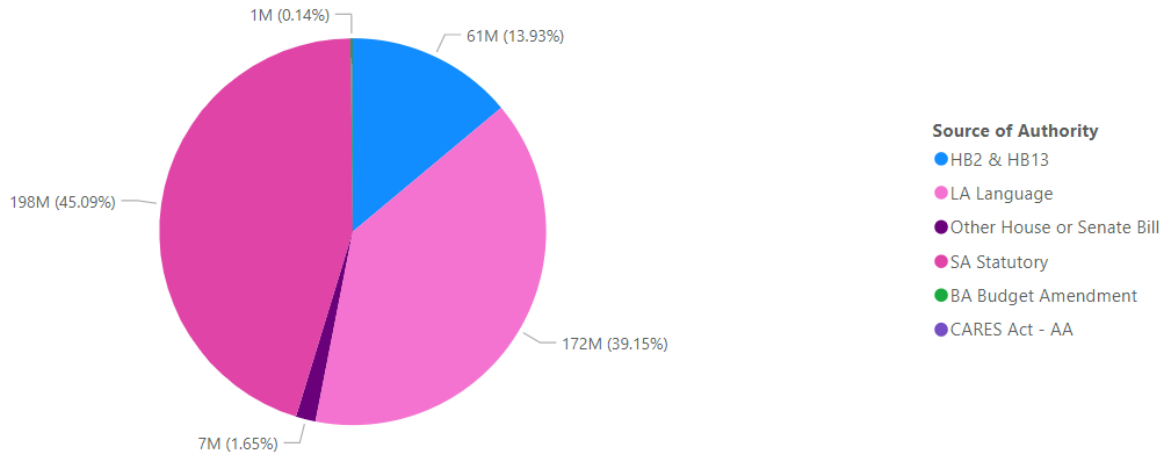


# DEPARTMENT OF REVENUE

## TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the agency is shown in the pie chart below. HB 2 and HB 13 provide 13.9% of the total authority for this agency. All types of appropriation authority for this agency are described below, including total budget and the percent expended by source of authority.

Total Modified Budget by Source of Authority



Source of Authority	Modified Budget	Expended Budget	Percent Expended
HB2 & HB13	61,204,554	33,691,755	55.0%
BA Budget Amendment	624,613	59,298	9.5%
LA Language	172,000,000	90,166,781	52.4%
Other House or Senate Bill	7,252,386	5,062,110	69.8%
SA Statutory	198,097,592	91,111,963	46.0%
CARES	115,000	115,000	100.0%
<b>Total</b>	<b>439,294,145</b>	<b>220,206,907</b>	<b>50.1%</b>

### Report Period

- Jul
- Aug
- Sep
- Oct
- Nov
- Dec
- Jan
- Feb
- Mar
- Apr
- May
- Jun

## Budget Amendments

The agency has one budget amendment totaling \$625,000 in FY 2022 for the Federal Royalty Audit Program in the Business and Income Taxes Division (BIT). This program consists of 4.50 FTE who conduct auditing and compliance services for the federal government on producers extracting minerals from federal lands within the state. The agency has expended approximately \$59,000 or 9.5% as of the end of February. These funds will be available until September 30, 2023.

## Language

Language appropriations account for 39.2% of the agencies total budget authority. The Alcoholic Beverage Control Division (ABCD) received HB 2 language appropriations of \$170.0 million in FY 2022 to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts from the liquor enterprise fund. The Director's Office (DO) received HB 2 language appropriations of \$2.0 million in FY 2022 for

payments to local governments for property taxes or fees under protest per 15-1-402(6)(d), MCA. The agency has expended approximately \$90.2 million or 52.4% of the ABCD language appropriation to date.

## **Other Bills**

Other house and senate bills account for \$7.3 million or 1.7% of the total FY 2022 budget for the Department of Revenue. As of the end of February, the Department of Revenue has expended approximately \$5.1 million or 69.8% of other house and senate bill appropriations. Further detail on the various bills is provided below.

### ***HB 701 – Implementation of recreational and medical marijuana laws***

Of the \$7.3 million other house and senate bill appropriations, HB 701 accounts for \$6.9 million. During the 2021 Legislative Session, HB 701 was passed which established the Cannabis Control Division (CCD) in the Department of Revenue. The CCD is responsible for administering both recreational and medical marijuana programs. As of the end of February, \$5.0 million has been expended primarily for personal service and software equipment costs.

