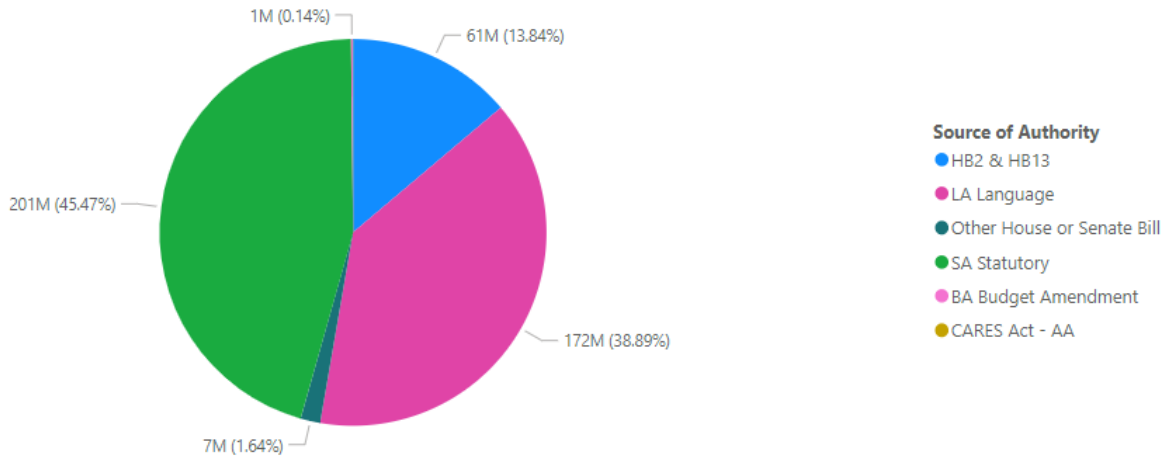


DEPARTMENT OF REVENUE

TOTAL APPROPRIATION AUTHORITY

The total appropriation authority for the agency is shown in the pie chart below. HB 2 and HB 13 provide 13.8% 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	61,191,695	49,602,351	81.1%
BA Budget Amendment	624,542	153,267	24.5%
LA Language	172,000,000	128,467,226	74.7%
Other House or Senate Bill	7,252,386	6,141,723	84.7%
SA Statutory	201,102,592	150,094,752	74.6%
CARES	115,000	115,000	100.0%
Total	442,286,215	334,574,319	75.6%

Report Period

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

Budget Amendments

The Department of Revenue (DOR) 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 \$153,000 or 24.5% as of the end of May. These funds will be available until September 30, 2023.

Language

Language appropriations account for 38.9% 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 \$128.5 million (\$128.3 million of the ABCD appropriation and \$163,000 of the DO appropriation) or 74.7% to date.

Other Bills

Other house and senate bills account for \$7.3 million or 1.6% of the total FY 2022 budget for the Department of Revenue. As of the end of May, the DOR expended approximately \$6.1 million or 84.7% 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 May, \$5.9 million has been expended primarily for personal service and software equipment costs.

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. As of the end of May, DOR expended \$17,602.

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:

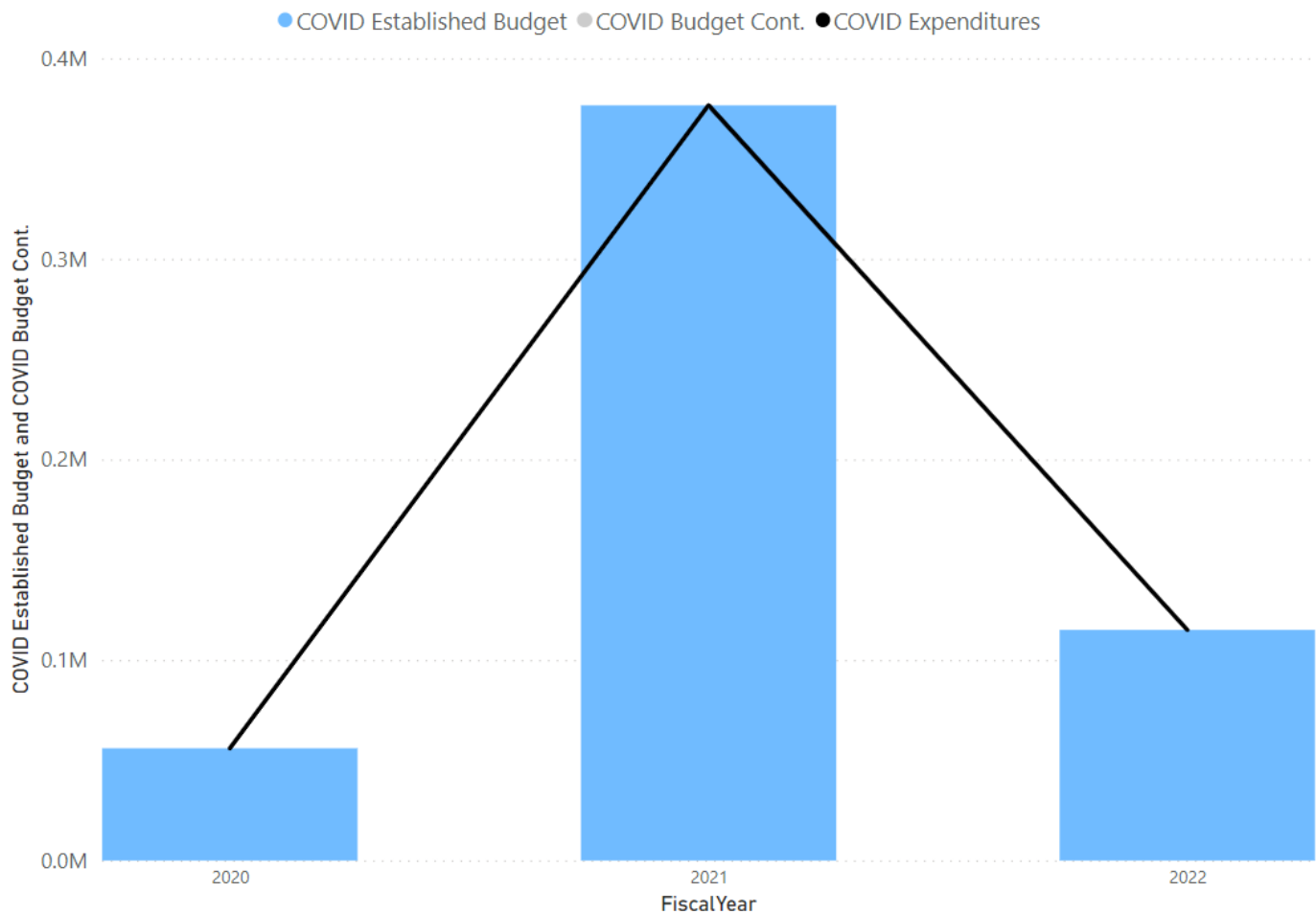
- HB 279 – revision of laws related to the Tax Credit Scholarship Program and the Innovative Educational Program. Appropriations total \$15,600; all have been expended
- HB 298 – revision of information that must be included on a property valuation statement. Appropriations total \$49,500; all have been 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 end of May.

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 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 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 45.5% of the Department of Revenues' total FY 2022 budget. Of the approximately \$201.1 million budgeted in FY 2022, \$150.0 million or 74.6% 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 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 is a \$250,000 increase since the March 2022 IBC meeting due to higher than anticipated sales of liquor and wine. Appropriations were increased for tribal liquor and wine. As of the end of May, \$3.7 million or 70.8% 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 May, approximately \$30.7 million or 77.9% 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 May, \$4.4 million or 67.1% has been expended.

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 May, \$332,000 or 51.0% has been expended.

