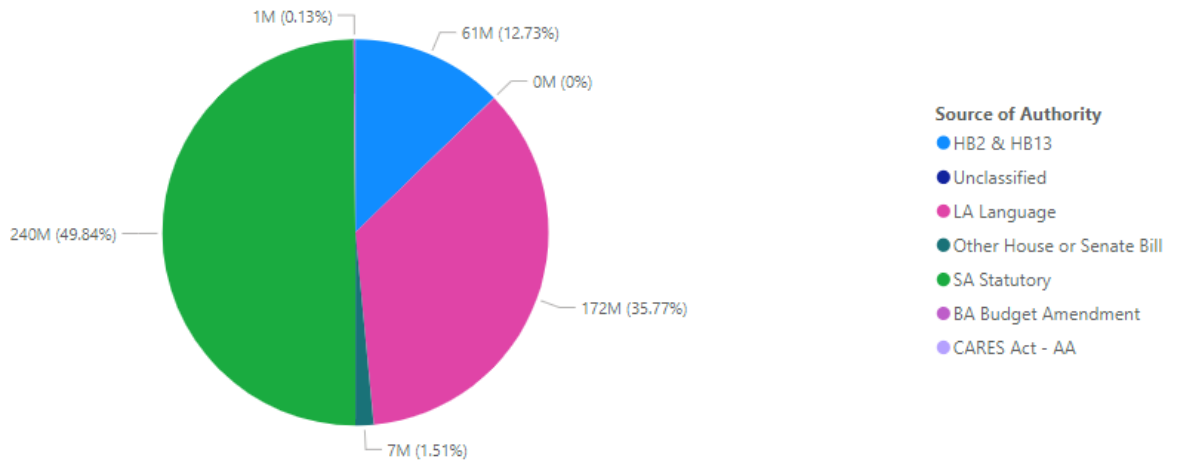


DEPARTMENT OF REVENUE

TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the agency is shown in the pie chart below. HB 2 and HB 13 provide 12.7% 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	FYE22 Modified Budget	FYE22 Expended Budget	Percent Expended
HB2 & HB13	61,191,695	60,584,826	99.0%
BA Budget Amendment	624,542	214,453	34.3%
LA Language	172,000,000	170,162,872	98.9%
Other House or Senate Bill	7,252,386	7,177,168	99.0%
SA Statutory	239,672,592	235,699,448	98.3%
Unclassified	12,966		
CARES	115,000	115,000	100.0%
Total	480,869,181	473,953,768	98.6%

Report Period

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

Budget Amendments

The Department of Revenue (DOR) had 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 expended approximately \$215,000 or 34.3% as of the 2022 FYE. These funds will be available until September 30, 2023.

Language

Language appropriations account for 35.8% of the agency's 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 \$170.2 million (\$170.0 million of the ABCD appropriation and \$163,000 of the DO appropriation) or 98.9% to date.

Other Bills

Other house and senate bills account for \$7.3 million or 1.5% of the total FY 2022 budget for the Department of Revenue. At the 2022 FYE, DOR expended approximately \$7.2 million, or 99.0% 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. At the 2022 FYE, \$6.7 million had been expended primarily for personal service and software equipment costs. Remaining funds will be available in FY 2023.

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 to indicate which levies are voted levies, as well as requiring property tax comparison information for the county to be published in local newspapers and provided to property owners with notices of reappraisal. The Department of Revenue was appropriated \$25,000 general fund for publication costs. At the 2022 FYE, DOR expended \$17,602. Remaining funds will be available in FY 2023.

