MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT & TRANSPORTATION

Call to Order: By **REP. MARY LOU PETERSON, CHAIRMAN,** on February 10, 1993, at 8:00 AM.

ROLL CALL

Members Present:
Rep. Mary Lou Peterson, Chair (R)
Sen. Harry Fritz, Vice Chair (D)
Rep. Marjorie Fisher (R)
Sen. Gary Forrester (D)
Rep. Joe Quilici (D)
Sen. Larry Tveit (R)

Members Excused: Rep. Joe Quilici

Members Absent: None

Staff Present: Jon Moe, Legislative Fiscal Analyst
Dan Gengler, Office of Budget & Program Planning
Elaine Benedict, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: DEPARTMENT OF REVENUE
Executive Action: NONE

Announcements/Discussion:

Tape No. 1:A:035

Organizational charts for the Highway Traffic Safety Division and the Board of Crime Control were distributed. **EXHIBITS 1 and 2**

HEARING ON DEPARTMENT OF REVENUE

Tape No. 1:A:080

Informational Testimony:

Mr. Jon Moe, Legislative Fiscal Analyst, presented an overview of the budget for the agency. **EXHIBITS 3 and 4.** He distributed a packet of letters from the agency. **EXHIBIT 5.** He distributed a summary of the agency's proposal. **EXHIBIT 6**

Mr. Mick Robinson, Director, Department of Revenue, reviewed the issues of the agency. He emphasized that reductions in the agency would impact state revenue. The agency is presenting a two tiered proposal. The first tier does not meet the target but will have little short-term effect on revenue. The second tier will cause revenue loss. The proposal assumes that the funding removed by the 5% personal services reductions and the "snap-shot" reductions would be reinstated and that the agency would propose its own reductions in order to meet the target. The agency wishes to adjust the target because it believes an error has been made in budgeting.

Discussion:

SEN. GARY FORRESTER expressed concern that adjusting the target will force the subcommittee to reduce funding in areas such as the education systems.

DIRECTOR'S OFFICE

Tape No. 1:A:900

Informational Testimony:

Mr. Jack Ellery, Deputy Director, Operations, presented testimony for the division. **EXHIBIT 7**

Questions, Responses, and Discussion:

REP. MARJORIE FISHER inquired about investigation in the Liquor Division. **Mr. Ellery** explained that when a new license is obtained or an existing license is transferred, the financial background of the involved parties must be reviewed.

Informational Testimony:

Mr. Dan Gengler, Office of Budget and Program Planning, stated that legislation is pending that would transfer the investigation functions to the Department of Justice. The funding ratio needs to be correct before the transfer is made.

CENTRALIZED SERVICES DIVISION

Tape No. 1:B:117

Informational Testimony:

Mr. Ellery presented testimony for the division. **EXHIBIT 8**

DATA PROCESSING DIVISION

Tape No. 1:B:150

Informational Testimony:

Mr. Ellery presented testimony for the division. **EXHIBIT 9** The agency wishes to combine the Data Processing Division and the Centralized Services Division to create a single Operations Division.

LIQUOR DIVISION

Tape No. 1:B:435

Informational Testimony:

Mr. Gary Blewett, Administrator, Liquor Division, presented testimony for the division. **EXHIBIT 10**

Questions, Responses, and Discussion:

CHAIRMAN MARY LOU PETERSON asked if the division has considered privatization. **Mr. Blewett** answered that the possibility has not been considered this session.

CHAIRMAN PETERSON inquired about the policy for a quota system for licensing. **Mr. Blewett** explained that licenses existing before the quota system was enacted must be treated as marketable. After the quota system was enacted, the party owning the license could sell the license and purchase non-quota license under fraternal or veterans status. Approximately 54 licenses were added to the quota system.

Informational Testimony:

Mr. Gengler addressed the issue of language appropriation versus fixed appropriation. Liquor funds are virtually the same as general funds in that what is not spent is transferred to the general fund. The OBPP recommends a language appropriation because it is impossible to predict sales and demand for the product.

INCOME TAX

Tape No. 1:B:945

Informational Testimony:

Mr. Jeff Miller, Administrator, Income and Miscellaneous Tax Division, presented testimony for the division. **EXHIBIT 11**

Tape No. 2:A:265

Questions, Responses, and Discussion:

SEN. FORRESTER asked if acceptance of the second tier of proposals would decrease the compliance to tax regulations. **Mr. Miller** answered that it would.

SEN. FORRESTER stated that a considerable amount of money has been illegally made by out-of-state parties because the division did not have the ability to monitor the actions of the parties.

Informational Testimony:

Mr. Gengler addressed the issue of the funding switch in regard to cigarette tax revenues. Contrary to the LFA, the OBPP believes that a long-term effect on the general fund will occur. Beneficiaries of earmarked revenues should not be subsidized by the general fund for collection of the revenue. Law may require that the cigarette tax fund its own collection.

Mr. Moe stated that the funding in question could apply toward the target. The amount was highlighted in order to bring the issue to the attention of the subcommittee.

Mr. Miller said the issue of cigarette stamps was raised as a modification in order to determine the state's role in the stamping and taxing process.

Questions, Responses, and Discussion:

Mr. Gengler asked if passing the cost of stamping to the wholesalers will cause the wholesalers to submit less revenue to the state. **Mr. Miller** answered that it would not.

CORPORATE TAX

Tape No. 2:A:635

Informational Testimony:

Mr. Don Hoffman, Natural Resource and Corporation Tax Division, presented testimony for the division. **EXHIBIT 12**

Questions, Responses, and Discussion:

CHAIRMAN PETERSON asked if the division has attempted to contract with a chain of hotels or motels. **Mr. Hoffman** responded that the chains are not accessible in all the areas that the agency does business.

Informational Testimony:

Mr. Robinson addressed the proposals of the division. **EXHIBITS 5 and 10**

ADJOURNMENT

Adjournment: 10:35 AM

Mary Lou Peterson
REP. MARY LOU PETERSON, Chair

Elaine Benedict
ELAINE BENEDICT, Secretary

MLP/EB

HOUSE OF REPRESENTATIVES

Gen. Gov. & Hwys. SUB-COMMITTEE

ROLL CALL

DATE 2/10/93

NAME	PRESENT	ABSENT	EXCUSED
Rep. Mary Lou Peterson Chair	X		
Sen. Harry Fritz Vice Chair	X		
Rep. Marjorie Fisher	X		
Sen. Gary Forrester	X		
Rep. Joe Quilici			X
Sen. Larry Tveit	X		

EXHIBIT 1
DATE 2/10/93
HB

HIGHWAY TRAFFIC SAFETY DIVISION
Organizational Chart and Position Codes
January 1, 1993