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 \$148.8 million, a \$2.8 million increase from the March IBC meeting in FY 2022, and approximately \$110.7 million or 74.4% has been expended. The increased budget is 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 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 \$28,000 or 42.4% have 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 \$189,000 or 94.5% 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 March 1, 2022 through June 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	March Modified Budget	June Modified Budget	Net Modifications
Department of Revenue	61,204,554	61,191,695	-12,859
ALCOHOLIC BEVERAGE CONTROL DIV	3,282,818	3,280,889	-1,929
BUSINESS & INCOME TAXES DIV	11,362,805	11,360,124	-2,681
DIRECTORS OFFICE	8,477,583	7,812,146	-665,437
INFORMATION MGMT & COLLECTIONS	6,637,598	6,470,171	-167,428
PROPERTY ASSESSMENT DIVISION	23,047,924	23,043,082	-4,842
TECHNOLOGY SERVICES DIVISION	8,395,825	9,225,282	829,457
Total	61,204,554	61,191,695	-12,859
Acct & Lvl 1 DESC	March Modified Budget	June Modified Budget	Net Modifications
61000 Personal Services	45,155,277	44,315,249	-840,028
62000 Operating Expenses	15,923,117	15,679,111	-244,006
63000 Equipment & Intangible Assets	47,421	65,715	18,294
68000 Transfers-out	1,500	1,500	
69000 Debt Service	77,239	1,130,120	1,052,881
Fund Type	March Modified Budget	June Modified Budget	Net Modifications
01 General	56,220,268	56,209,385	-10,883
02 State/Other Spec Rev	993,626	993,579	-47
03 Fed/Other Spec Rev	279,825	279,825	
06 Enterprise	3,710,835	3,708,906	-1,929

The Department of Revenue had a modification that reduced the HB2 budget by \$12,859. Per 39-71-403(1)(b)(iv), MCA, when workers' compensation premiums are lower than the previous year, state agencies shall reduce personal services appropriations by the amount of the premium reduction. To track the changes in appropriation authority, total appropriations are not reduced, instead the Governor's Office of Budget and Program Planning (OBPP) requires state agencies to:

- Reduce HB 2, statutory, and proprietary appropriations
- Create a separate offsetting entry on the financial statements in the same amount using an identifying number for workers' compensation entries

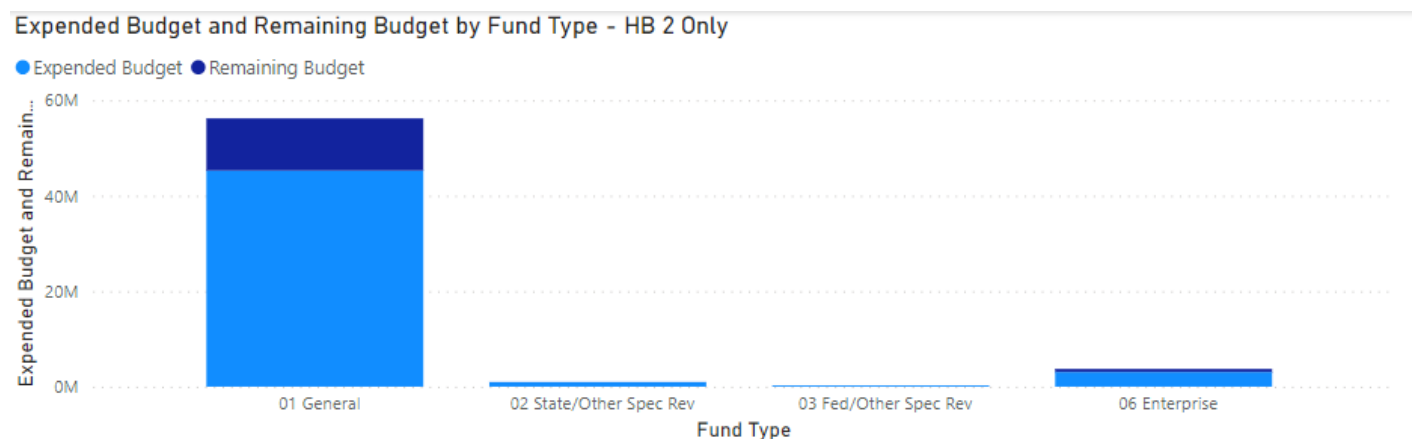
The offsetting entries are identified as "frozen" appropriations, which means the appropriations will not be spent unless authorized by OBPP. This modification reduced general fund, state special revenue, and enterprise funds for personal services in every division. The most significant reduction was in the Property Assessment Division totaling \$4,842.

Other modifications include a reorganization. The Department of Revenue moved 7.00 FTE and the corresponding appropriations totaling \$663,778 from the Director’s Office, as well as 2.00 FTE and the corresponding appropriations totaling \$166,458 from the Information Management & Collections Division to the Technology Services Division. This reorganization will move like functions all into one program.