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 to carry out the following bills:

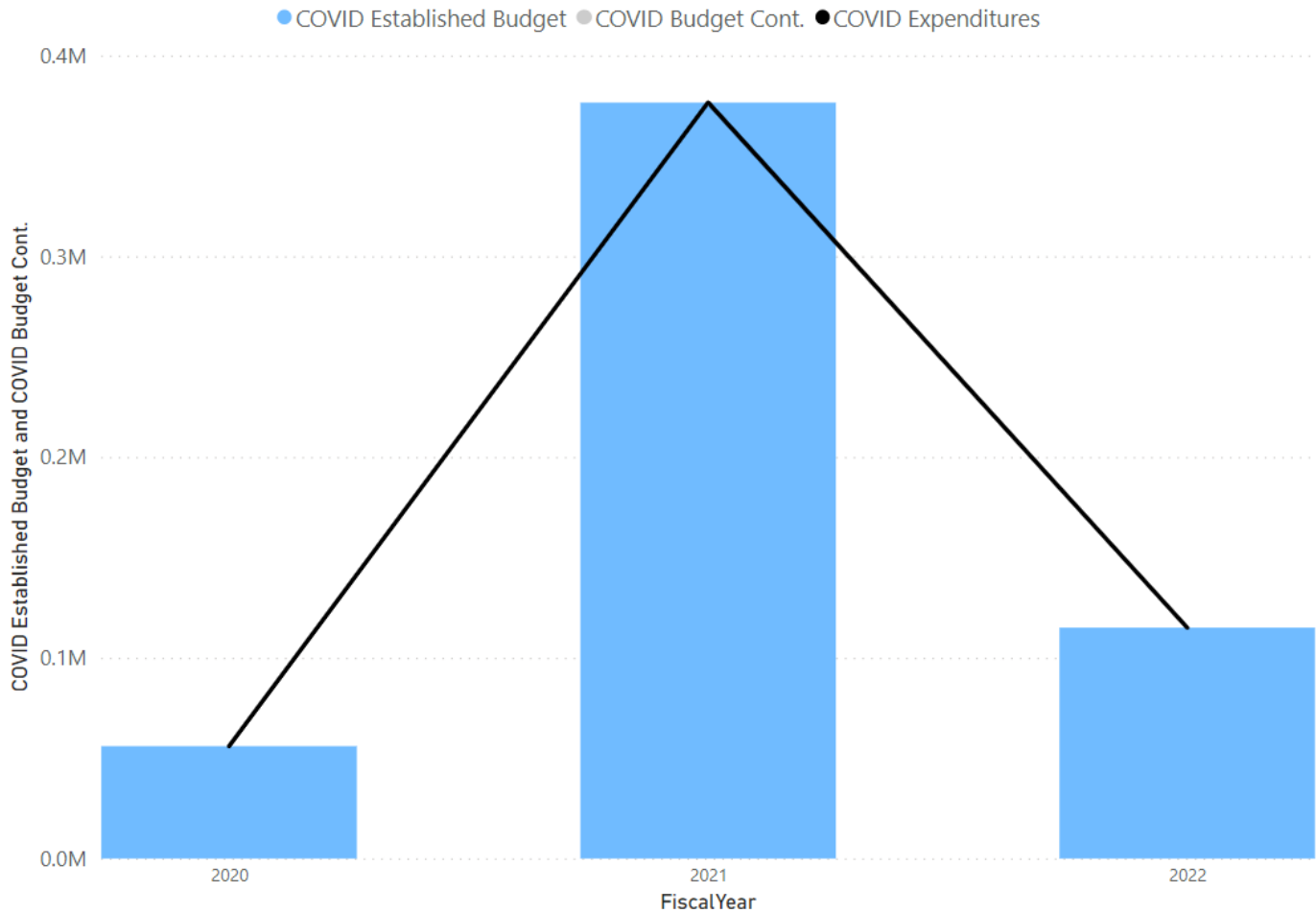
- HB 279 – revision of laws related to the Tax Credit Scholarship Program and the Innovative Educational Program. Appropriations total \$15,600; all have been expended
- HB 298 – revision of information that must be included on a property valuation statement. Appropriations total \$49,500; all have been expended
- HB 525 – revision of alcohol concession agreement laws. Appropriations total \$12,700; all have been expended
- HB 705 – revision of the alcohol and gambling law. A one-time-only appropriation totaling \$107,500; \$40,743 has been expended
- SB 51 – exempting certain fiber optic or coaxial cable from property taxation. Appropriations total \$65,494; all have been expended
- SB 126 – revision of property valuation appeal laws for residential property. Appropriations total \$33,000; all have been expended
- SB 320 – alcohol delivery endorsement. A one-time-only appropriation totaling \$13,000; all have been expended

Of the \$297,000 general fund appropriations, \$230,000 has been expended by the FYE. Remaining funds will be available in FY 2023.