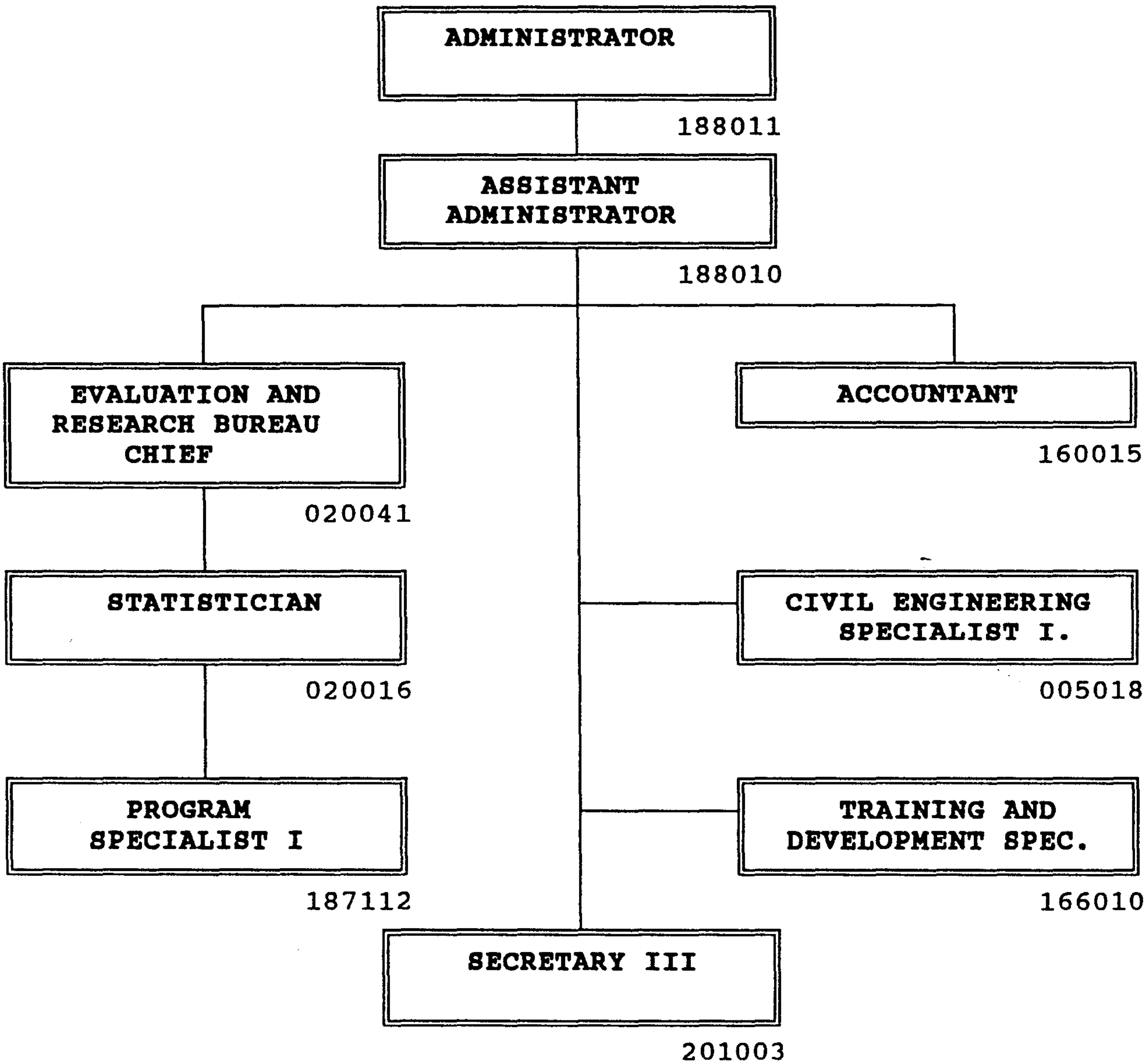

EXHIBIT 2
DATE 2/10/93
HB

Board of Crim

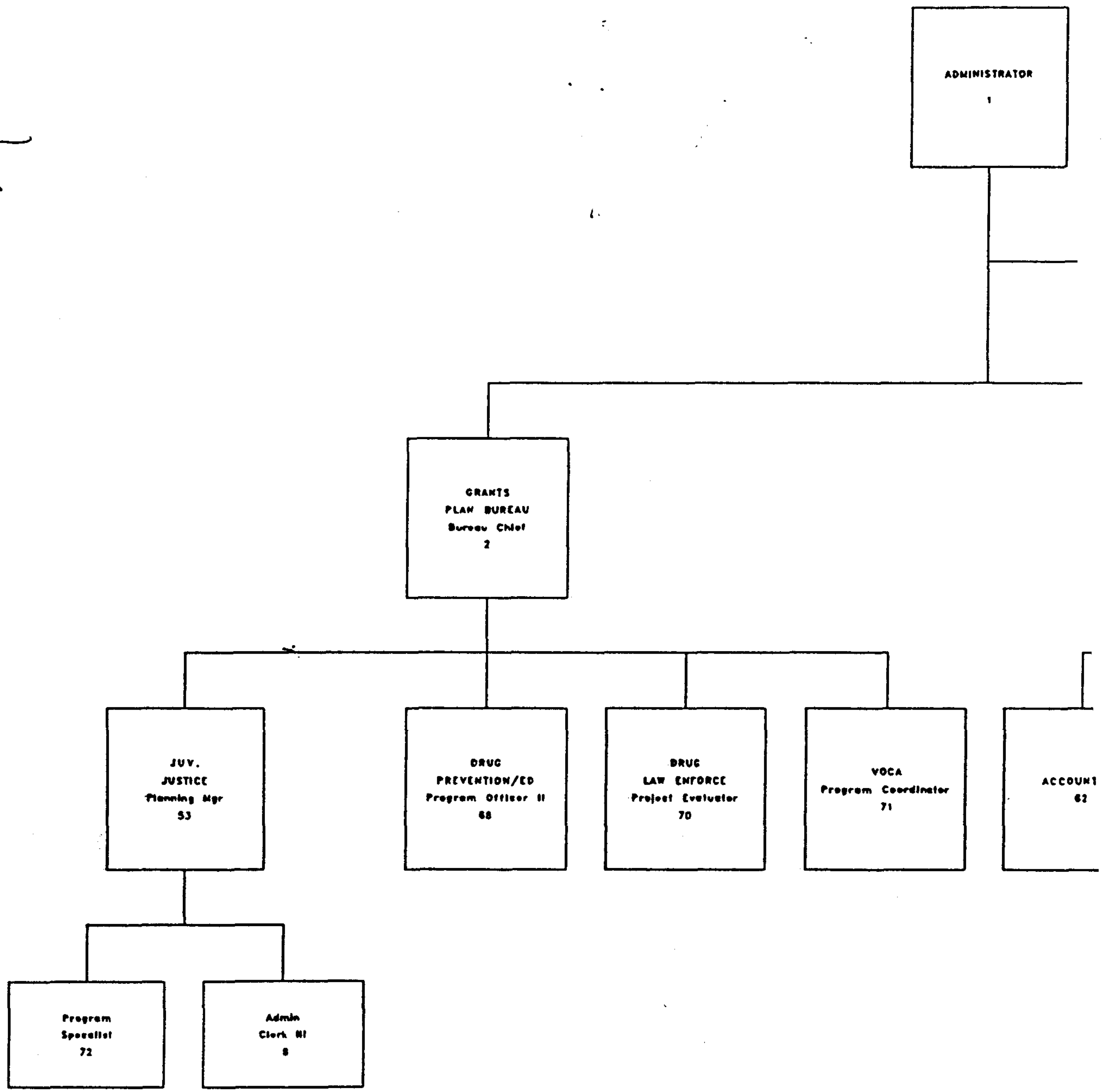

EXHIBIT 2
DATE 2/10/93
HB

5801 00 00000

DEPARTMENT OF REVENUE

Agency Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	673.05	678.21	651.28	683.58	(32.30)	651.28	683.58	(32.30)
Personal Services	17,294,255	16,245,207	18,424,968	19,251,891	(826,923)	18,480,922	19,305,609	(824,687)
Operating Expenses	4,600,907	4,521,431	4,575,691	4,159,865	415,826	4,426,702	4,005,693	421,009
Equipment	231,093	167,282	313,639	283,435	30,204	280,699	241,826	38,873
Local Assistance	2,004	15,000	15,000	15,000	0	15,000	15,000	0
Debt Service	269,741	268,572	269,800	269,741	59	269,800	269,741	59
Total Costs	$22,398,002	$21,217,492	$23,599,098	$23,979,932	($380,834)	$23,473,123	$23,837,869	($364,746)
Fund Sources								
General Fund	19,657,966	19,126,317	21,036,401	21,759,005	(722,604)	20,938,743	21,661,049	(722,306)
State Revenue Fund	536,509	540,603	629,320	562,472	66,848	626,116	557,967	68,149
Federal Revenue Fund	290,412	318,832	271,817	329,536	(57,719)	267,480	331,224	(63,744)
Proprietary Fund	1,913,114	1,231,740	1,661,560	1,328,919	332,641	1,640,784	1,287,629	353,155
Total Funds	$22,398,002	$21,217,492	$23,599,098	$23,979,932	($380,834)	$23,473,123	$23,837,869	($364,746)