Additionally, DOR transferred funding from personal services (\$827,169) and operating expenses (\$225,712) to debt services (\$1,052,881) to appropriately account for rent leases. DOR also moved \$18,294 from operating expenses to equipment & intangible assets to purchase a printer in the Technology Services Division and two plotters in the Property Assessment Division.

HB 2 APPROPRIATION AUTHORITY

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



acclv1_descr	Modified Budget	Expended Budget	Percent Expended
Personal Services	44,315,249	39,871,578	90.0%
Operating Expenses	15,679,111	8,565,938	54.6%
Equipment & Intangible Assets	65,715	37,477	57.0%
Transfers-out	1,500		
Debt Service	1,130,120	1,127,358	99.8%
Program Name	Modified Budget	Expended Budget	Percent Expended
ALCOHOLIC BEVERAGE CONTROL DIV	3,280,889	2,654,746	80.9%
BUSINESS & INCOME TAXES DIV	11,360,124	9,830,915	86.5%
DIRECTORS OFFICE	7,812,146	5,457,283	69.9%
INFORMATION MGMT & COLLECTIONS	6,470,171	4,947,683	76.5%
PROPERTY ASSESSMENT DIVISION	23,043,082	20,815,890	90.3%
TECHNOLOGY SERVICES DIVISION	9,225,282	5,895,833	63.9%
Total	61,191,695	49,602,351	81.1%

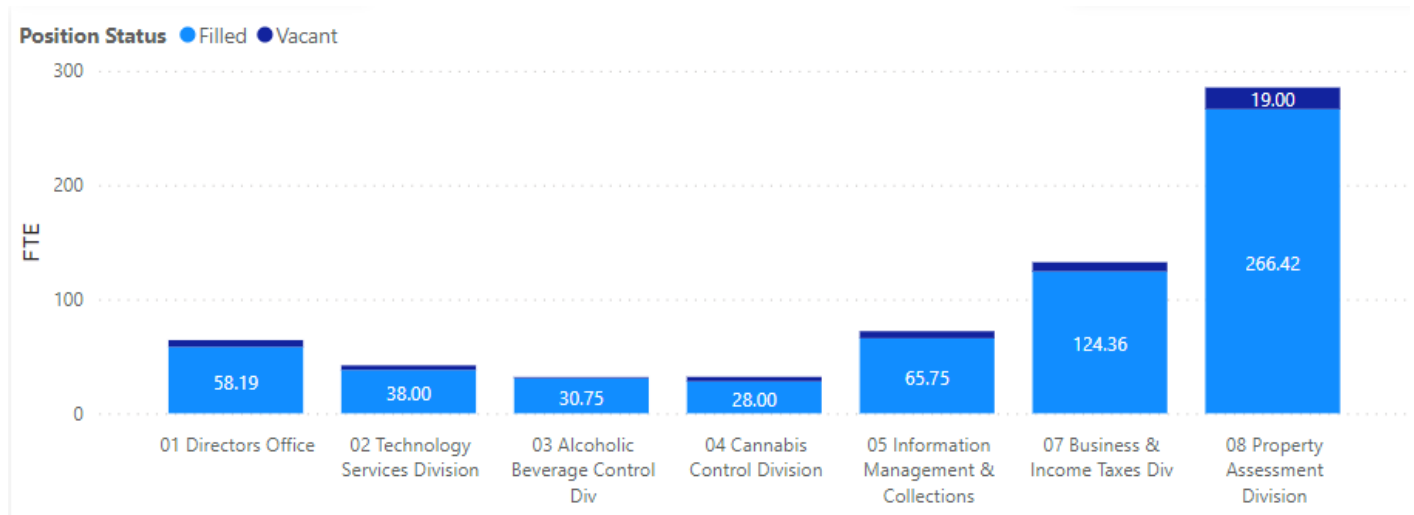
The Department of Revenue’s HB 2 modified budget totals \$61.2 million for FY 2022. The majority of the funding is from general fund for personal service expenditures. As of the end of May, DOR has expended \$49.6 million or 81.1%.

The Technology Services Division expended 63.9% 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 72.4% of the total HB 2 budget for FY 2022, with \$39.9 million or 90.0% expended as of the end of May.

