MINUTES OF THE
LEGISLATIVE, JUDICIAL AND ADMINISTRATIVE SUBCOMMITTEE

February 16, 1979
7:30 a.m.
Room 132
State Capitol Building
Tape Data: 7:2-2:42-end
8:1-1:0-217
Subject: Dept. of Revenue

The meeting was called to order by Senator Lockrem, Acting Chairman, at 7:30 a.m. All members were present except Chairman Menahan who joined the meeting at approximately 10:00. Fiscal Analyst JanDee May was also present.

The hearings for the day were Department of Revenue: Legal Division, Liquor Division, Corporation Tax, Miscellaneous Tax and Operations Division.

DEPARTMENT OF REVENUE
Legal Division

Mr. Bentson stated that the Legal Division has decreased their staff because of losing a position in the hiring freeze.

The funding is primarily general funding with some federal funding.

The Executive recommended a $17,373 reduction in 1980 and $17,593 reduction in 1981 which included a 4% vacancy savings and a reduction of one FTE. The Executive's recommendation for travel was based on 1978 expenditures less 15%.

The FA applied a 3% vacancy savings and reduced one FTE. The FA also reduced the equipment request by $500 each year.

Bruce McGinnis, Chief Counsel, presented to the committee the functions of the Legal Division with relation to the other programs within the Department of Revenue and the responsibilities of the staff with the Legal Division. He stated they have two attorneys, one for child support and one for collection and fraud cases who are paid 75% through federal funding on a matching basis.

They are requesting $193,708 for 1980 and $197,448 for 1981 of general funds and $35,000 each year for other funds.

The workload indicators project an increase of 71.8% for lawsuits, 87.5% for administrative hearings and 100% for collection and fraud cases for Fiscal Year 1980 and 1981. Mr. McGinnis stated with 8 FTE and the increase in workloads it would be impossible to leave a position vacant. If the vacancy savings has to be absorbed it will have to come from operating expenses.

The FA's recommendation allows for an increase of 2.2% over 1978 expenditures.

The FA commented that the position eliminated during the hiring freeze was vacant 100% of the time in 1978. She stated the program did get along without the position. Last year, they had a 18.4% vacancy savings. A lawyer and stenographer were vacant and another stenographer was vacant 50% of the time.

In the area of communications, the FA went off the 1978 level. The program request was for a 52% increase and a 95% increase.

Equipment was eliminated for office equipment requests. The FA stated that with positions vacant their equipment could be utilized.

Mr. Bentson responded to the vacancy savings that positions were left vacant and the funds moved to contracted services to use for outside legal fees and services. He stated it was not the case that the positions were not needed.

Mr. McGinnis stated that part of the problem was qualified applicants were difficult to find.

Corporation Tax

Ron Smith, Assistant Administrator for Auditing and Accounting, explained to the committee members the functions of the program. He stated the revenue has been climbing and the projected figure is $31 million for 1979. The workloads are also increasing.

The program is requesting one additional FTE for 1980-81 biennium.

The funding for the program is all general fund. The revenue distribution is 65% to general fund, 25% to schools and 11% to Long Range Building. There is a 19% increase in revenue, a 17% and 41% in workloads and a 5.6% in staffing.

The Executive has applied 3% vacancy savings and has reduced one FTE. The FA has applied a 4% vacancy savings, reduced one FTE and reduced the equipment budget by 50% the first year and 33% the second year.

Under the modified level they are requesting an additional auditor. Mr. Smith stated each auditor brings in approximately $200,000 in the Corporation Tax Program. The Executive and the FA do not recommend this position.

Jerry Foster, Administrator for Corporation Tax stated $25 is returned on every dollar spent on audits. He said everything within the program is directly linked with the audits.

Mr. Foster stated that basically the reduction of the Executive recommendation was the Grade 4 position which was taken in the hiring freeze. He commented that if they could not have the position they would have to use auditors to do clerical work. He asked the committee to reconsider this point.