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 Coronavirus Aid, Relief, and Economic Security (CARES) Act funds were for the Alcohol and Beverage Control Division (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 to meet increased demand and prevent a potential shutdown 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-19 supplies needed in the workplace including hand sanitizers, cleaning products, shields, and signage. All COVID-19 authority has been expended to date.

Statutory Appropriations

Statutory appropriations account for 49.8% of the Department of Revenue's total FY 2022 budget. Of the approximately \$239.7 million budgeted in FY 2022, \$235.7 million, or 98.3% was 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 to prevent possibilities of dual taxation while promoting state, local and tribal economic development. Appropriations from these agreements total \$5.5 million for FY 2022. This appropriation had to be increased once during the fiscal year due to higher than anticipated sales of liquor and wine. At the 2022 FYE, \$5.0 million, or 91.5% was 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 \$74.8 million. At FYE, approximately \$72.0 million, or 96.2% was expended. Appropriations were increased in the fiscal year due to increased revenue collections.

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 totaled \$9.5 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. At FYE, \$9.1 million, or 95.7% had been expended. Appropriations were increased in the fiscal year due to increased revenue collections.

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 \$800,000. This revenue is distributed semi-annually to local governments where the production occurred: Carter County and Carbon County. At FYE, \$615,000, or 76.9% has been expended. Appropriations were increased in the fiscal year due to increased revenue collections.

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 totaled \$148.8 million. By FYE, DOR expended approximately \$148.8 million, or almost 100.0% of the appropriations. This appropriation was increased once during the fiscal year due to HB 303 (2021 Legislative Session) which increased the current market value exemption for Class 8 business equipment from \$100,000 to \$300,000.

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. To determine a company's eligibility, they must apply 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 had \$20,000 in statutory appropriations and expended \$12,000.

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 totaled approximately \$66,000, and \$33,000 or 50.4% was 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 totaled \$200,000 and all had been expended by FYE.

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 June 1, 2022 through July 1, 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	June Modified Budget	FYE22 Modified Budget	Net Modifications
<input type="checkbox"/> Department of Revenue	61,191,695	61,191,695	0
ALCOHOLIC BEVERAGE CONTROL DIV	3,280,889	3,280,889	0
BUSINESS & INCOME TAXES DIV	11,360,124	11,360,124	0
DIRECTORS OFFICE	7,812,146	7,125,212	-686,934
INFORMATION MGMT & COLLECTIONS	6,470,171	5,957,024	-513,147
PROPERTY ASSESSMENT DIVISION	23,043,082	23,909,857	866,775
TECHNOLOGY SERVICES DIVISION	9,225,282	9,558,588	333,306
Total	61,191,695	61,191,695	0

Acct & Lvl 1 DESC	June Modified Budget	FYE22 Modified Budget	Net Modifications
<input type="checkbox"/> 61000 Personal Services	44,315,249	44,794,491	479,242
<input type="checkbox"/> 62000 Operating Expenses	15,679,111	15,061,737	-617,374
<input type="checkbox"/> 63000 Equipment & Intangible Assets	65,715	148,156	82,441
<input type="checkbox"/> 64000 Capital Outlay		55,691	55,691
<input type="checkbox"/> 68000 Transfers-out	1,500	1,500	
<input type="checkbox"/> 69000 Debt Service	1,130,120	1,130,120	

Fund Type	June Modified Budget	FYE22 Modified Budget	Net Modifications
<input type="checkbox"/> 01 General	56,209,385	56,209,385	0
<input type="checkbox"/> 02 State/Other Spec Rev	993,579	993,579	
<input type="checkbox"/> 03 Fed/Other Spec Rev	279,825	279,825	
<input type="checkbox"/> 06 Enterprise	3,708,906	3,708,906	0

The Department of Revenue had a deficit in personal services in the Property Assessment Division. To cover this deficit, personal services authority was moved from the Technology Services Division (\$111,377) and the Information Management and Collections Division (\$307,787) and operating expense authority from the Director's Office (\$354,289) to the Property Assessment Division. Passage of Governmental Accounting Standards Board (GASB) 87 changed the methodology required for recording rent leases at the end of FY 2022. To meet this accounting requirement, the Department of Revenue transferred personal services authority temporarily. However, by the end of the fiscal year the agency did not have enough personal services authority and required a transfer from other divisions within the agency.