Page References

LFA Budget Analysis A-148 to A-176
Stephens Executive Budget A68 to A78

Exec. Over(Under) LFA

Fiscal 1994	Fiscal 1995

TABLE OF CONTENTS

PROGRAM NAME

Also attached:
List of positions included in the "5% reduction" FTE and the "snapshot" vacancy list (tan sheet)
Checklist analysis of response to subcommittee letter (blue sheet)

Department-wide Comments:

1) For your information – Based upon a decision made by the Joint House Appropriations and Senate Finance and Claims Committee, "capital grounds" fixed costs of $418 in fiscal 1994 and $406 in fiscal 1995 will be removed from the LFA current level.

EXHIBIT ___2___
DATE 2/10/93
HB ___

5801 01 00000 DEPARTMENT OF REVENUE Program Summary Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	36.50	35.50	34.50	36.50	(2.00)	34.50	36.50	(2.00)
Personal Services	1,215,644	1,093,867	1,304,670	1,363,160	(58,490)	1,315,569	1,370,028	(54,459)
Operating Expenses	348,216	265,962	340,116	338,624	1,492	228,567	224,984	3,583
Equipment	13,456	13,990	24,907	25,185	(278)	12,463	10,500	1,963
Local Assistance	2,004	15,000	15,000	15,000	0	15,000	15,000	0
Total Costs	$1,579,321	$1,388,819	$1,684,693	$1,741,969	($57,276)	$1,571,599	$1,620,512	($48,913)
Fund Sources								
General Fund	890,902	745,935	1,084,522	1,038,480	46,042	1,010,285	963,131	47,154
State Revenue Fund	1,654	0	4,548	4,548	0	0	0	0
Federal Revenue Fund	150,637	180,385	118,016	174,668	(56,652)	112,427	175,073	(62,646)
Proprietary Fund	536,127	462,499	477,607	524,273	(46,666)	448,887	482,308	(33,421)
Total Funds	$1,579,321	$1,388,819	$1,684,693	$1,741,969	($57,276)	$1,571,599	$1,620,512	($48,913)

Directors Office

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
LFA Budget Analysis A-148 to A-176 Stephens Executive Budget A68 to A78		
Current Level Differences		
PERSONAL SERVICES–The LFA current level is higher because it includes all positions authorized by the 1991 Legislature, including the "5% reduction" FTE (2.00 FTE for this program).	(58,490)	(54,459)
FUNDING OF INVESTIGATIONS BUREAU–The LFA current level bases the funding upon the fiscal 1992 actual funding as of year-end closing. For this program, the fiscal 1992 funding reflected a negative general fund amount, but the fiscal 1994 and 1995 are shown as zero general fund. The executive current level includes $89,341 general fund in fiscal 1994 and $88,149 general fund in fiscal 1995. This difference in the LFA current level is spread between other federal and proprietary funding sources.		
General Fund	89,341	88,149
Federal Funds	(55,505)	(62,646)
Proprietary Funds	(34,116)	(23,543)
Minor Difference	280	(1,960)
MINOR DIFFERENCES	14	3,822
INFLATION DIFFERENCES	1,200	1,724
TOTAL CURRENT LEVEL DIFFERENCES	(57,276)	(48,913)

Budget Modifications

None

Language

None

5801 02 00000 DEPARTMENT OF REVENUE Program Summary Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	29.02	29.65	28.68	30.27	(1.59)	28.68	30.27	(1.59)
Personal Services	625,960	643,082	761,986	788,417	(26,431)	764,878	791,403	(26,525)
Operating Expenses	121,136	106,022	113,359	97,550	15,809	113,201	97,344	15,857
Equipment	0	6,465	6,500	10,500	(4,000)	5,000	9,000	(4,000)
Total Costs	$747,096	$755,569	$881,845	$896,467	($14,622)	$883,079	$897,747	($14,668)
Fund Sources								
General Fund	747,096	755,569	881,845	896,467	(14,622)	883,079	897,747	(14,668)
Total Funds	$747,096	$755,569	$881,845	$896,467	($14,622)	$883,079	$897,747	($14,668)

Centralized Services Division

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
LFA Budget Analysis A-148 to A-176 Stephens Executive Budget A68 to A78		
Current Level Differences		
PERSONAL SERVICES–The LFA current level is higher because it includes all positions approved by the 1991 Legislature, including the "5% reduction" FTE (1.59 FTE for this program).	(26,431)	(26,525)
MINOR DIFFERENCES	12,511	12,511
INFLATION DIFFERENCES	(702)	(654)
TOTAL CURRENT LEVEL DIFFERENCES	(14,622)	(14,668)
Budget Modifications		
RESTORE 5% FTE REDUCTION–This budget modification restores $36,464 general fund over the biennium and 1.00 FTE of the 1.59 FTE removed from the program current level budget request in accordance with section 13 of House Bill 13. This position, or funds associated with this position, are used to process tax receipts during peak workloads or to contract for such help.	18,220	18,220
Language		
None		

EXHIBIT 2
DATE 2/10/93
HB 2

5801 03 00000
DEPARTMENT OF REVENUE — Data Processing Division
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	50.18	49.60	46.00	49.60	(3.60)	46.00	49.60	(3.60)
Personal Services	1,301,657	1,339,893	1,447,211	1,515,954	(68,743)	1,451,174	1,520,007	(68,833)
Operating Expenses	139,911	148,953	146,395	143,609	2,786	143,406	140,636	2,770
Equipment	4,348	2,214	13,578	7,590	5,988	12,691	6,235	6,456
Total Costs	$1,445,917	$1,491,060	$1,607,184	$1,667,153	($59,969)	$1,607,271	$1,666,878	($59,607)
Fund Sources								
General Fund	897,766	926,395	1,000,785	1,035,132	(34,347)	1,001,070	1,034,961	(33,891)
State Revenue Fund	75,309	72,336	85,313	86,832	(1,519)	86,505	86,818	(313)
Proprietary Fund	472,841	492,329	521,086	545,189	(24,103)	519,696	545,099	(25,403)
Total Funds	$1,445,917	$1,491,060	$1,607,184	$1,667,153	($59,969)	$1,607,271	$1,666,878	($59,607)

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
LFA budget Analysis A-148 to A-176 Stephens Executive Budget A68 to A78		
Current Level Differences		
PERSONAL SERVICES – The LFA current level is higher because it includes all positions approved by the 1991 Legislature, including the "5% reduction" FTE (3.60 FTE for this program).	(68,743)	(68,833)
MINOR DIFFERENCES	8,791	9,259
INFLATION DIFFERENCES	(17)	(33)
TOTAL CURRENT LEVEL DIFFERENCES	(59,969)	(59,607)
Budget Modifications		
RESTORE 5% FTE REDUCTION – This budget modification restores $91,657 general fund and $45,913 proprietary funds over the biennium and 3.60 FTE removed from the program current level budget request in accordance with section 13 of House Bill 2. The positions are responsible for entering tax return data in the department computer system.	68,738	68,832
Language		
None		