Mr. Foster stated they have had difficulty hiring qualified auditors and retaining them. They have had a very high turnover. He did feel, however, that because of the salary increases for the auditors that possibly the problem with the turnover would be in control.

Mr. Foster stated that last year they had a $30,000 vacancy savings of which he could only revert $7,000 back to general fund.

Travel for out-of-state is increasing and Mr. Foster stated they have a bill in legislation for increasing their travel funds.

They are requesting one additional FTE. The position would be an auditor to supplement the present auditor to work on cases of jurisdiction. They have included in their request equipment and operational costs.

Mr. Foster stated they will need an additional $70,000 for the biennium: $25,000 for Multi-state Tax Commission dues increase, an additional $10,000 to help assist on legal defense. They have three very important cases in court for which they have had to go to outside counsel.

In summary, Mr. Foster asked the committee to approve the agency request and in addition appropriate $70,000 for the biennium.

The FA responded in the area of personal services that last year the program had a significant amount of vacancy savings. There were 4 positions which had vacancies from 41% to 72%. Of the four positions, the FA pointed out that only one was an auditor. The FA commented that with the increase in salaries for the auditor positions that possibly they could be maintained but felt that there would still be vacancies in other positions.

In relation to the modified request for an additional auditor, the FA stated that quite sometime ago, Mr. Foster said no additional auditors were needed and therefore, the FA did not recommend this position.

The FA stated the Fiscal Analyst Office was very much behind the program and in almost every instance recommended what was requested. The differences were in the area of other expenses. Last year, the program spent $359 and are requesting $2,000 and $4,000. The FA 's office policy was to keep other expenses at current level without increases.

Mr. Foster responded that the four positions that were vacant were auditors. Mr. Hammer, Personnel Officer, stated that there was an error in transportation of codes that lead the FA to believe these positions were not auditor positions.

The dues and subscriptions of $369 mentioned by the FA were commented on by Mr. Foster that these were literary aids geared directly to auditing. Tax Service alone cost $1,500 which was under subscriptions.

Mr. Foster stated that everything has gone up 20% to 40% this year. Postage has doubled, data processing has increased 20% due to expansion and travel has increased.

Liquor Division

Mr. Bentson stated that the Executive has reduced the budget request by approximately $108,000 the first year and $115,000 the second year. The FA has recommended reductions of $1,528,989 the first year and $1,616,934 the second year.

Under their modified level, they have requested two liquor stores: one in Helena and one in Bozeman, a district supervisor and a hearings examiner.

Leon Messerly, Administrator, in his presentation to the committee attempted to show the history of the Liquor Division in regard to revenue and production in the state and explained what they could do if the amount requested was appropriated.

Mr. Messerly stated they are requesting $6.4 million for 1980 and $6.6 million for 1981.

By graphs, Mr. Messerly illustrated to the committee the Liquor Division Profile: cost of goods sold, expenses, net revenue and discounts for the liquor operations. He also illustrated liquor licensing, beer tax collection and sales operations.

For liquor sales, Mr. Messerly pointed out that the gross profit in relation to total dollar sales has averaged approximately 44%. Mr. Messerly showed by graph, the total sales expenses of 9.1 for 1978 which left the net revenue at 35.2%.

The Liquor Division has 267 employees in the liquor stores. The amount of accrued sickleave and vacation is approximately $303,000 for this year. No fund is established for hiring substitutes for vacation or sickleave in one-man stores. Mr. Messerly stated they do have a pool of aggregate employees.

Last year, $147,000 budgeted for the pool was spent for vacation and sickleave before it was needed for the aggregate employees. In previous years, vacancy savings were used for vacation, sick-leave and to add on additional people.

Mr. Messerly stated that employee theft, theft, and breakage amounts to approximately $40-50,000 each year.

In 1978, $4.7 million was utilized to generate $18.2 million. The estimated income for Fiscal Year 1980 without table wine sales included would be $2.82 for each dollar received plus the original dollar. In 1981, they would be able to give back $2.87 for each dollar plus the original dollar.