The Technology Services Division received a transfer of approximately \$521,000 general fund authority from the Director's Office (\$330,000) and the Information Management and Collections Division (\$191,329). This transfer was needed to fund the Technology Services Division maintenance contract for the GenTax system.

Operating expense authority was reduced for the following reasons:

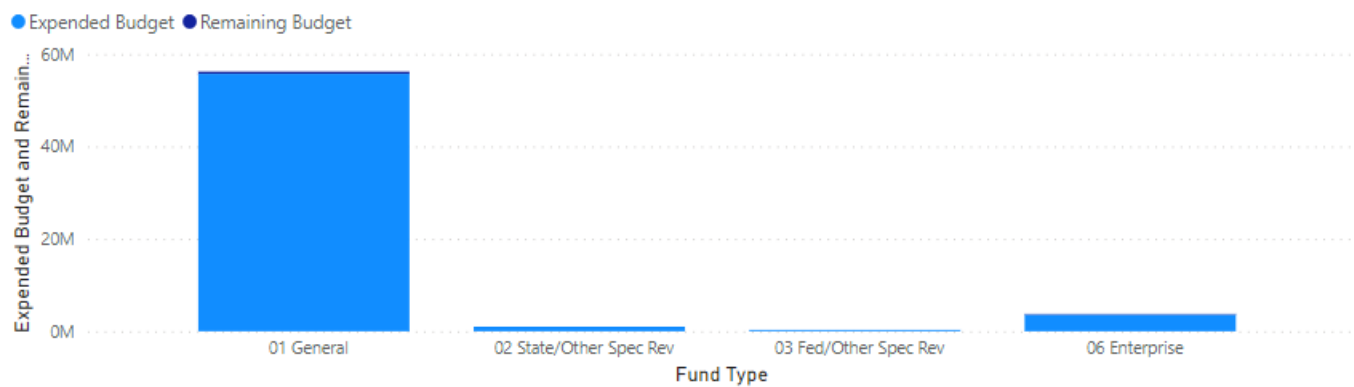
- Authority was moved to capital outlay for a leasehold improvement on the Donovan Building in Helena (\$27,000)
- Authority was moved to capital outlay for a project in the Mitchell Building (\$28,691) to upgrade security for the taxpayer room
- Authority was moved to equipment and intangible assets to purchase a cash counter machine in the Information Management and Collections Division (\$20,874)
- Authority was moved to personal services to cover the deficit in personal services in the Property Assessment Division (\$541,110)

Additionally, personal services authority (\$61,568) was moved to equipment and intangible assets in the Alcoholic Beverage Control Division to purchase pallet jacks and a battery.

HB 2 APPROPRIATION AUTHORITY

The following chart shows the appropriated budget for the agency compared to expenditures through July 1, 2022.

Expended Budget and Remaining Budget by Fund Type - HB 2 Only



acclv1_descr	Modified Budget	Expended Budget	Percent Expended
Personal Services	44,794,491	44,699,327	99.8%
Operating Expenses	15,061,737	14,551,843	96.6%
Equipment & Intangible Assets	148,156	148,156	100.0%
Capital Outlay	55,691	55,691	100.0%
Transfers-out	1,500		
Debt Service	1,130,120	1,129,810	100.0%