EXHIBIT
DATE 2/10/93
HB

5801 05 00000 DEPARTMENT OF REVENUE Program Summary Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	9.00	9.00	10.50	9.00	1.50	10.50	9.00	1.50
Personal Services	555,493	217,091	313,802	231,783	82,019	314,804	232,666	82,138
Operating Expenses	317,865	59,821	349,065	27,674	321,391	357,397	27,556	329,841
Equipment	30,786	0	0	0	0	0	0	0
Total Costs	$904,145	$276,912	$662,867	$259,457	$403,410	$672,201	$260,222	$411,979
Fund Sources								
Proprietary Fund	904,145	276,912	662,867	259,457	403,410	672,201	260,222	411,979
Total Funds	$904,145	$276,912	$662,867	$259,457	$403,410	$672,201	$260,222	$411,979

Liquor Division

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
LFA Budget Analysis A-148 to A-176 Stephens Executive Budget A68 to A78		
Current Level Differences		
PERSONAL SERVICES–The LFA current level is lower than the executive current level by 1.50 FTE. This is the net difference of two items. First, the LFA current level includes .50 FTE ("5% reduction" FTE) not in the executive current level. Second, the executive current level includes 2.00 FTE which are not in the LFA current level because the LFA analysis moves the FTE to the language appropriation budget (Purchasing Program) to make the Liquor Division FTE budget agree with how it was appropriated for the 1993 biennium.	82,019	82,138
OPERATING EXPENSES–The LFA current level is lower than the executive because it includes only the operating costs of the Liquor Division Licensing Bureau that are included in SBAS responsibility center 50300. The executive includes additional costs which apparently relate partially to the two FTE (and related program) mentioned above.	321,391	329,841
TOTAL CURRENT LEVEL DIFFERENCES	403,410	411,979

Budget Modifications

None

Language

LANGUAGE APPROPRIATION FOR THE LIQUOR DIVISION–(See page A-158 of the LFA Budget Analysis for narrative describing this language issue.)

LANGUAGE CONCERNING PREFERENCE RIGHT TO RENEW–The 1991 Legislature added language that states: "An agent operating a state agency liquor store has the preference right to renew the agent's agency agreement by accepting the terms of the request for bids as those terms existed before January 1, 1991, and by meeting the highest bid made by any other applicant. Those agency agreements that contain renewal options must be honored according to the terms of the agency contract and request for bids in existence prior to January 1, 1991."

EXHIBIT ___
DATE 2/10/93
HB ___

5801 06 00000 DEPARTMENT OF REVENUE Program Summary Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	116.79	121.40	119.99	125.15	(5.16)	119.99	125.15	(5.16)
Personal Services	2,802,409	2,916,977	3,196,051	3,348,131	(152,080)	3,204,439	3,356,263	(151,824)
Operating Expenses	1,444,833	1,444,422	1,409,031	1,372,142	36,889	1,360,128	1,331,655	28,473
Equipment	64,496	42,393	72,561	62,561	10,000	52,971	40,154	12,817
Total Costs	$4,311,738	$4,403,792	$4,677,643	$4,782,834	($105,191)	$4,617,538	$4,728,072	($110,534)
Fund Sources								
General Fund	3,918,451	4,003,662	4,197,643	4,374,155	(176,512)	4,137,538	4,319,598	(182,060)
State Revenue Fund	393,287	400,130	480,000	408,679	71,321	480,000	408,474	71,526
Total Funds	$4,311,738	$4,403,792	$4,677,643	$4,782,834	($105,191)	$4,617,538	$4,728,072	($110,534)

Income Tax

Page References

LFA Budget Analysis A-148 to A-176
Stephens Executive Budget A68 to A78

Current Level Differences

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
PERSONAL SERVICES–The LFA current level is higher than the executive because it includes all positions funded by the 1991 Legislature, including the "5% reduction" FTE (5.16 FTE for this program).	(152,080)	(151,824)
HOUSE BILL 14 & HOUSE BILL 959–The following differences relate to methodology used to continue fiscal 1992 actual expenditures resulting from House Bills 14 & 959 of the 1991 session. The LFA removed the actual expenditures from fiscal 1992, but added back the amounts that would be ongoing costs of those bills. The executive fiscal 1992 actual expenditures retained the total costs related to the two bills, and continue that level of expenditure into the fiscal 1994 & 1995 current level. Thus, the LFA current level is lower than the executive.		
– Computer Processing	19,707	9,707
– Printing	12,604	12,604
– Office Supplies	7,174	7,174
– Telephone Equipment Charges	4,086	4,086
MINOR DIFFERENCES	8,943	11,760
INFLATION DIFFERENCES	(5,625)	(4,041)
FUNDING DIFFERENCES–The LFA current level is lower than the executive for general fund support of the Business Tax Bureau. The executive offsets $90,000 of general fund each year of the biennium with cigarette tax revenue in the Income Tax Division. Current law allows the department to deduct collection expenses from gross receipts (section 16-11-119, MCA). The LFA current level continues the general fund support for the 1995 biennium in the same proportion as appropriated in the 1991 regular session. –General Fund	(90,000)	(90,000)
(See titled "Funding Switch on page A-158 of LFA Budget Analysis.) –State Special Revenue Funds	90,000	90,000
TOTAL CURRENT LEVEL DIFFERENCES	(105,191)	(110,534)

Budget Modifications

	Fiscal 1994	Fiscal 1995
RESTORE 5% FTE REDUCTION–This budget modification restores $201,297 general fund over the biennium, and 3.46 FTE of the 5.16 FTE removed from the program current level budget request in accordance with section 13 of House Bill 2. The budget modification would restore field auditors.	100,469	100,828
CIGARETTE TAX FUNDING/STAMPS–This budget modification would add $45,000 in state special revenue funds over the biennium to design and print thermally-applied cigarette stamps. Currently, cigarette packages are stamped with ink impressions by machines. Pitney Bowes has announced that it will withdraw its support for the machines within the next five years. The modification will allow the division to begin conversion from inked to thermally applied stamps. The budget modification anticipates that the state will provide the stamps free of charge. The legislature may want to ask the department to address the option of charging wholesalers for stamps to cover design and printing costs.	15,000	30,000

Language

None

EXHIBIT ____
DATE 2/10/93
HB ____

5801 07 00000
DEPARTMENT OF REVENUE — Corporation Tax
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	34.50	35.00	32.70	35.00	(2.30)	32.70	35.00	(2.30)
Personal Services	1,030,014	1,083,822	1,109,062	1,168,542	(59,480)	1,111,905	1,171,469	(59,564)
Operating Expenses	397,638	392,816	414,319	408,936	5,383	420,594	413,530	7,064
Equipment	25,391	2,410	12,315	12,124	191	11,726	10,667	1,059
Total Costs	$1,453,044	$1,479,048	$1,535,696	$1,589,602	($53,906)	$1,544,225	$1,595,666	($51,441)
Fund Sources								
General Fund	1,247,010	1,272,464	1,322,436	1,372,321	(49,885)	1,329,561	1,376,840	(47,279)
State Revenue Fund	66,259	68,137	59,459	62,413	(2,954)	59,611	62,675	(3,064)
Federal Revenue Fund	139,775	138,447	153,801	154,868	(1,067)	155,053	156,151	(1,098)
Total Funds	$1,453,044	$1,479,048	$1,535,696	$1,589,602	($53,906)	$1,544,225	$1,595,666	($51,441)