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



DOR had 7.3%, or 48.20 FTE, of its HB 2 positions vacant as of May 1, 2022, which includes:

- 6.00 FTE in the Director’s Office
- 4.00 FTE in the Technology Services Division
- 1.00 FTE in the Alcoholic Beverage Control Division
- 4.00 FTE in the Cannabis Control Division
- 6.20 FTE in the Information Management & Collections Division
- 8.00 FTE in the Business & Income Taxes Division
- 19.00 FTE in the Property Assessment Division

For a detailed report on vacancies by job type, please refer to the attached vacant FTE report. The highest number of vacancies is in the Property Assessment Division for property appraisers. The agency continues to face hiring difficulties due to a tight labor market.

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.

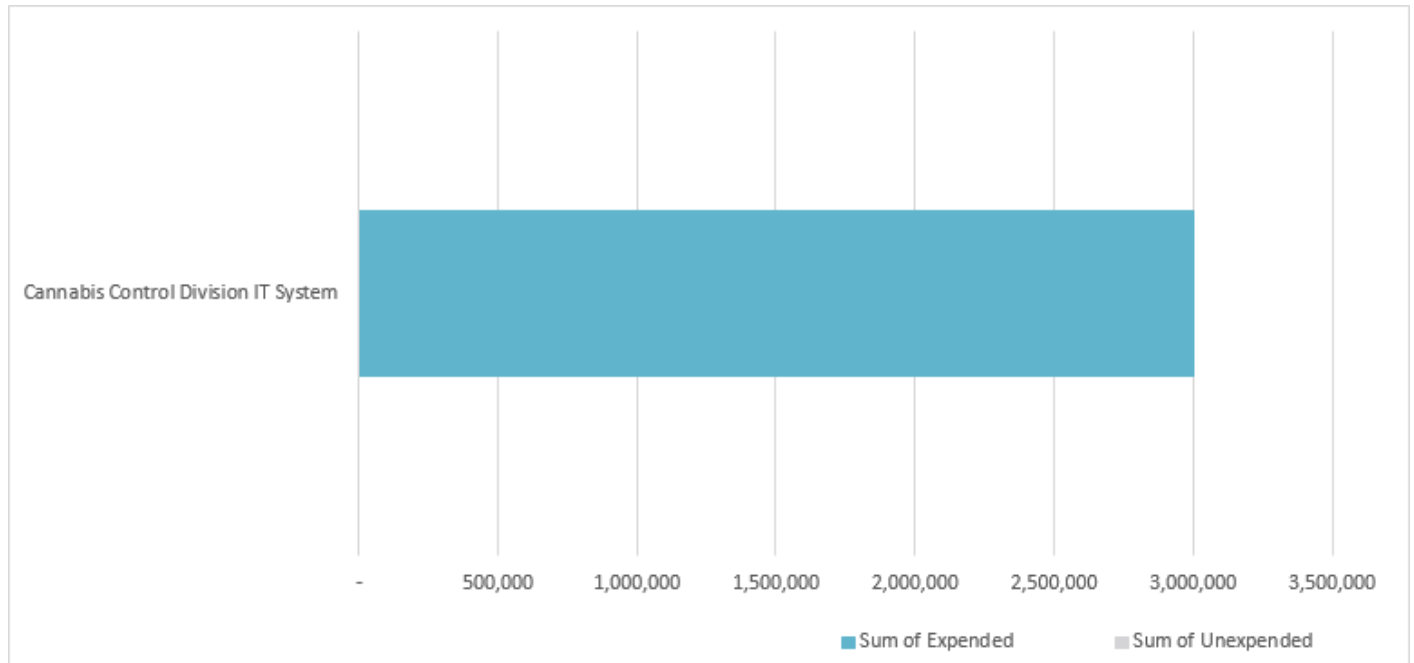
The September Quarterly Financial Report will provide the complete comparison from July 2020 to July 2022. Ultimately, the analysis will result in a description of all the components that will be part of the executive’s decision package one (DP 1) 2025 biennium budget request. This work will prepare 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 25.6% of the total HB 2 budget for FY 2022, with \$8.6 million or 54.6% expended as of the end of May. Significant operating expenditures include software maintenance and rental costs. Much of the Department of Revenues operating expenses will not be paid or accrued until June, resulting in lower expenditures to date.

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. 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.