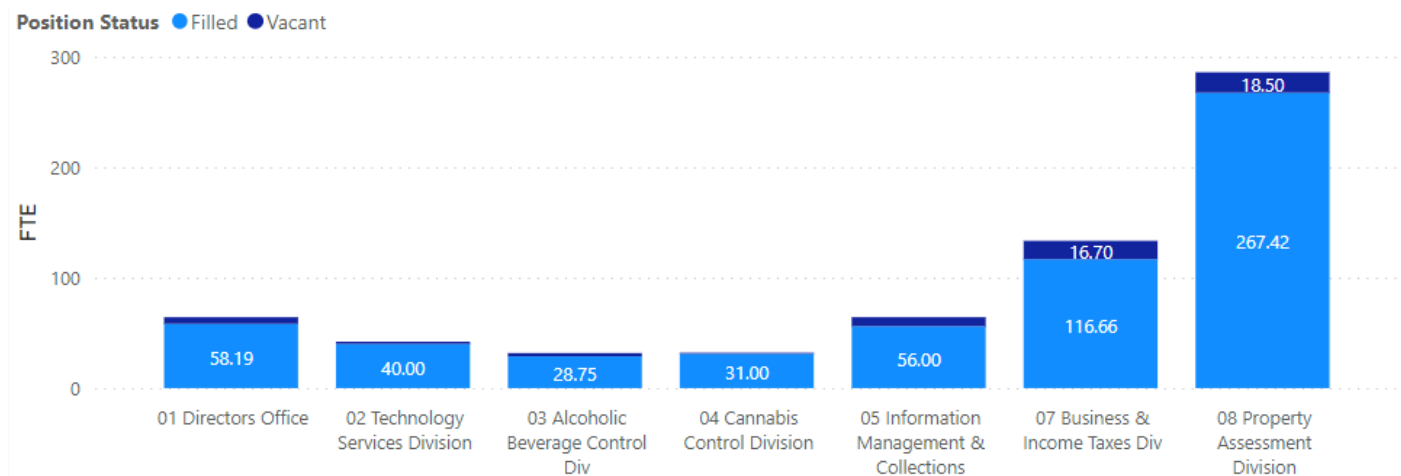
Program Name	Modified Budget	Expended Budget	Percent Expended
ALCOHOLIC BEVERAGE CONTROL DIV	3,280,889	3,156,528	96.2%
BUSINESS & INCOME TAXES DIV	11,360,124	11,320,994	99.7%
DIRECTORS OFFICE	7,125,212	6,808,075	95.5%
INFORMATION MGMT & COLLECTIONS	5,957,024	5,931,498	99.6%
PROPERTY ASSESSMENT DIVISION	23,909,857	23,811,435	99.6%
TECHNOLOGY SERVICES DIVISION	9,558,588	9,556,297	100.0%
Total	61,191,695	60,584,826	99.0%

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. At FYE, DOR expended \$60.6 million or 99.0%.

Personal Services

Personal services made up 73.2% of the total HB 2 budget for FY 2022, with \$44.7 million or 99.8% expended at FYE.

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



DOR had 55.40 FTE or 8.5% of its HB 2 positions vacant as of August 1, 2022. This is a slight increase in vacancies from the June quarterly report, which showed 48.20 FTE vacant. Vacancies include:

- 6.00 FTE in the Director's Office for customer service representatives, a budget analyst, customer service assistant, customer service representative, and a human resources generalist
- 2.00 FTE in the Technology Services Division for an applications developer and an enterprise projects budget analyst
- 3.00 FTE in the Alcoholic Beverage Control Division for license examiners
- 1.00 FTE in the Cannabis Control Division for an inspector
- 8.20 FTE in the Information Management & Collections Division for an account maintenance technician, collections agent, collections specialist, E-Services Unit manager, information capture technician, lead account maintenance tech, records and imaging technician, research analyst, and collections technician
- 16.70 FTE in the Business & Income Taxes Division primarily for tax examiners and auditing technicians as well as an audit research technician
- 18.50 FTE in the Property Assessment Division for property appraisers, program support specialists, a program manager, property valuation support technicians, and a utility/industrial tax appraiser

As of July 20, 2022, the Department of Revenue was advertising for 39 positions including tax examiners and property appraisers. During FY 2022, the agency had 70 people leave state employment, 23 retire, and 12 move to new agencies. Like many other state agencies, DOR has experienced difficulty in recruiting and retaining employees. DOR noted that throughout the fiscal year they promoted individuals internally, leading to internal vacancies in lower-level positions. However, the qualified applicant pool to fill these vacancies was low leading to a longer job posting time.