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
LFA Budget Analysis A-148 to A-176 Stephens Executive Budget A68 to A78		
Current Level Differences		
PERSONAL SERVICES–The LFA current level is higher because it includes all positions funded by the 1991 Legislature, including the "5% reduction" FTE (2.30 FTE for this program).	(59,480)	(59,565)
OUT-OF-STATE LODGING–The LFA current level is lower than the executive current level because the LFA analysis uses the fiscal 1992 actual expenditures which are inflated 3.3 percent for fiscal 1994 and 6.5 percent for fiscal 1995, while the executive request indicates an expected increase of 10.7 percent.	5,002	5,002
MINOR DIFFERENCES	(1,160)	(290)
INFLATION DIFFERENCES	1,732	3,412
TOTAL CURRENT LEVEL DIFFERENCES	(53,906)	(51,441)
Budget Modifications		
ROYALTY AUDIT FTE–This budget modification would add 1.0 FTE and $75,384 federal funds over the biennium to expand the federal royalty audit function in the Corporate Tax Division. The FTE and authority were originally added by budget amendment in fiscal 1993. This FTE would concentrate on solid mineral audits, with an emphasis on coal royalty audits.	37,670	37,714
RESTORE 5% FTE REDUCTION–This budget modification restores $119,058 general fund over the biennium and 2.3 FTE removed from the program current level budget request in accordance with section 13 of House Bill 2. The positions restored are two 0.65 auditor FTE and 1.0 clerical FTE.	59,488	59,570
Language		
None		

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DEPARTMENT OF REVENUE — Property Valuation
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	397.06	398.06	378.91	398.06	(19.15)	378.91	398.06	(19.15)
Personal Services	9,763,075	8,950,475	10,292,186	10,835,904	(543,718)	10,318,153	10,863,773	(545,620)
Operating Expenses	1,831,306	2,103,435	1,803,406	1,771,330	32,076	1,803,409	1,769,988	33,421
Equipment	92,615	99,810	183,778	165,475	18,303	185,848	165,270	20,578
Debt Service	269,741	268,572	269,800	269,741	59	269,800	269,741	59
Total Costs	$11,956,738	$11,422,292	$12,549,170	$13,042,450	($493,280)	$12,577,210	$13,068,772	($491,562)
Fund Sources								
General Fund	11,956,738	11,422,292	12,549,170	13,042,450	(493,280)	12,577,210	13,068,772	(491,562)
Total Funds	$11,956,738	$11,422,292	$12,549,170	$13,042,450	($493,280)	$12,577,210	$13,068,772	($491,562)

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
LFA Budget Analysis A-148 to A-176 Stephens Sexecutive Budget A68 to A78		
Current Level Differences		
PERSONAL SERVICES—The LFA current level is higher than the executive by 19.15 FTE. This is the net difference of two items. First, the LFA current level includes 19.75 FTE ("5% reduction" FTE) not in the executive current level. Second, the executive current level includes .60 FTE not included in the LFA current level because in moving two positions (.70 FTE each) from the "elected & deputy assessors" budget entity to the "county appraisal/area management" budget entity, the LFA adjustment moves each .70 FTE while the executive adjustment established positions as full FTE, an increase of .60 FTE.	(543,718)	(545,620)
RENT/NON-DofA BUILDINGS—The LFA current level is based upon the fiscal 1992 actual expenditures for rent of county appraisal office space.	15,087	16,152
DATA NETWORK SERVICES—The LFA current level is lower because it does not include funding for the cost of connecting additional personal computers to the statewide data network.	4,640	4,640
SYSTEMS DEVELOPMENT/NON-DofA—The LFA current level uses fiscal 1992 actual expenditures and does not include additional funds for contract programming for maintenance and upgrades of county computer systems.	12,950	12,950
EQUIPMENT—The LFA current level is lower (by $25,610 in fiscal 1994 and $27,680 in fiscal 1995) than the executive for replacement of autos but includes funds to replace 6 vehicles per year. The LFA current level is higher by about $12,000 each year for replacement of CAMAS computers. The LFA is lower by $5,000 each year for replacement of some county office equipment.	18,303	20,578
MINOR DIFFERENCES	(846)	(646)
INFLATION DIFFERENCES	304	384
TOTAL CURRENT LEVEL DIFFERENCES	(493,280)	(491,562)
Budget Modifications		
BUSINESS EQUIPMENT EVALUATION SYSTEM—During the 1993 biennium, the Department of Revenue data processing staff developed a mainframe computer system to track and value personal property. This budget modification would add $135,000 general fund over the biennium to fund mainframe computer processing charges to operate the system. (See also issue on page A-157 of LFA Budget Analysis.)	45,000	9,000
RESTORE 5% FTE REDUCTION—This budget modification restores $1,025,861 general fund over the biennium and 19.75 FTE removed from the program current level budget request in accordance with section 13 of House Bill 2.	511,969	513,892

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Language

The 1993 biennium appropriation act includes language which refers to a line item titled "Computer-Assisted Mass Appraisal System (CAMAS) Costs". The language states:

> "Funds appropriated in item ___ may be used only for consulting contracts to support CAMAS or to support appraisers' use of CAMAS, for debt service costs to fund equipment aquisitions, and for computer maintenance contracts."

The committee may wish to consider a similar line item and language.

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DEPARTMENT OF REVENUE

~~08-Feb-93~~

Positions Removed by Joint Committee Action
House Appropriations & Senate Finance and Claims
January 6, 1993

Position #	Position Description	Total Personal Services Fiscal 1994	Total Personal Services Fiscal 1995	FTE Removed by 5% Reduction	FTE Removed by Being Vacant	Total FTE Removed	Non-Approp. FTE
General Fund Positions							
Director's Office							
01007	Personnel Technician	22,570	22,601	1.00		1.00	
01036	Admin Aide II	20,434	20,462		1.00	1.00	
** 01040	Admin Officer IV	35,915	35,968	1.00		1.00	
Centralized Services Division							
02021	Accounting Clerk	18,220	18,244	1.00		1.00	
90200	Admin Clerk I	11,368	11,438	0.50		0.50	
90202	Mail Clerk II	1,593	1,600	0.09		0.09	
Data Processing Division							
03010	Info Sys Spec II–Impl	37,498	37,768		1.00	1.00	
03052	Info Sys Spec II–Impl	37,088	37,142		1.00	1.00	
91610	Data Entry Operator	68,739	68,833	3.60		3.60	
91613	Data Entry Oper I	9,108	9,118		0.75	0.75	
91618	Data Entry Oper Trainee	8,599	8,608		0.50	0.50	
Income Tax–Admin/Audit							
06022	Revenue Agent I	13,427	13,448	0.50		0.50	
06038	Revenue Agent II	16,632	16,771	0.50		0.50	
06059	Tax Exam Tech	25,035	25,070		1.00	1.00	
06065	Revenue Agent I	14,154	14,258	0.50		0.50	
06078	Revenue Agent I	12,386	12,405	0.50		0.50	
06095	Revenue Agent III	18,318	18,345	0.50		0.50	
06096	Revenue Agent I	13,905	13,927	0.50		0.50	
06123	Tax Exam Clerk	9,151	9,165	0.46		0.46	
** 96010	Tax Exam Tech	16,483	16,505	0.70		0.70	
Income Tax–Support Services							
06016	Admin Clerk III	19,556	19,583		1.00	1.00	
06029	Accounting Tech	25,359	25,395		1.00	1.00	
06033	Admin Clerk III	22,351	22,383		1.00	1.00	
06034	Admin Clerk III	22,249	22,383		1.00	1.00	
06136	Admin Clerk I	9,658	9,669		0.50	0.50	
Income Tax–Business Tax							
** 06002	Taxpayer Service Rep	28,277	28,317	1.00		1.00	
06104	Audit Technician I	23,774	23,942		1.00	1.00	
Corporation Tax–Admin/Audit							
07101	Career Exec Assign	50,742	50,818		1.00	1.00	
07450	Revenue Agent I	19,398	19,426	0.65		0.65	
07802	Revenue Agent I	18,937	18,964	0.65		0.65	
07903	Word Proc Operator III	19,556	19,583	1.00		1.00	
Corporation Tax–State Lands Audit							
07807	Revenue Agent I	28,277	28,317		1.00	1.00	
Property Valuation–County Appraisal/Area Management							
08029	Property Tax Clerk II	24,497	24,729	1.00		1.00	
08042	County Property Tax Supv	42,002	42,064		1.00	1.00	
08065	Appraiser II	28,555	28,649	1.00		1.00	
08067	Property Tax Assistant	18,123	18,149	1.00		1.00	
08068	Property Tax Clerk Supv II	27,503	27,542		1.00	1.00	
08086	Property Tax Clerk II	27,221	27,260		1.00	1.00	
08107	Property Tax Assistant	23,907	24,081	1.00		1.00	
08119	Property Tax Clerk II	22,610	22,642		1.00	1.00	
** 08121	Property Tax Clerk II	19,556	19,583	1.00		1.00	
08122	Property Tax Clerk II	22,610	22,817		1.00	1.00	