Mr. Messerly showed by graph, the staffing in each store at present versing the FTE who would be employed according to the FA's proposal of eliminating 102 FTE over the biennium. There would be 27 stores converted to agency stores which would account for 27 terminations. The other 75 would be terminated from the stores having the staff to terminate.

Mr. Messerly stated that for sometime they have recognized the need for converting the least profitable stores to agency stores. The amount of severance pay the 27 people from these stores would realize based on their service to the state would be $67,000. This amount would be paid if the union was successful in negotiating the severance pay.

Mr. Messerly stated in the area of FTE that they reduced their FTE to 320 after the move to the new warehouse and the Governor's freeze further reduced the FTE to 308. The program currently operates with 40.5 FTE in the central office and warehouse and 267 FTE in the stores. The FA recommends 40.5 for the central office and warehouse but reduces 102 from the liquor store operations.

Mr. Messerly gave a comparison between the Washington liquor store staffing and Montana liquor store staffing. The comparison showed by the Washington staffing formula that Montana was under staffed by 28.89 FTE.

Mr. Messerly estimated what the Liquor Division could do if properly funded. He stated they could generate $15.3 million if appropriated the $5.4 million. If they were allowed the $6.4 million which includes the money to establish the two new stores, the request for the district supervisor and were allowed to establish a better computer program system, they could generate $17.9 million for 1980 and if appropriated $6.6 million they could generate $18.8 million. If allowed the FA recommendation they could only return back $10.8 million for 1980 and $11.0 million for 1981.

The FA felt that the presentation of Mr. Messerly really did not address the situation with Initiative 81 and House Bill 99.

The FA addressed the small stores as to substitutes needed for the one-man stores for vacation and sickleave. She said this is quite expensive to hire a person to take over for the manager. Another item was the unit costs in the small stores. The FA stated that the cost per unit goes up in the small stores from the larger stores. The average for larger stores is 29¢ per unit and the average for class 7 (second smallest) stores is 74¢. For class 6 stores the cost is $1.44 to sell one unit.

The FA's basis for recommending the conversion of the stores is that they will be losing money in 1980 and 1981 with Initiative 81. Once converted to an agency store the savings will increase 40% to 70% due to the commission status.

The FA stated in the area of the FTE count that she recommended

9 FTE less in the central office and warehouse and a reduction of 43 FTE the first year and 56 FTE the second year in the stores.

Dick Dodge, Fiscal Analyst, commented that his part of the analysis for the effect of Initiative 81 on the present operations of the Liquor Division did not say that the Liquor Division should reduce 102 employees from their stores. The study indicated that 45 FTE should be eliminated because of the drop in unit sales and if the Department of Revenue converted stores to agency stores in 1981 they could further reduce the FTE by 15 for a total of 60 FTE over the biennium.

The FA commented that 5 of the 9 FTE deleted by the FA for the central office were vacant. Tom Mulholland, Assistant Administrator, responded that the licensing clerk was funded for a special project and her duties have since been delegated to other secretaries. The others were warehouse watchman who have been eliminated.

Miscellaneous Tax

Ron Smith, Administrator of Auditing and Accounting, explained the function of the Miscellaneous Tax Program. The revenues for the program are projected to increase 40.4% to $90,410,880. Workload indicators show audits increasing 45.7%.

For staffing the program has 13.85 FTE and is requesting 14 FTE through a modification. The funding request for general fund for 1980 is $291,062 and for 1981 $296,223; other funding is $20,000 each year.

The cut issues include a vacancy savings being applied by both the Budget Office and the FA of 4%.

Under a modification they request reclassification of a secretary position to an administrative aid so the position could perform post and preaudit duties. The FA allowed 77% funding or a Grade 10 rather than the requested Grade 11. The Executive did not recommend the reclassification.

Jim Madison, Administrator, stated the program is the second largest revenue producer in the Department of Revenue. They collected $64 million in 1978 with 13.85 people. They collected $253 in taxes and licensing for every dollar spent.

