

MINUTES OF THE MEETING OF THE APPROPRIATIONS SUB-COMMITTEE ON ELECTED OFFICIALS AND HIGHWAYS

February 22, 1983

(Tape 87 and Tape 88  
Side A)

The Appropriations Sub-committee on Elected Officials and Highways met at 7:00 a.m. on February 22, 1983 in Room 437 with Chairman Quilici presiding. The following members were present:

Chairman Quilici  
Rep. Connelly  
Rep. Lory

Senator Dover  
Senator Keating  
Senator Van Valkenburg

Senator Stimatz was excused.

Also present: Cliff Roessner, LFA; JanDee May, OBPP.

WORK SESSION

DEPARTMENT OF REVENUE

Income Tax Division

Mr. Roessner told the committee that the difference between the LFA and OBPP budget in FTE's is one clerk position that the LFA deleted because this position was vacant all year and the program had a 5.9% vacancy savings.

Senator Dover made a MOTION that the committee accept 68.15 FTE's. Discussion.

Senator Dover AMENDED his MOTION to take the FTE figure in FY84 from LFA's budget and FY85 from OBPP's budget. Discussion.

Senator Van Valkenburg pointed out to the committee that on the department's handout this position was filled during the year but there was a miscoding or something that the LFA picked up. After some discussion Ellen Feaver told the committee that this was a tax season aggregate number which represents the employment of a number of people to deal with refunds and tax returns during this season. She explained that they used all the money for this purpose but paid it out of the wrong aggregate position.

Senator Dover AMENDED his MOTION to accept the FTE's in the OBPP budget for both years of the biennium. Discussion. The Amended Motion carried.

Under "Operating Expenses" Mr. Roessner explained to the committee that in "Contracted Services" approximately \$12,600 is for data processing fees to access computerized files on their income tax system. The justification for this was that the system was not up and fully running in 1982 and they are requesting the annualization of those costs. He further explained that in the budget they have already inflated data processing by \$16,000. This is in an area where Mike Trevor and Jim Christnacht cited that there

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probably wouldn't be any increase in fees. They have already been given \$16,000 through 6% inflation in that area.

Rep. Lory made a MOTION that the committee accept the LFA's budget for "Contracted Services."

JanDee May told the committee that when the 6% was put together for data processing it presumably was for increased rates and that is an average throughout Computer Services, some areas will not increase, others will increase more.

Discussion by the committee.

Mr. Roessner told the committee that for meeting federal regulations they had to budget an additional \$44,000 for postage and \$24,000 for printing under "Supplies and Materials" and "Communications". He also said there was an additional \$2,000 within the "Contracted Services" difference that the LFA didn't put in that should be included. This is for printing and the destruction of records.

Rep. Lory AMENDED his MOTION to include \$2,000 in each fiscal year, which would total \$324,990 in FY84 and \$344,366 in FY85. Discussion. Motion carried.

Mr. Roessner told the committee that \$4,300 of the difference between the budgets is for postage (20 cents a stamp for 215,000 information returns to be mailed out). \$4,200 of the difference is for the new telephone system which they installed which is the Horizon telephone system. They are requesting additional funding for that system. The system was only installed for a portion of the year and therefore they don't have a full base in that year. Ellen Feaver told the committee that she didn't believe that was the difference in the budget. She said the additional telephone cost was for out-of-town telephones. In the inflation factor the LFA didn't allow increases for local phone services. They treated the local phones as if they were going to be on the new cheaper state phone system and they are not. Mr. Roessner said that in this case it was not. This cost is the Horizon system. Discussion.

Senator Dover made a MOTION that the committee accept the OBPP budget for "Communications", "Travel" and "Supplies and Materials". Question. Motion carried.

Discussion by the committee. Mr. Roessner noted that under "Other Expenses" \$4,568 is for registration fees for training conferences that the Executive Office put in but the LFA didn't.

Senator Van Valkenburg made a MOTION that the committee accept the OBPP budget in "Other Expenses", "Rent", "Utilities", and "Repair and Maintenance". Motion carried.

Mr. Roessner told the committee that \$15,000 of the difference between the Executive Budget and the LFA's proposal is for an

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integrated filing system. The program wishes to replace three separate filing systems that they currently have which they would like to convert to one system to have easier access to the files.