To address hiring and retention difficulties, the agency has implemented the following actions:

- Issued pay increases to property appraisers in the Property Assessment Division, including 156 retention adjustments

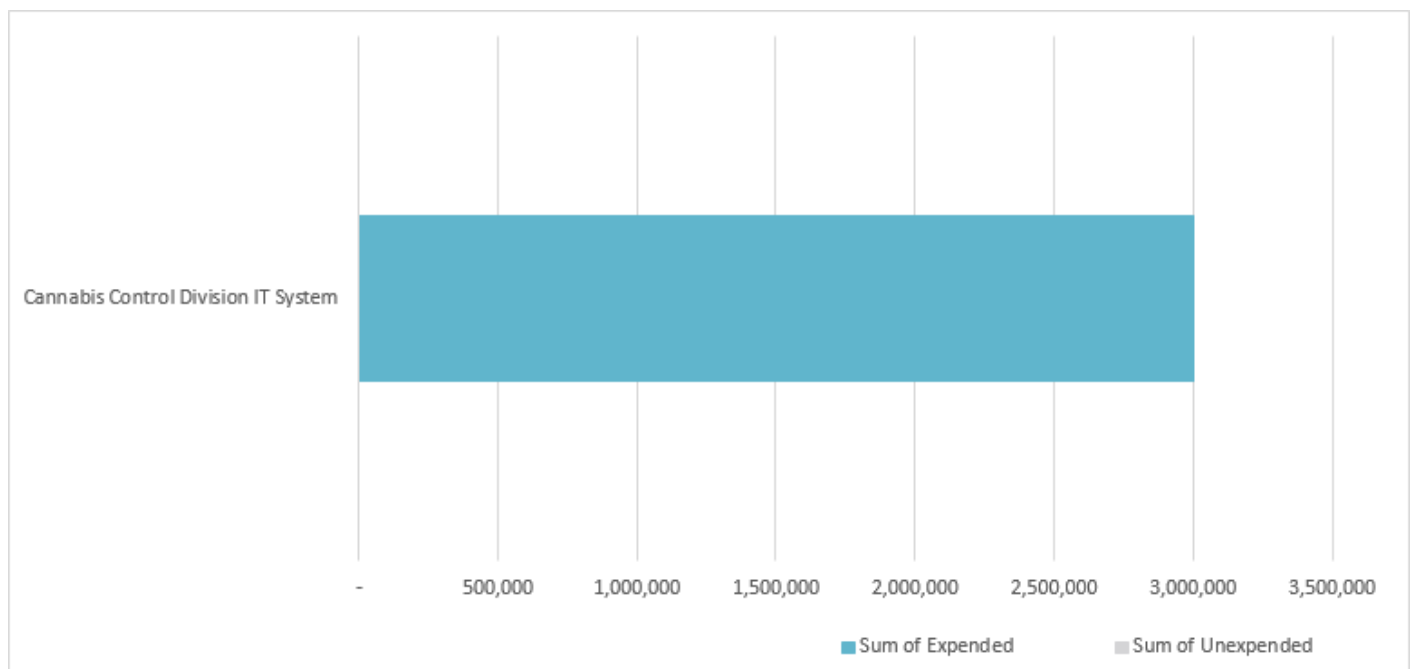
- Revamped job postings
- Attended career fairs
- Implemented promotional campaigns including hiring business cards, promotional videos, and area-specific social media campaigns
- Offered telework opportunities

Operating Expenses

Operating expenditures make up 24.6% of the total HB 2 budget for FY 2022, with \$14.6 million or 96.6% expended at FYE. Significant operating expenditures include software maintenance and rental costs.

OTHER ISSUES

Information Technology Project Expenditures



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. The Cannabis Control Division began this project on 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. The agency has not yet completed a closing report.