### ***HB 667 – Tobacco tax allocation***

HB 667 revised the tobacco tax allocation for the operation and maintenance of state veterans' nursing homes. To comply with the administrative and computer programming expenses associated with implementing this bill, \$100 general fund was appropriated for operating costs. As of the end of February, no expenditures have been made.

### ***SB 212 – Revision of property tax bills***

SB 212 revised laws related to property tax bills by requiring a property tax bill to be itemized by mill levy and indicate which levies are voted levies, as well as requiring property tax comparison information for the county to be provided with notices of reappraisal and published in newspapers. The Department of Revenue was appropriated \$25,000 general fund for publication costs. As of the end of February, no expenditures have been made.

### ***SB 191 – Revise State Finance Laws***

The 2021 Legislature appropriated \$1.5 million in general fund and \$1.0 million in state special revenue to the Office of Budget and Program Planning in the Governor's Office for allocations to state agencies, mainly for costs associated with enacted legislation that did not provide appropriations. The Department of Revenue received a total of \$297,000 general fund in FY 2022 for the purpose of carrying out the following bills:

- HB 279 – revision of laws related to the Tax Credit Scholarship Program and the Innovative Educational Program. Appropriations total \$15,600
- HB 298 – revision of information that must be included on a property valuation statement. Appropriations total \$49,500
- HB 525 – revision of alcohol concession agreement laws. Appropriations total \$12,700
- HB 705 – revision of the alcohol and gambling law. A one-time-only appropriation totaling \$107,500
- SB 51 – exempting certain fiber optic or coaxial cable from property taxation. Appropriations total \$65,494

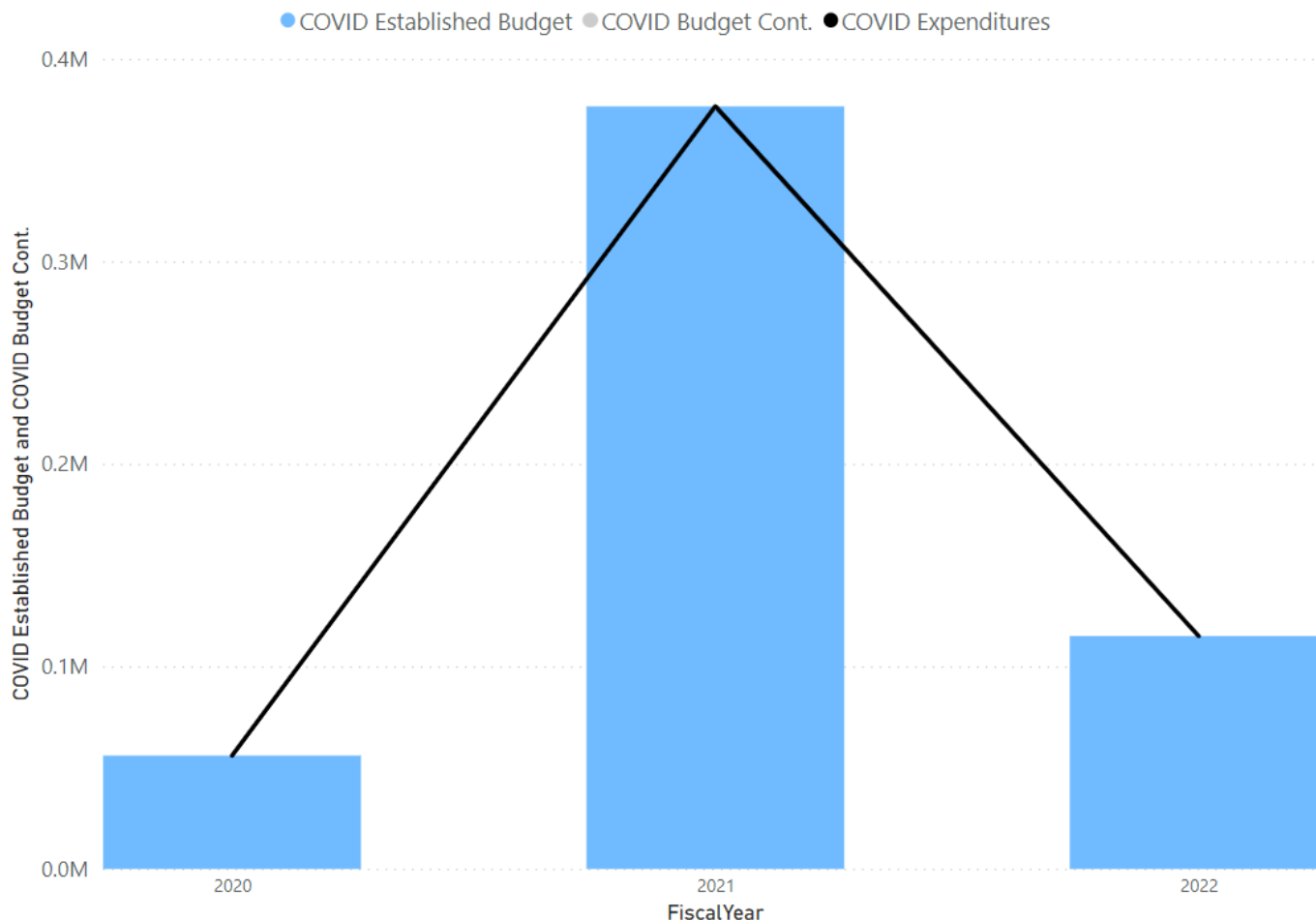
- SB 126 – revision of property valuation appeal laws for residential property. Appropriations total \$33,000
- SB 320 – alcohol delivery endorsement. A one-time-only appropriation totaling \$13,000