Rep. Lory made a MOTION that the committee accept the OBPP figure for "Equipment". Discussion. Senator Dover and the Chairman expressed concern about the general fund and noted that there are going to have to be some cuts made in budgets for all agencies. Ms. Feaver explained that this filing system would allow quicker access to requests from employers for information from the Department of Revenue. She said she felt this expenditure would be cost effective.

Question. The motion did not carry. Senator Dover, Senator Keating and the Chairman voted "no".

Discussion.

Senator Dover made a MOTION that the committee accept the LFA budget in FY84 and the OBPP in FY85. Discussion.

Rep. Lory made a SUBSTITUTE MOTION that the committee accept the OBPP budget figure for "Equipment" less \$15,000 in FY84 and accept the OBPP budget figure for "Equipment" in FY85. Discussion. The Substitute Motion carried.

Senator Dover made a MOTION that the Income Tax Division's budget be passed as amended. Discussion. Motion carried. (333)

#### Budget Modifications

Discussion.

The committee addressed the Budget Modification requesting 6.5 FTE's in the Withholding and Compliance areas of the Income Tax Division. This modification is requested to improve tax compliance by identifying persons who are not filing income tax returns and employers who are not complying with withholding tax laws. 4.5 FTE's would be assigned to withholding tax work and 2.0 FTE's would concentrate on income tax compliance. Mr. Roessner explained to the committee that this proposal is based on the fact that there is over \$7 million in income tax delinquencies outstanding. The department feels that with the additional personnel they can increase the collections in that area and more than off-set the cost of the additional personnel.

In answer to a question from Senator Dover, Ms. Feaver explained that the positions which were cut in the previous budget were due to word processing efficiency; the positions they are adding at this point have a different function. They collect taxes from employers who aren't paying the withholding tax to the state. Improved tax compliance, the 6.5 FTE's and the next modification of 2 FTE's would enable the state to maintain an equitable tax system. In answer to a question from Senator Keating, Ms. Feaver

said that these positions are in the field. She told the committee that they know of far more dishonest tax payers at this point than they can go after. Ms. Feaver explained that, for example, in Colstrip some employees were claiming 99 exemptions and the employer was not withholding any income tax. The field people went to Colstrip and had the employer change the W-4's. In answer to a question from Senator Keating, Ken Morrison told the committee that there is a substantial amount involved in these situations, close to \$10,000 for each adjustment in this area.

The Chairman noted that the full Appropriations Committee is going to take a hard look at any budget modifications and asked Ms. Feaver if she could get along with half the requested FTE's. He also noted that the Department of Revenue has shown a good return for the number of FTE's it has hired. He said that the other sub-committees were passing out very few modifieds and this sub-committee was being criticized for passing on modifieds when there isn't enough money for human services. Ms. Feaver replied that she had two concerns. "One is that on this particular modification we think that you could add \$1.3 million to your revenue estimate. We did show you the report where we added staff last time and they returned over \$1 million. But the biggest concern I have about our income tax program is that if we don't do a good enough job in our compliance work to convince our citizens that they are just paying their fair share, and not somebody else's share, and that it is not easy to get away with not paying your income tax, then I'm concerned that the whole system will deteriorate." She said that 3.5 or 6.5 is a decision that the committee will have to make as to whether or not the system is going to work or whether it will not.

In answer to a question from Rep. Lory, Ms. Feaver replied that she was confident that the \$1.3 million anticipated revenue each year would be generated by the addition of these FTE's.

Rep. Lory noted that this addition of FTE's is a little different from other agency requests in that it would be an investment for the state to bring in this additional revenue.

In answer to a question from the Chairman, Ken Morrison said these people are not going to be doing a lot of traveling. There would be one person, a grade 12, doing considerable traveling in-state, but there is a considerable amount of research work that can be done in the office by lower grade employees. The "Equipment" is a car for the auditor.

Mr. Roessner noted that the LFA came up with a different figure for the car. The request is for \$9,490 and the LFA has this item listed at \$7,900.