In Fiscal 1978 the program had a $8,600 vacancy savings. Mr. Madison emphasized, the $8,600 was reverted. The vacancies came from the resignation of a Grade 12 auditor, the resignation of a accounting clerk and delay in filling the positions. A major portion was the vacancy of the .85 FTE for the first 7 months of the year.

In operations, the program had a deficiency of $8,800; in repairs and maintenance a deficiency of $1,000. The recognization of savings within supplies and materials of $3,000, communications and travel $4,300, other expenses $100 and equipment $1,000 allowed the balancing for the other programs.

Mr. Madison stated that for Fiscal 1979 they have no vacancy savings and he does not anticipate any for the remainder of the year. He does not feel that he can come up with $8,000 in vacancy savings with no vacancies.

Mr. Madison said they have raised contracted services from $10,000 to $19,000 for 1979 and increased the travel.

The equipment budget has been reduced by $6,567 the first year and $1,379 the second year by the FA. Mr. Madison stated that the funding allows only one car.

The FA stated the differences between the two budgets are within travel. It was the FA policy to keep travel at the 1978 level. Mr. Madison stated that last year they had a total of 8 months of no traveling.

The FA recommended 1 car for each year. These cars were compact cars. Mr. Madison stated that they would purchase a midsize car and the funding would only allow for one midsize car.

Operations Division

Howard Hammer, Personnel Officer, is temporily acting as Administrator of the Operations Division. Mr. Hammer explained the functions of the program. The program has four functions: personnel management, central supply, mailing processing and word processing.

The workload indicators show a projected increase of 46.9% in personnel documents, 11.1% increase in appeals handled, 35% increase in pieces of mail, 44% supply requisitions and 25.6% increase in word processing items.

The staffing at present is 15.02 and they are requesting an additional .5 FTE. The program is requesting $234,141 in 1980 of general fund and $237,198 in 1981 of general fund. An increase of 21.4% from 1978. They are requesting $120,000 of revolving fund each year or a 47.7% increase.

The SBAS and central payroll charges are being deleted from Department of Administration and therefore, the Executive has reduced the operations budget by these amounts.

The FA and the Budget Office have applied 4% vacancy savings. Mr. Hammer stated that in 1978 the program over expended $9,775 in the area of personal services and have never actually incurred a vacancy savings.

A .5 FTE that was transferred from the Inheritance Tax Program into the Operations Division was eliminated by the FA but was recommended by the Budget Office. The program requested this .5 FTE for the upcoming biennium.

In the area of impending upgrades for mail clerk positions, the Budget Office reduced the request by $3,732 in 1980 and $3,993 in 1981. The FA recommended a reduction of $8,000 each year. The FA also reduced contracted services by $1,800 each year.

The Executive reduced travel based on 1978 actuals less 15%.

The equipment budget was reduced by $1,445 for 1980 and $1,450 in 1981 by the FA. The FA indicated a reduced cost in rent due to the lowering of rent by the Department of Administration. For equipment, Mr. Hammer stated that some new pieces of equipment have been put on demonstration from now until May. From May through June a lease purchase agreement will be made. This would be less than the amount needed to repair the present equipment.

Ron Smith explained the revolving fund and why they need it for purchasing of the central supply operations. Mr. Smith stated the revolving fund is necessary to replace the inventory. No outside funds are in the account. Mr. Smith said if each individual department bought supplies it would cost 20% more than buying through the central purchasing for supplies.

The FA recommended supplanting the revolving fund with general fund.

Mr. Hammer stated in summary that the program needs the Department request for two reasons: one, not having any vacancy savings for this year and two, the appeals of other departments for upgrades has been approved by the Board of Personnel.

The FA stated that the .5 FTE was included within their current level and it is not current level. She said she is not saying it is not needed only that it should be looked at by the committee as an increase and not current level.

In the vacancy savings area, 4% was pulled out in 1979 and put into operations. Within the area of rent, the FA stated there was a possibility of having to increase the rent figure.

The meeting was adjourned at 12:00 p.m.

Respectfully submitted.

William Menahan

William Menahan, Chairman

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