As of the end of February, \$26,000 had been expended for HB 705.

**COVID-19 Authority**

The following chart is provided to allow the legislature to examine the funding that is available to the agency for COVID-19 impacts.

COVID Established Budget, COVID Continuing Budget, and COVID Expenditures by Fiscal Year



The majority of the CARES Act funds were for the ABCD to address operating cost increases necessary to meet the demand for ABCD products during the COVID-19 pandemic. The ABCD manages the state’s wholesale liquor operations, which supplies all liquor stores in Montana. DOR used this funding to hire temporary workers for rotating shifts in order to meet increased demand and prevent a potential shut down due to pandemic-related workforce impacts. The Director’s Office (DO) and Information Management and Collections Division (IMCD) received CARES I funds to pay for personal service costs to assist the Department of Commerce with the Montana Emergency Rental Assistance Program by taking phone calls and processing applications. The remaining CARES funds were distributed to the DO, Technology Services Division (TSD), IMCD, BIT, and the Property Assessment Division (PAD). These funds were used for various COVID supplies needed in the workplace including hand sanitizers, cleaning products, shields, and signage.

## **Statutory Appropriations**

Statutory appropriations account for 45.1% of the Department of Revenues total FY 2022 budget. Of the approximately \$198.1 million budgeted in FY 2022, \$91.1 million or 46.0% has been expended. Further discussion of statutory appropriations is provided below.

### ***Tribal alcohol and cigarette cooperative agreement (18-11-101 through 18-11-121, MCA)***

The state of Montana has taxation agreements with tribal nations for alcohol and cigarette sales in order to prevent possibilities of dual taxation while promoting state, local and tribal economic development. Appropriations from these agreements total \$5.3 million for FY 2022. As of the end of February, \$2.7 million or 51.8% has been expended.

### ***Oil and natural gas production tax (15-36-331 through 15-36-332, MCA)***

All oil and natural gas producers are required to file an oil and natural gas production tax quarterly return where they will be taxed on the gross value of oil or natural gas sold. Local governments receive a portion of this revenue. Additionally, local governments distribute the revenue to various school retirement funds, countywide transportation funds, school districts, and community colleges. Oil and natural gas-related production tax appropriations total \$39.4 million. As of the end of February, approximately \$15.2 million or 38.5% has been expended.

### ***Metal mines distribution (15-37-117, MCA)***

Individuals who operate any mine or mining property are required to pay a license tax which is based on the gross value of production. FY 2022 appropriations total \$6.5 million. A portion of this revenue is distributed semi-annually to local governments where the mine is located or a county that is experiencing fiscal impacts from the mine. As of the end of February, no expenditures have been made. The next current year expenditure will not occur until May.