Senator Van Valkenburg asked JanDee May if the increased revenue which would be produced by these modifications were included in the

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Executive Budget's revenue estimates. She replied that they were not. Rep. Lory said he felt that you are looking at an expense of \$230,000 while anticipating possible revenue of \$2.6 million. If those figures are right, the committee should approve it. Senator Van Valkenburg noted that this would be the easiest modified to justify. Rep. Lory said it was just good business. Rep. Lory made a MOTION that the committee approve the Budget Modification for 6.5 FTE's.

Discussion. Motion carried. The Chairman voted "no".

The Budget Modification for 2.0 additional FTE's in the Collections area of this budget was addressed by the committee. This proposal is designed to increase the collection of delinquent income and withholding taxes through the addition of two collector positions. According to the agency's modification request, these two positions are expected to collect an additional \$1 million in delinquent taxes. Further explanation by the modification request notes that at the end of September, 1982 there were 19,182 outstanding income tax accounts valued at \$7.9 million.

Senator Van Valkenburg made a MOTION that the committee approve the OBPP budget figure for this modification. Discussion.

In answer to a question from Rep. Lory, Ms. Feaver said her figures were solid on the projected collections.

The question being called for, the motion carried. The Chairman voted "no".

In answer to a question from Senator Keating, Ken Morrison said these FTE's would not be traveling; they are collectors who would be working on the telephone. In answer to a question from the Chairman, Mr. Morrison said they can collect this money by using the telephone and sending letters. Ms. Feaver added that you can also locate their assets on the telephone.

The Budget Modification for the Tax Withholding System was brought before the committee. This request is for funds to redesign the present withholding tax data processing system.

In answer to a question from Rep. Lory, Ms. Feaver explained that this is the area where when an employer calls to find out where their account stands, they are unable to give them this information in a timely manner.

In answer to a question from Senator Keating, Ms. Feaver said the design system would be done by their own staff. In answer to a question from Senator Keating, Ms. Feaver said the \$22,000 listed under "Contracted Services" was for computer cost and the \$8,000 is for a terminal.

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Senator Van Valkenburg made a MOTION that the committee deny the request for this Budget Modification for a design system.

Discussion. Senator Van Valkenburg noted that the return on this modified doesn't approach the return on the previous modifieds. In answer to a question from the Chairman, Mr. Morrison said that the present method of taking care of these requests is through a data processing system that is not getting the job done. They are a year behind in processing all the employers. Therefore, they do not have up-to-date information as to whether the employers have paid or not. They want to get an on-line system where they can have current information on employers.

In answer to a question from Senator Dover, Ms. Feaver said that they need up-to-date information to get the most out of the people.

Senator Dover noted that this is the vehicle that they use to get the revenue that they are projecting. The motion to disallow this modification did not pass.

Rep. Lory made a MOTION that the committee approve the request for the budget modification. Discussion.

In answer to a question from Mr. Roessner as to whether or not she has staff now who can do this, Ms. Feaver said that they have four development projects in their various budgets and they have a request for two development people. Depending upon the total of the development projects that the committee approves, they will have to have some portion of those two people.

Mr. Roessner asked if she couldn't prioritize her workload to pick those projects where this would bring back \$400,000. Ms. Feaver replied that one of the difficulties in prioritizing the department, is: "Do you run the Liquor Information System so you can control your inventory, or do you prioritize getting reappraisal done that supports schools and local governments, or do you prioritize changing the income tax system because of all the law changes you're making, or do you prioritize catching the cheaters?" She said that you can't just not do some of these things and fulfill your statutory obligations.

Discussion. Motion carried. Sen. Van Valkenburg and the Chairman voted "no".

In answer to a question from the Chairman, Ms. May said that all of these modifications were included in the Governor's budget. Ms. May said that there were several modifications that were denied and several that were cut back. She explained as they were initially submitted to the Governor by the agency, there were modifications denied and cut back, but as the committee sees the modifications now, they are all included in the budget and have the Governor's approval. Ms. Feaver also said that every one of these modifications is in the Governor's budget, but the revenue is not. Senator Van Valkenburg reiterated that the expenses are in the Governor's budget but the revenue is not.

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The Budget Modification for the 1.5 FTE's in the Field Audits area was brought before the committee. There is presently one auditor responsible for the field audits. The agency maintains that this is not sufficient to audit the larger number of oil and gas drilling companies and other businesses that move across the state lines.

