

MINUTES OF THE
LEGISLATIVE, JUDICIAL AND ADMINISTRATIVE SUBCOMMITTEE

February 20, 1979
7:30 a.m.
Room 132
State Capitol Building
Tape Data: 8:1-1:1159-2146
Subject: Dept. of Revenue
Work Session

The meeting was called to order by Senator Lockrem, Vice-Chairman, at 7:30 a.m. Representative Hand was excused. All other members were present. Chairman Menahan joined the meeting at 8:30 a.m.

The hearings for the day were Department of Revenue: Investigation Division, Income Tax Division and Motor Fuel. The committee held a work session at the end of the hearings for decisions on the Department of Revenue program budgets.

DEPARTMENT OF REVENUE
Investigation Division

Bill Harrington, Bureau Chief, stated he would discuss the misunderstanding between the FA and the Division and also the reorganization of the Division in 1978.

Mr. Harrington said the area of the misunderstanding and the reorganization affected their budget in contracted services and in the surplus created in 1978.

The Division is broken into the Child Support Enforcement Bureau, the Welfare Fraud Function and the General Revenue Matters. Mr. Harrington stated that the Child Support is funded 75% federal funds and 25% state funds. He explained the functions of the program. Welfare Fraud is funded 50% federal funds and 50% state fund. The General Revenue is the alcohol tax, tobacco tax, income tax and other tax related matters.

The reorganization came about because of the federal government advising the division that if they continued operating with inadequate staffing and a heavy caseload they would lose 5% or \$500,000 of federal funding for the Child Support Program.

The reorganization entailed retraining investigators as generalists instead of specialists so when they were in the field they could perform the functions of Child Support, Welfare Fraud and revenue matters. The funding was also rearranged so 50% would be child support enforcement, 30% revenue matters and 20% welfare fraud. With this change 20% more federal funding was obtained.

Mr. Harrington stated with the match of general funds with the federal funds it created a surplus which they used to generate

enough funds to add 11 additional FTE.

Mr. Harrington commented that Senate Bill 221 allows for administrative procedures which will increase easily collectable cases and process them faster and more efficiently.

When going over contracted services with the FA, Mr. Harrington stated they would not need contracted legal services with the passing of Senate Bill 221. They now feel that contracted services will still be needed to handle the more difficult cases to make certain orders are carried out through the administrative procedures and to assist other states.

Mr. Harrington stated they are predicting \$1.3 million in 1980 and \$1.5 million in 1981 in revenue. For staffing they are requesting 11 additional FTE. They are currently operating with 48 FTE which includes the 11 additional requested. These additional positions were added on by budget amendments and program transfers and are being requested in a budget modification for 1980-81.

The reduction areas are in operating and vacancy savings, program transfers, equipment and contracted services. Contracted services was reduced by \$191,000. Vacancy savings were applied at 4% by the Executive and the FA.

Mr. Harrington stated the vacancy savings occurred through the reorganization. The program transfer was used for a parent locator position in the Child Support Program.

Equipment was reduced by approximately \$10,000 per year. The recommendation was for the program to use compact cars instead of midsize cars in the area of equipment.

The FA responded to the presentation of Mr. Harrington. In the area of personal services the FTE transfer was from the Liquor Division. The FA stated this was another case where the FTE should have been eliminated at the time of a store converting to an agency store.

In 1978, the program had a 5.23 vacancy savings. Mr. Harrington addressed the legal counsel situation.

The FA stated for current level for legal services the amount is approximately \$42,000 a year and the modified is approximately \$110,000 a year for various legal counsel.

The FA responded that the 11 people were put on last year and have equipment. In the budget amendment, \$7,000 for equipment was requested which established these people. They are also requesting additional equipment in the modified request. The FA made reductions for these reasons.

The FA also pointed out that \$15,000 of general fund was transferred from this program to Property Valuation last year.

The committee discussed the administrative procedures versing the court hearings.

Mr. Lewis stated they are requesting in their equipment budget 3 automobiles out of 18. He stated the compacts did not meet the requirements and needs for the division and with the FA reductions they have only enough for 1 1/2 cars.