### ***Bentonite production tax distribution (15-39-110, MCA)***

All bentonite producers must file a bentonite production tax return every six months. Statutory appropriations for the bentonite production tax total \$650,000. This revenue is distributed semi-annually to local governments where the production occurred: Carter County and Carbon County. As of the end of February, no expenditures have been made. The next current year expenditure will not occur until March.

### ***Entitlement share (15-1-121, MCA)***

During the 2001 Legislative Session, the state of Montana assumed control of alcohol, vehicle, and gambling taxes as well as district court fees for local governments. In return, the state reimburses each local government in the form of an entitlement share. Statutory appropriations for entitlement share payments total \$146.0 million in FY 2022 and approximately \$73.0 million or 50.0% has been expended.

### ***MEDIA Act film production tax credit fee (15-31-1005(7), MCA)***

The Montana Legislature established the Montana Economic Development Industry Advancement (MEDIA) Act (2019 Legislative Session) which provides a transferable income tax credit to eligible film production companies. In order to determine a company's eligibility, they must file an application with both the Department of Commerce and the Department of Revenue. Application fee revenue is used for the department to administer the program. For FY 2022, DOR has \$20,000 in statutory appropriations and has made no expenditures.

***Cigarette tax stamps (16-11-119, MCA)***

The state of Montana charges a tax on cigarettes sold by selling tax decals to wholesalers who then attach the decal to each pack of cigarettes sold in Montana. For FY 2022, appropriations from this source total approximately \$66,000, and \$16,000 or 24.5% has been expended.

***Out-of-State Debt Collections (Title 17, Chapter 4, MCA)***

The Department of Revenue has contracts with out-of-state attorneys for the out-of-state collections of taxes, fees, and other debts owed to the state. The costs of collection are statutorily appropriated. The FY 2022 appropriation totals \$200,000, with \$170,000 or 85.2% being expended.

## HB 2 BUDGET MODIFICATIONS

The following chart shows the HB 2 budget as passed by the legislature, including the pay plan, and the HB 2 modified budget from December 1, 2021 through February 28, 2022. Net modifications to the budget include operating plan changes from one expenditure account to another, program transfers, reorganizations, and agency transfers of authority. The **positive modifications** and **negative modifications** are shown by program, expenditure account, and fund type.

### Legislative Budget Compared to Modified Budget - HB 2 Only

Agency Name	December Modified Budget	March Modified Budget	Net Modifications
<b>Department of Revenue</b>	<b>61,204,554</b>	<b>61,204,554</b>	<b>0</b>
ALCOHOLIC BEVERAGE CONTROL DIV	3,282,818	3,282,818	
BUSINESS & INCOME TAXES DIV	11,296,306	11,362,805	66,499
DIRECTORS OFFICE	8,544,082	8,477,583	-66,499
INFORMATION MGMT & COLLECTIONS	6,637,598	6,637,598	
PROPERTY ASSESSMENT DIVISION	23,047,924	23,047,924	0
TECHNOLOGY SERVICES DIVISION	8,395,825	8,395,825	
<b>Total</b>	<b>61,204,554</b>	<b>61,204,554</b>	<b>0</b>

Acct & Lvl 1 DESC	December Modified Budget	March Modified Budget	Net Modifications
61000 Personal Services	45,155,277	45,155,277	0
62000 Operating Expenses	15,939,984	15,923,117	-16,867
63000 Equipment & Intangible Assets	30,554	47,421	16,867
68000 Transfers-out	1,500	1,500	
69000 Debt Service	77,239	77,239	