In answer to a question from Senator Keating, Ms. Feaver said that the FTE's in the previous modifications were not in the field whereas these requested 1.5 FTE's would be in the field doing audits. Mr. Morrison further explained that in the former modifications they were requesting the FTE's to get the employers to conform to the withholding collections, whereas these 1.5 FTE's would be working in the field to get the employees who are reporting incorrectly to the employers on the number of exemptions.

In answer to a question from the Chairman and from Senator Dover, Mr. Morrison explained that there is a lot of tax avoidance out there, especially in transient type of industries where people come in, are paid wages and then leave the state without paying any taxes. He explained that people avoid the up-front withholding and then they are gone from the state when it comes time to file a tax return.

Rep. Lory made a MOTION that the committee approve the budget modification for 1.5 FTE's for the field audits. Discussion. Rep. Lory's motion failed with Sen. Van Valkenburg, Sen. Keating and the Chairman voting "no".

The Budget Modification for a new accounts receivable system for the Department was brought before the committee.

Senator Van Valkenburg said that if they can find \$17,000 in their budget, they could do this. He didn't want them to feel that they couldn't do this with good management. Discussion. Senator Dover made a MOTION that this budget modification do not pass. Senator Van Valkenburg reiterated his statement that if they find money in their budget they can go ahead and do this. (368) Discussion. Motion carried.

Ms. Feaver asked for clarification of the denied 1.5 FTE's for the field audit. She said that if they do find an employer out there who is not complying, they can still go after him with the staff they do have. The Chairman noted that she should utilize any personnel she has to accomplish this.

The Budget Modification requesting 1.5 FTE's for a taxpayer assistance program was brought before the committee. In answer to a question from Senator Keating as to how many people they currently have in the field doing tax assistance work, Mr. Morrison said they have two field auditors who work out of the

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Billings area and during the tax season they try to provide some assistance. They also add during the tax season one person in the Missoula area and a person in the Helena area. In answer to a question from Senator Keating, Mr. Morrison said they have one toll free line at the present time which is open from the first part of January through the tax season and that the line is very busy.

In answer to a question from Mr. Roessner, Mr. Morrison said that they hire these people three weeks before the tax season, train them and they work only during the tax season. He also said this was an aggregate position of eight people throughout the state.

Senator Keating made a MOTION that this budget modification for 1.5 FTE's for the tax assistance program do not pass. Discussion. Motion carried. Rep. Connelly voted "no".

Senator Dover said that if Ms. Feaver can squeeze this out of her budget she can go ahead and do this. We just cannot appropriate more money. Discussion.

Senator Van Valkenburg made a MOTION that the committee approve the Income Tax Division budget as amended. Discussion Motion carried.

#### Motor Fuel Tax

(Senator Dover assumed the chair.)

Mr. Roessner explained that the LFA has deleted one position because the position was vacant all year. According to the write-up the Department has provided, the position is still vacant to make up for their vacancy savings. Also one position was vacant 45% of the time and the LFA reduced that to a half-time FTE.

Senator Keating made a MOTION that the committee accept the LFA's FTE level. Discussion. Ms. Feaver said the .5 FTE is currently filled and is working like crazy to deal with gasohol. Ever since they have had an agreement with the gasohol people in processing their paper, this person has certainly had plenty to do. She said she would be very concerned if they cut that half-time position.

She also said that regarding the other position, in the write-up they talk about House Bill 290 which has passed the house and would call for more than doubling the people they have to collect from. The Fiscal Note says that this bill will cost \$61,000. In this little division, she felt they could not deal with the increased number of taxpayers without additional staff. In fact, the Fiscal Note called for three additional FTE's with that legislation, plus operating expenses in the total of \$61,000. She said she would hate to see the sub-committee cut this FTE if there



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is a chance that this bill would pass the Senate. Discussion. Ms. Feaver also noted that there is no appropriation in the legislation and this might be something that would have to go to the full committee if it passes the Senate.

Senator Keating AMENDED his MOTION to 25.5 FTE's for each year of the biennium.

Question being called for, the motion carried.

Mr. Roessner informed the committee that House Bill 66 has passed and been signed by the Governor which requires the state to pay for its own audit fees on out-of-state taxpayers. He said that under "Travel" in this budget, the LFA would not put this expense in the budget until the legislation has been approved.