(Continued on next page)

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Position #	Position Description	Total Personal Services Fiscal 1994	Total Personal Services Fiscal 1995	FTE Removed by 5% Reduction	FTE Removed by Being Vacant	Total FTE Removed	Non-Approp. FTE
General Fund Positions (continued)							
Property Valuation – County Appraisal/Area Management (continued)							
08139	Appraiser I	24,054	24,088		1.00	1.00	
** 08156	Property Tax Clerk II	19,556	19,583	1.00		1.00	
** 08190	Property Tax Clerk II	19,556	19,583	1.00		1.00	
08212	Property Tax Clerk II	27,221	27,260		1.00	1.00	
** 08223	Property Tax Clerk II	22,173	22,314	1.00		1.00	
08301	Property Tax Clerk II	9,638	9,652	0.50		0.50	
08309	Property Tax Clerk II	15,356	15,377	0.75		0.75	
08334	Property Tax Clerk II	25,508	25,544		1.00	1.00	
** 08338	Appraisal Supv I	28,277	28,317	1.00		1.00	
08357	Appraiser Supv I	32,921	33,209		1.00	1.00	
08358	Property Tax Clerk II	11,771	11,792	0.50		0.50	
08422	Cty Assessor–Admin	26,736	26,774		0.70	0.70	
08515	Admin Clerk I	17,036	17,059		1.00	1.00	
08516	Property Tax Assistant	23,440	23,472		1.00	1.00	
08542	Admin Clerk I	17,926	17,950		1.00	1.00	
08554	Admin Clerk I	19,097	19,123		1.00	1.00	
** 08982	Appraisal Supv I	30,372	30,541	1.00		1.00	
90047	Appraiser I	24,900	24,935		1.00	1.00	
** 90049	Appraiser II	25,178	25,309	1.00		1.00	
Property Valuation – Admin/Operations/Central Appraisals							
08153	Admin Assistant III	26,895	27,060	1.00		1.00	
08186	Admin Assistant III	26,710	26,799	1.00		1.00	
08221	Admin Assistant III	29,596	29,775	1.00		1.00	
08225	Admin Assistant III	26,895	27,086	1.00		1.00	
08226	Admin Assistant III	26,574	26,613	1.00		1.00	
08935	Audito III	29,134	29,176	1.00		1.00	
** 08951	Tax Program Manager	48,447	48,508	1.00		1.00	
08954	Tax Appraisal Spec II	33,508	33,557		1.00	1.00	
08983	Area Property Tax Supv	41,969	42,084		1.00	1.00	
90063	Admin Clerk I	5,902	5,911		0.40	0.40	
	Sub–Total	$1,671,687	$1,676,423	34.40	29.85	64.25	0.00
Non–General Fund Positions							
Director's Office							
01020	Revenue Investigator	30,570	30,614		1.00	1.00	
Liquor Division							
** 05007	Admin Clerk I	17,036	17,059	0.50	0.50	1.00	
05047	Statistical Tech II	28,255	28,295				1.00
05217	Liquor Store Clerk 2	25,021	25,056				1.00
05311	Liquor Store Mgr 4	14,238	14,290				0.50
05441	Liquor Store Mgr 6	29,335	29,376				1.00
05507	Liquor Store Mgr 5	15,250	15,330				0.50
05602	Liquor Store Clerk 2	5,685	5,694				0.25
05607	Liquor Store Clerk 2	4,548	4,555				0.20
05617	Liquor Store Clerk 2	4,640	4,647				0.20
05621	Liquor Store Clerk 2	5,685	5,694				0.25
05624	Liquor Store Clerk 2	4,724	4,743				0.20
05625	Liquor Store Clerk 2	25,021	25,056				1.00
05629	Liquor Store Clerk 2	25,021	25,056				1.00
	Sub–Total	$235,029	$235,465	0.50	1.50	2.00	7.10
	TOTAL	$1,906,716	$1,911,888	34.90	31.35	66.25	7.10

NOTES:

** Twelve positions were eliminated by both actions. They are shown eliminated by 5% reduction.

Position #05007 – .50 FTE eliminated as "5% reduction". It also appeared on the "vacancy list", but as 1.00 FTE. It is shown as a .50 FTE reduction in each column.

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State of Montana

Marc Racicot, Governor

Department of Revenue
Mick Robinson, Director

Room 455, Sam W. Mitchell Building
Helena, Montana 59620

February 8, 1993

Representative Mary Lou Peterson
Chair, General Government and Transportation Appropriations Subcommittee
Capitol Building
Helena, MT 59620

RE: Proposed Spending Cuts

Dear Representative Peterson:

Please accept our apology for this tardy response to your request for proposed spending cuts. We have been consumed in preparing for the introduction and presentation of the Administration's Tax Reform legislation. We simply did not have the available resources to do justice to your request.

Before going into the specific reductions we are proposing to meet the targets of House Resolution 2, we must point out an error in FY95 biennial spending target. The error understates our total spending target by $910,000. This is the amount of the appropriation transfer from FY93 to FY92. In making adjustments for one time FY92 expenditures, our over expenditure in FY92 of $910,000 was subtracted from both our FY92 actual and our FY93 appropriation. Consequently, our total spending target for the FY95 biennium is understated by $910,000 which changes the reduction target by the same amount.

As a result, we calculate our target to be **$3,691,364** instead of the **$4,601,364** indicated in HR 2.

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Overview

The Department of Revenue is in an extremely difficult position when asked to propose spending reductions ranging from $3.6 to $5.6 Million while at the same time being asked to minimize the impact on state revenues. This is particularly true in light of the Departments' mission which is:

> <u>to insure full and fair compliance with all state tax laws; to assist taxpayers in fulfilling their obligations to the state; to maximize the raising and uses of taxpayer funds by maintaining an efficient and timely mechanism for the collection and deposit of revenues; and to implement all department responsibilities with professionalism, integrity and efficiency.</u>

Clearly, our job is serve the public and collect revenue.

It is difficult to propose spending cuts of the magnitude requested without at some point impacting service to the public and/or state revenues.

We have taken a two tier approach to addressing your request for spending reductions.