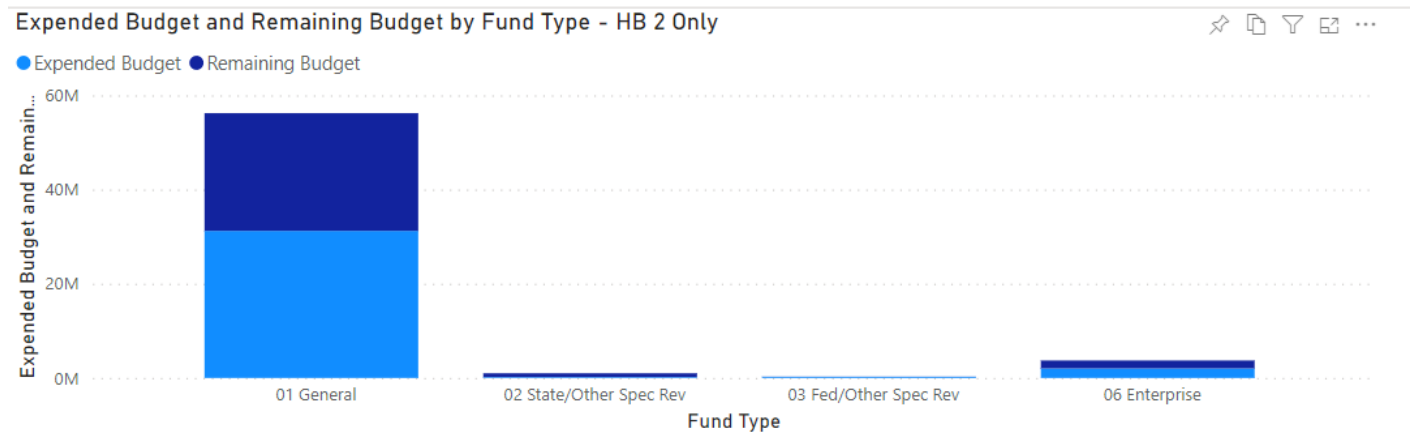
Fund Type	December Modified Budget	March Modified Budget	Net Modifications
01 General	56,220,268	56,220,268	0
02 State/Other Spec Rev	993,626	993,626	
03 Fed/Other Spec Rev	279,825	279,825	
06 Enterprise	3,710,835	3,710,835	

Budget modifications include a transfer of 1.00 FTE and the associated funding totaling \$66,499 from the Director's Office to the Business and Income Taxes Division. Due to the size and complexity of Business and Income Taxes Division, this position will assist in managing and creating efficiencies for business processes.

The Department of Revenue also transferred \$16,867 from operating expenses to equipment and intangible assets to purchase a new plotter and two new printers in the Property Assessment Division to replace broken equipment that cannot be repaired.

## HB 2 APPROPRIATION AUTHORITY

The following chart shows the appropriated budget for the agency compared to expenditures through February 28, 2022.



acclv1_descr	Modified Budget	Expended Budget	Percent Expended
Personal Services	45,155,277	27,457,249	60.8%
Operating Expenses	15,923,117	6,165,660	38.7%
Equipment & Intangible Assets	47,421	19,183	40.5%
Transfers-out	1,500		
Debt Service	77,239	49,664	64.3%

Program Name	Modified Budget	Expended Budget	Percent Expended
ALCOHOLIC BEVERAGE CONTROL DIV	3,282,818	1,778,842	54.2%
BUSINESS & INCOME TAXES DIV	11,362,805	6,742,584	59.3%
DIRECTORS OFFICE	8,477,583	4,174,950	49.2%
INFORMATION MGMT & COLLECTIONS	6,637,598	3,348,704	50.5%
PROPERTY ASSESSMENT DIVISION	23,047,924	14,201,886	61.6%
TECHNOLOGY SERVICES DIVISION	8,395,825	3,444,790	41.0%
<b>Total</b>	<b>61,204,554</b>	<b>33,691,755</b>	<b>55.0%</b>