The FA responded that last year cars purchased for the Income Tax Division were \$4,500 for midsize cars. The FA recommendation is based on the cost of the last midsize cars purchased plus 6% inflation.

Income Tax

Ron Smith explained the functions of the Income Tax Division. Revenue is projected to increase 5.5% from 1978 to 1981. Workload indicators show an estimated increase of 5.5% in income tax returns processed, 2.2% in withholding returns processed, 8% in collection cases, 7% delinquency cases and 15.8% in audit assessments.

In staffing they are requesting 67.15 FTE which is a 5.5% increase. General funding for 1980 is projected at \$1,470,059 and for 1981 at \$1,470,059.

The FA applied a 5% vacancy savings. Under the Executive 3 FTE were eliminated during the hiring freeze. Per the modified request, 2 office clerk positions and 5 clerical positions for field offices were cut by the FA and the Budget Office.

Senator Lockrem asked if the program has considered having an audit department or pool. The committee discussed this point briefly.

Howard Vralsted, Administrator, felt that the budget request is understated for the actual needs for operating. Mr. Vralsted stated of \$1,137,000 which was authorized last year, \$49,953 was surplus and he felt this was not unreasonable. The surplus generated was through employee salary and benefit savings.

Mr. Vralsted stated in the next biennium there will be very large increases in data processing costs and printing for tax forms. The tax forms increased 36% over the preceding year. Data processing costs will increase a minimum of 20% this fiscal year.

Mr. Vralsted commented that the FA did not recommend the 5 clerks for the field offices or the two office clerk for the Helena office. He said they see no alternatives for help with the field offices. Mr. Vralsted stated, however, the securing of the two office clerk in the Helena office take precedent over the field offices.

The FA stated that last year there was an 8.5% vacancy savings. Three people were vacant 50% of the time. These were the

positions deleted by the Budget Office. The FA did not recommend deletion of the positions but recommended before a significant amount of additional office staff be hired that they try to obtain 100% staffing with the FTE presently working.

Within operating expenses, the FA recommended the agency's request for data processing. The agency's request for supplies and materials was a 36% increase and a 44% increase. The major difference was in the area of rent which was found to be an error. The FA stated this would be corrected and funding for rent for the three field offices as well as utilities would be included if the committee decided to maintain the field offices.

Last year, the subcommittee appropriated \$15,000 to the Income Tax Division for equipment. In 1978, they expended approximately \$39,000 in equipment for new equipment and 3 automobiles. Of the amount expended \$21,000 was accrued at the end of 1978. The program transferred \$40,000 of general fund to Property Valuation and reverted \$10,000.

The FA felt that it is practical to have auditors for larger cities instead of disbursing them from Helena, however, the FA questioned the offices needing to be opened 8 hours a day, 5 days a week all year round.

Mr. Lewis responded that the main concern is the public service for the field offices. He said by statute those who work with income tax are required to be an employee of the Division and not out on contract.

The committee discussed the field offices and the clerical help.

Motor Fuels Division

Ron Smith went over the functions of the Division. Revenue is projected to increase 7.65% from 1978 to 1981. The workload indicators show a 7.45% increase on returns processed, 1.99% on refund claims processed and 26.58% in audits conducted. For staffing the program is requesting 26.5 FTE for 1980 and 1981 or a 6.0% increase.

The funding is earmarked funds and revolving funds.

Norris Nichols, Administrator, stated that there is no problem with collection of gasoline for the Division. The big cost is in diesel. Mr. Nichols stated every licensee has to file returns 12 times a year. These returns need to be processed. Mr. Nichols stated that for every 100 licensees, the program has trouble with approximately 10%.

House Bill 727 has proposed quarterly returns for the process and for the Division to issue one card or permit.

Mr. Nichols stated before refunds on credit are issued they conduct an audit. They have two auditors in the field: one in

Missoula and one in Billings.