These tiers are:

Tier I — Represent spending reductions that we believe will result in reduced service levels <u>but will not have short term negative effects on revenues</u>. In the long term, however, several of the reductions we have proposed will likely result in decreased voluntary taxpayer compliance with our tax laws. The consequences of diminished voluntary compliance will result in long term negative revenue impacts.

Tier II — Represent spending reductions that will result in immediate lost revenue far in excess of any savings achieved. They are only proposed because there are no other available alternatives.

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Proposed Reductions

Director's Office - Tier I $194,555

Reduce Staffing

Personal Services is the only area where this program can realistically absorb funding reductions. We propose to reduce 3.50 FTE from our current level funding for a biennial savings of $194,555. This amounts to a 9.9% reduction in General Fund spending. The reduction of these positions impacts legal, administrative and clerical activities within the Director's Office.

Centralized Services Division - Tier I $122,806

Reorganization - Consolidation

We propose to consolidate the Centralized Services Division with the Data Processing Division to create the Operations Division. The Operations Division will be responsible for all activities currently performed by both divisions. The consolidation will result in a biennial savings of $122,806 resulting from the elimination of a senior management position and a .50 administrative aide FTE.

Centralized Services Division - Tier II $72,752 Savings - $500,000 Revenue Loss

Eliminate Seasonal Mail Room Staffing

The problems experienced by the Centralized Services Division in FY93 in attempting to provide essential services without overspending the current appropriation gives us the best indication of our future budget needs. FY93 experience shows that any cuts from the FY93 base, which is the same base projected into FY94 and FY95, will cause loss of revenue and reduction of base services.

Substantial cuts have been made in the past few years in the Centralized Services Division. Cuts prior to FY93 reduced non-revenue support staff to the minimum necessary to perform essential support services and in FY93 we reached a point where we do not have sufficient money or staff to efficiently process the revenue support workload and the result could be up to a $250,000 interest loss in General Fund revenue from untimely processing of tax returns.

Our Fiscal 1993 experience reflects precisely what will occur in the 1995 biennium as a result of reducing seasonal staffing.

The department will not be able to transfer funds from other programs within in the department to cover our $37,500 projected shortage in Centralized Services. As a result we put a backup plan into effect on January 1, 1993 to address the shortage

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within the division. The plan involves using only 1/4 of the normal seasonal help to save the $37,500 and to the extent possible use employees in the non-revenue support areas to perform work in the revenue support areas. Adverse results of saving the full $37,500 within the division will be:

1. **Reduced Accountability**

   Accounting documents will not be processed on a timely basis so department bills will be paid up to several months late and revenue collections and distributions will not be consistent with past years. This will make department expense projections less reliable and state revenue projections more difficult;

2. **Reduced Support**

   We will temporarily reduce or eliminate support activities related to purchasing, position control, supplies distribution, financial reconcilement, property accountability, surplus property and records management;

3. **Lost Revenue - Interest Earnings**

   Our projections indicate that at a 3% investment rate the State will lose over $200,000 in interest because of untimely processing of tax returns between April 15th and June 30th.

<u>Data Processing Division - Tier I $137,572</u>

<u>Reduce Data Entry Staffing</u>

<u>This reduction continues staffing levels currently in effect for FY93.</u>

While it is possible to reduce the FTE levels in the data entry section, it would necessitate a significant deterioration of taxpayer service and ability to process tax refunds on a timely basis.

Currently, the staffing and management of the Data Entry Section of the Department of Revenue has been performed with the goal to process all timely filed refund returns within 6-8 weeks of the April 15th filing deadline and the have all returns completed by December 1 of each year. This allows audit staff in the Income Tax Division time to complete edit correction and auditing in preparation for the start of the next filing season. This requires that a large number of temporary data entry staff be put on for the early portion of the year that are released after the refunds are processed and projections indicate that the remaining permanent staff can meet the December deadline. It also has typically required some amount of overtime during the refund season. Since our experience indicates that it takes a new employee an average of

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three months to become reasonably proficient keying Income Tax returns, a significant amount of time is spent every year training new staff and operating with a number of FTE that are only performing a fraction of the work of our permanent staff. These employees are then released shortly after they reach a reasonable production level and never return for a subsequent processing season. This is necessary, however, to realize the 6-8 week target timeframe for return of refund monies to taxpayers.

This item represents a 19% reduction in the number of FTE devoted to key entering the Department's data. In order to make a reduction of this magnitude, entirely permanent staff would be required on a full year basis to eliminate the retraining and low productivity hit that is incurred at the beginning of each year. Obviously, this would mean that there would not be nearly as many FTE working during the refund season and taxpayers would see refunds significantly delayed from the service that has been enjoyed in the past. It should be noted that the Department at times receives an enormous number of taxpayer inquiries (many irate) at what they feel is too much delay in the current refund processing timeframes. The reduction of FTE would require that staff perform data entry on tax returns through the historic year end closing period in December and January of each cycle. This will compress the time during which Income Tax Division staff perform their year end function and delays the availability of final Income Tax tape information to the Budget Office and the Legislative Fiscal Analyst. It should additionally be noted that analysis indicates that the commitment of 15 day turnaround for an error free short form tax return will still ordinarily be attainable if these returns continue to be the priority work for data entry and the current filing numbers and submission trends continue. It is possible, however, that there will now be a few days when the reduced staff would not be able to meet their portion of this commitment.

Income and Miscellaneous Tax Division - Tier I $348,000

Reduce Taxpayer Service

The following are program activities which could be reduced without immediate general fund collection impacts include:

1. **Eliminate Toll Free Service - $34,000**

   Our 800 number is intended as a customer convenience to assist in meeting filing requirements, in tax year 1992 the Division responded to 23,423 toll free calls with an even greater number attempted but blocked by a busy signal.

   The Division will still attempt to answer all taxpayer inquiries - but would not under this proposal, pay for the incoming long distance calls.

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2. **Eliminate Taxpayer Assistants - $58,000**

The Division has historically staffed locations alongside the IRS in 6 major cities throughout the State during tax return filing season. The positions helped customers prepare Montana returns and comply with their filing requirements. Targeted customers were elderly and others who would not normally hire a preparer. As well, the Division had 1 FTE dedicated full time to taxpayer education and problem prevention. Suspending these activities in the short term can produce general fund savings but could adversely impact taxpayer compliance and acceptance in the longer term.

<u>Reduce Operating Costs</u>

1. **Eliminate Staff Training - $12,000**

Although not specifically funded, the Division has historically spent approximately $50 per year per FTE on training. Division will authorize or make available only training which has no registration fee associated.

2. **Restricted Travel -$20,000**

Division travel budget will be used exclusively for audit travel.

<u>Statutory Changes</u>

1. **Fund Cigarette Tax Administration from proceeds of the tax - $180,000**

Currently Division Cigarette Tax administration is funded from General Fund. The Department believes it would be appropriate to fund these activities from a special revenue account from the proceeds of the tax rather than the **General Fund.**

2. **Fund Department Check-off Administrative Expenses - $28,000**

Consistent with the same logic as above, adequately fund Department administrative expenses from the proceeds of the check off up to actual expenses presently subsidized with general fund.

Annual operating expense per check off $2,920 data entry and system costs. Check-off programs impacted Political Campaign Fund, Nongame Wildlife, Child Abuse Prevention, Agriculture in Montana Schools, DARE Program.

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3. **Repeal Montana's Dangerous Drug Tax - $16,000**

Since inception in 1987, this tax has raised less than $80,000 yet has required extensive defending in the courts and considerable administrative effort to insure due process to those against whom this tax has been assessed. Outstanding assessments amount to $10.7 Million and are generally viewed as uncollectible. Presently, .5 FTE is dedicated to administering this tax.