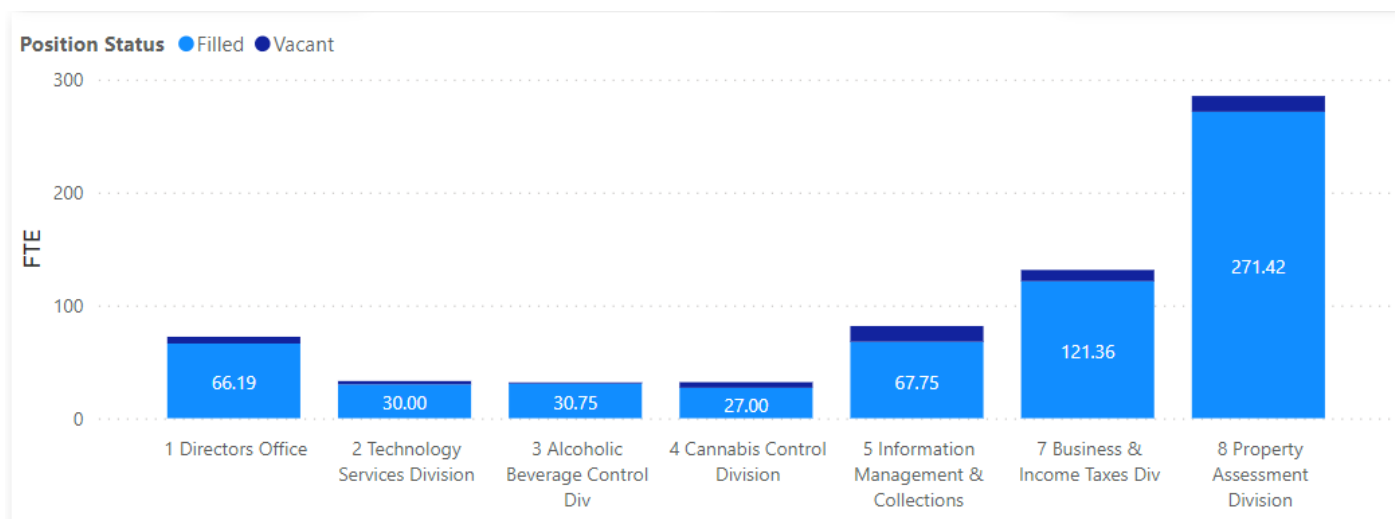
The Department of Revenue’s HB 2 modified budget totals \$61.2 million for FY 2022. The majority of the funding is from general fund for personal service expenditures. As of the end of February, DOR has expended \$33.7 million or 55.0%.

The Technology Services Division expended 41.0% of their HB 2 modified budget. This expenditure is lower compared to all the other divisions. However, this is within the normal expenditure range for the division as the majority of their costs are related to IT contracts which are not expended until closer to the end of the fiscal year.

### Personal Services

Personal services make up 73.8% of the total HB 2 budget for FY 2022 with \$27.5 million or 60.8% expended as of February 28, 2022.

The following chart shows the filled and vacant FTE within the agency as of February 1, 2022.



DOR had 7.9% of its HB 2 positions vacant as of February 1, 2022, which includes:

- 6.00 FTE in the Director’s Office
- 3.00 FTE in the Technology Services Division
- 1.00 FTE in the Alcoholic Beverage Control Division
- 5.00 FTE in the Cannabis Control Division
- 13.95 FTE in the Information Management & Collections Division
- 10.00 FTE in the Business & Income Taxes Division
- 14.00 FTE in the Property Assessment Division

Of the 52.95 FTE vacant, 8.00 FTE are property appraisers in the Property Assessment Division, 6.50 FTE are information capture technicians in the Information Management & Collections Division, and 5.00 FTE are auditing technicians in the Business & Income Taxes Division. The agency notes that vacancies in PAD are occurring for the following reasons: to meet the 5.0% vacancy savings requirement (equal to 7.45 FTE), internal promotions, and hiring difficulties in high cost-of-living areas. Additionally, the 6.50 vacant FTE in the IMCD is an aggregate position that is used during the income tax return season, which the agency is hiring for right now.

### Next Steps for Personal Services Reporting

In upcoming Quarterly Financial Reports, the LFD will begin the process of a more comprehensive look at personal services. The LFD will compare two executive “snapshots” -- July 2020 and July 2022. The analysis will identify adjustments adopted by the legislature in 2021 and modifications made by the agencies, within the confines of budget law.

The September Quarterly Financial Report will provide the complete comparison from July 2020 to July 2022. Ultimately, the analysis will result in a description of all the components that will be part of the executive’s decision package one (DP 1) 2025 biennium budget request. This work will prepare legislators for budget deliberations in the 2023 session. For a review of how DP 1 works and snapshot components, please read this [short brochure](#) from 2019.