In regard to FTE additions, Mr. Nichols stated that when they moved into the old liquor warehouse a .5 FTE was transferred into their program from the Inheritance Tax Division for janitorial services for the building. Also an extra position was hired because of the increase in workload which was transferred from the Liquor Division in May, 1978.

The FA reduced the operating expenses by \$6,000.

The FA commented in the area of the FTE that the positions were transferred from the Inheritance Tax and the Liquor Division and should have been reduced not transferred. Within operating expenses, the FA stated that a 4% vacancy savings was applied and in 1979, \$13,000 was dropped into operating expenses from personal services.

They expended \$68,000 in 1978. The original operational plan for 1979 showed \$70,000. When they transferred the \$13,000 from personal services it increased the amount to \$83,000 and to this base applied 6% inflation to operating expenses.

Within operating expenses, the FA stated that they are requesting increases of 38% and 35%; within contracted services 26%; supplies and materials 37%; communications 51% and 60% and travel 42% and 47% increases.

The FA commented if the \$13,000 was not moved from personal services the 6% would have been applied to original 1979 operations.

Don Bentson commented that the workload increase is approximately 30% from 1978 to 1981. He stated they have to absorb the workload increase and the reductions of the FA would be too much to absorb. Mr. Bentson stated with the FA recommendation they would lose revenue.

Mr. Nichols stated they were in good shape for equipment but to anticipate no need for equipment in two years was not practical. He suggested including \$1,500 for equipment for 1981.

Mr. Nichols stated that they spend less than 1% of their collections.

Mr. Lewis commented at the end of the hearings that the printing of income tax forms cost approximately \$100,000 a year. He said they just paid \$96,000 for printing and mailing out of tax forms. The total is \$126,000 for printing which is considerably higher than 6% from the previous year.

Mr. Lewis stated that the FA allowed the 2 auditors but felt with the clerical help in the Helena office they would be better off than with the two auditors. He also requested rather than not allowing any clerical assistance for the field offices for

the committee to allow .5 FTE.

Mr. Lewis felt by approving the FA recommendation in Property Taxes that they would not get the job done in the counties and would not get assessment notices out with that type of funding.

Mr. Lewis stated that with the funding recommended by the FA it would kill the liquor monopoly because they would not be able to provide the service. Mr. Lewis said it is virtually impossible to operate on the same level as was expended in 1978 for 1980 and 1981.

WORK SESSION

DEPARTMENT OF REVENUE

Motor Fuels

Mr. Eaton stated the Executive recommendation included approximately \$2,000 which would come out for SBAS and central payroll charges.

Last session, \$1,000 was appropriated for 1978 for equipment for the program. The program expended \$3,600 which was 247% increase from what was allowed. They accrued \$2,100 to buy the equipment.

Mr. Eaton commented that zero dollars for equipment for 26 people over 2 years is unreasonable for the program to operate with.

The difference between the Budget Office and the FA is \$11,924 and \$12,700 within operating expenses excluding the charges for SBAS and central payroll. The FA is under the Budget Office. The other difference is \$12,000 in personal services.

Senator Lockrem was excused at this time.

Representative Wood made the motion to approve the FA recommendation, adding 1.5 FTE, \$500 a year for equipment and \$5,000 a year for operating expenses. Senator Thiessen seconded the motion.

Representative Wood, Senator Thiessen and Chairman Menahan were in favor. The motion passed unanimously.

Investigation Division

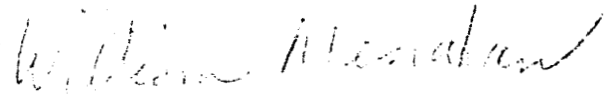
The difference between the Budget Office and the FA is approximately \$300,000. For each year, \$150,000 is requested for legal services by the program.

Senator Thiessen moved to approve the FA recommendation, adding \$100,000 a year for legal services with the language that the money appropriated for legal services be used only for legal services.

Those in favor were Senator Thiessen, Representative Wood and Chairman Menahan. The motion passed unanimously.

The meeting was adjourned at 9:55 a.m.

Respectfully submitted.



William Menahan, Chairman

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