Senator Van Valkenburg made a MOTION that the committee approve the OBPP budget for "Operating Expenses" and "Equipment". Discussion. Motion carried.

Senator Van Valkenburg made a MOTION that the Motor Fuel Tax Division budget be approved as amended. Motion carried.

Ms. Feaver asked the committee to consider another item under this budget. She said there are a number of bills being considered for local option taxes and in the local option gas tax law there is a provision for the Department of Revenue to administer the local option gas tax and to take the administrative costs out of their collections but there is no authority for them to spend it. She would like to request that the committee consider putting in the appropriations, boilerplate language to cover revenues authorized to employ necessary personnel and to spend funds received from local government contracts under applicable statutes, to administer the local option motor fuel excise tax.

Senator Van Valkenburg made a MOTION that the committee include the following language in the appropriations bill:

"Section \_\_\_\_\_. The Department of Revenue is authorized to employ necessary personnel and to spend funds received from local government contracts under 7-14-302 to administer the local option motor fuel excise tax."

Discussion. Motion carried.

#### Miscellaneous Tax

Mr. Roessner told the committee that there was a vacant position all year which the LFA deleted and the program had a vacancy savings of 8.3%. In answer to a question from Senator Van Valkenburg, Ms. Feaver told the committee that during the base year a lot of positions were vacant in this program. In combining two different positions an employee didn't get a job that he wanted so he quit and he was

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grieving that so they didn't fill the position for some time. Another person had a heart attack so there wasn't the clerical work that the part-time position would otherwise have done. She said she didn't know if this position was critical but if they don't have a person to do this work then higher grade employees would have to do it. This would be a part-time position that would not be filled all year long but only during peak periods.

Senator Van Valkenburg made a MOTION that the committee approve the 18.65 FTE's. Discussion. Motion carried. Discussion.

Rep. Lory made a MOTION that the committee accept the "Operating Expenses" under the OBPP budget. Motion carried.

The committee discussed "Equipment".

Senator Van Valkenburg made a MOTION that the committee approve "Equipment" under the OBPP budget. Discussion.

Mr. Roessner asked Ms. May what figures she had for the two automobiles for the two years. Ms. May replied that there was only one automobile in the first year. In answer to a question from Senator Keating, Ms. May said the car prices in the budgets should all be consistent. This car is listed at \$7,490 and is a four-door sedan. Discussion.

Senator Keating noted that out of the \$26,000 they are getting a \$7,500 car, \$2,500 of furniture so the other \$16,000 must be the word processing equipment.

Ms. Feaver replied that \$14,800 in the first year would be the purchase and maintenance agreement costs of an 8775 word and data processing terminal and a printer. The purchase costs would be \$13,700 and \$1,100 would be the maintenance agreement per year. Discussion.

Senator Keating said that in the narrative it refers to the purchase of this machine as "allowing full utilization of present equipment" and asked what that means.

Ms. Feaver said this should read "full utilization of staff". Ms. Feaver said that next session when they come back they would be able to do the work with fewer people but until they get the equipment and processes automated they would not know what that kind of savings would be.

Motion carried.

Ms. Feaver asked that the committee look at the funding on this budget.

Mr. Roessner, in answer to a question from Senator Keating, said that the \$19,000 figure was used as a base and was inflated to get

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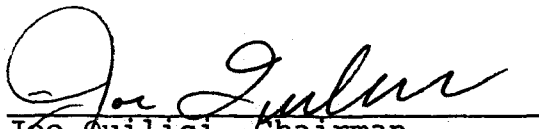
the \$20,000. He said that \$19,000 in his review is probably over-optimistic on the budget for FY83.

In answer to a question from Senator Keating, Ms. Feaver told the committee that in 1981 they collected \$17,295 and in 1982 they collected \$15,470. Discussion.

Senator Keating made a MOTION that the committee accept the OBPP request for funding. Discussion. Motion carried.

Senator Van Valkenburg made a MOTION that the committee approve the Miscellaneous Tax Division budget as amended. Motion carried.

The meeting was adjourned at 8:20 a.m. (251)

  
Joe Quilici, Chairman  
dm