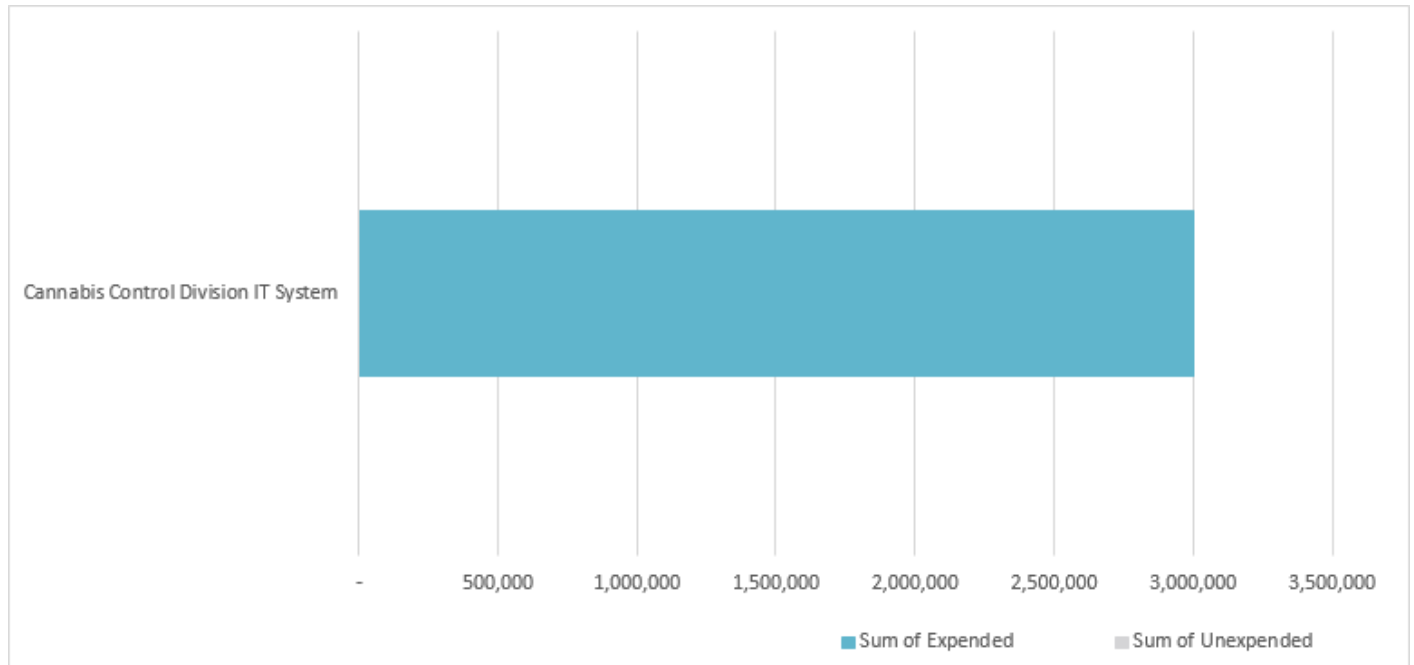


## Operating Expenses

Operating expenditures make up 26.0% of the total HB 2 budget for FY 2022 with \$6.2 million or 38.7% expended as of February 28, 2022. Significant operating expenditures include software maintenance and rental costs.

## OTHER ISSUES

### Information Technology Project Expenditures



Large Information Technology Projects Original and Revised Delivery Date					
Project	Start Date	Original Delivery Date	Revised Delivery Date	Change from Original Delivery Date	
Cannabis Control Division IT System	7/1/2021	2/2/2022	1/1/2022	-14.8%	

Large Information Technology Projects Original and Revised Delivery Date					
Project	Start Date	Original Delivery Date	Revised Delivery Date	Change from Original Delivery Date	
Cannabis Control Division IT System	7/1/2021	2/2/2022	1/1/2022	-14.8%	

HB 701 was passed during the 2021 Legislative Session, which implemented the Cannabis Control Division. To implement this legislation DOR requires an update and configuration of the GenTax system to incorporate the new tax type for recreational marijuana taxation and for administering local option taxes and the various license types required in the legislation. The Cannabis Control Division began this project July 1, 2021 with a budget of \$3.0 million. The Cannabis Control Division completed this project a month earlier than the estimated delivery date on January 1, 2022 and expended all \$3.0 million.

## **Required Reports**

The Department of Revenue did not have any budget amendments, operating plan changes, or program transfers that require reporting to the Legislative Finance Committee.