The foregoing alternatives could be classified into a category of "non-critical" activities in the current program. If further reductions are required, essential Division activities will be seriously impaired as will general fund revenue streams. This is so because the only area where material savings can be achieved in this program is in the area of personal services.

Recognize positions in this program are either dedicated to the important tasks of processing documents and payments associated with $350 Million per year in collections or auditing those documents. These examination activities accounted for an additional $13.4 Million in assessment revenues in FY92 and are expected to produce $16 Million in FY93.

Further significant savings in the operating expenditure area are not attainable. Of the $1.4 million allocated for Division operating expenses the following three categories account for 88% of the expenditures.

Computer Processing and Network Charges	$ 723,000
Printing D of A and other provider	$ 188,000
Communications- Postage and Phones	$ 322,000
Total	$1,233,000

These expenditures are the infrastructure of the Division and are necessary to enabling taxpayer filings in the first place and secondly, to process those returns in a manner accountable for the revenue and answer the legislative requirements of having adequate detail necessary to informed decision making.

<u>Income and Miscellaneous Tax Division - Tier II $308,700</u>

If it is still necessary to significantly reduce the program budget the order of cuts with the least negative short term general fund impacts would be as follows:

1. **Close Billings Field Office - $12,000**

Move staff back to Helena.

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2. **Eliminate field audit travel - $60,000**

   All auditing would be transacted through the mail. The result will be diminished efficiency and effectiveness.

3. **Eliminate 8 Audit Positions and 1 Support Position - $236,700**

   Consistent with our past representations to the Legislature and historical averages, the expected short term impact would be calculated as:

   <u>8 Examiners at $250,000 per year in revenues = $4,000,000 reduction in collections</u>

   Scaling back audit coverage and examination efforts to meet short term exigencies has the potential for significant longer term impact of decreasing voluntary compliance. Unfortunately, the Department is not able to quantify, nor have we seen quantifiable measurement by any state of these concerns.

<u>Natural Resource and Corporation Tax Division - Tier I $84,000</u>

We propose to eliminate 1.00 Senior Management FTE from this program and streamline the management reporting structure.

<u>Natural Resource and Corporation Tax Division - Tier II $144,000</u>

Multistate Tax Commission (MTC)

Montana has been a member of the MTC for the last 25 years. The MTC is an organization of states created for the purpose of bringing some order to the state taxation of multistate businesses. The organization has several specific functions, one of which is to conduct an audit program on behalf of its member states. Montana has participated in this joint audit program since its inception and over the last 9 years, the audit program has generated an average of $350,000 annually to the State.

The cost to the State for participation in this program is approximately $72,000 annually. Although the State will lose $5 in revenue for each dollar saved by not being in the audit program, the lost revenue is less than if the State were to reduce other areas of the audit program. **The net revenue loss is $556,000**

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<u>Property Valuation Division - Tier II $3,200,700</u>

Attached are two proposals to streamline valuation functions. The first option contemplates the department to only perform tasks dealing with property valuation. The second option does the same but goes further by adjusting workload requirements, regionalization of county offices and significantly reducing staff. In total these proposals could generate $3.2 million in saving during the biennium.

Summary

Overall, the department is proposing over $4.6 million in spending cuts for your consideration. The savings are tainted however by a loss of revenue in the neighborhood of $5.2 million. This is an unavoidable situation that I hope you will understand. If you need further information or clarification, please give me a call.

Sincerely,

Jack Ellery for

Mick Robinson
Director

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Property Assessment Division 02/05/93
Streamlining the Assessment Functions
Option 1: Maintain Only the Valuation Function; Reduce Staff

REDUCED COSTS:		FY94	FY95
Salary & Benefits:			
Valuation Only		$580,446	$580,446
Reduction in staff – FTE	14.30		
Salary & Benefit Savings		($580,446)	($580,446)
Other "Valuation Only" Reduced Costs:			
County Computer Payment		($80,000)	($84,000)
County Computer Software Vendor Support		($35,000)	($36,750)
Other Reduced Costs		($115,000)	($120,750)
Total Reduced Costs		($695,446)	($701,196)

ADDITIONAL COSTS:			
Termination Pay			
Payoff Accrued Sick & Annual Leave	26	$55,900	$0
Division Average = $2,150 per employee			
Assessors don't Accumulate State Sick and Annual Leave			
Total Additional Costs		$55,900	$0

Total Estimated Administrative Costs	($639,546)	($701,196)

Facts:

This option:

1. Acknowledges potential reductions in FTE. Since reductions of assessors and deputy assessors represent only .7 FTE each, the actual number of people lost is much greater than the reduction in FTE.

2. Eliminates the assessor and deputy assessor positions from the department budget.

3. Requires the department to perform only valuation duties and responsibilities.

4. Transfers all taxation responsibilities to the county. Examples of those duties are calculation of taxes, data entry of special improvement district information, creating lists of property owners for creation of special improvement or rural improvement districts, selling hail insurance, etc.

5. Adds or deletes assessment type positions in each county using the premise that valuation is approximately 70% of the current duties in the assessor's office. Those county specific staffing adjustments were predicated on an annual workload requirement of 1,750 – 2,050 parcels per assessment (FTE) staff member. Total parcels were derived by using 20% of the total real property parcel count from the CAMA system plus the total number of assessments resident on the BEV system.

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6. Contemplates at least 1 clerical FTE in every county to handle personal property valuation.

7. Results in a slight cutback in service in each county. This option would provide a minimal amount of reduction in service to the public and taxing jurisdictions.

Other Concerns:

Rent:

The department may be required to rent office space outside of the county courthouse. This potential rent obligation could amount to $378,800 in FY94 and $403,422 in FY95.

Computers:

This option contemplates moving assessment staff into the appraisal office. Additional computers will be needed for the loss of access to the county terminals for data input into BEV and CAMA systems. This transfer in staff will amount to an additional need of 20 personal computers. This expense would only be in FY94 and is estimated at $24,000. Associated with additional computers is additional Department of Administration line charges for the computers. The line charges are $40 per month per machine. This would amount to $9,600 in FY94 and $10,560 in FY95.

Office Equipment:

With the transfer of staff additional office equipment will be needed to make up the loss of use of county office furniture. The department would have to purchase office equipment for all of the positions that would be transfered. This would be a one time expense of $76,140 in FY94.

Termination Obligation:

The termination of state employment will require payout to terminated positions. For this analysis it is assumed that 50% of the Deputies will remain state employees.

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Property Assessment Division 02/05/93
Streamlining the Assessment Functions
Option 2: Cut-Off Duties at Valuation; Adjust Workload Requirements Regionalization; Reduce Staff

REDUCED COSTS:			FY94	FY95
Salary & Benefits:				
Valuation Only			$1,536,254	$1,536,254
Reduction in FTE	60.00			-
Salary & Benefit Savings			($1,536,254)	($1,536,254)
Other "Valuation Only" Reduced Costs:				
County Computer Payment			($80,000)	($84,000)
County Computer Software Vendor Support			($35,000)	($36,750)
Other Reduced Costs			($115,000)	($120,750)
Total Reduced Costs			($1,651,254)	($1,657,004)

ADDITIONAL COSTS:				
Termination Pay				
Payoff Accrued Sick & Annual Leave		50	$107,500	$0
Division Average = $2,150 per employee				
Assessors don't Accumulate State Sick and Annual Leave				
Total Additional Costs			$107,500	$0
Total Estimated Administrative Costs			($1,543,754)	($1,657,004)

Facts:

This option:

1. Acknowledges potential reductions in FTE. Since reductions of assessors and deputy assessors represent only .7 FTE each, the actual number of people lost is much greater than the reduction in FTE.

2. Eliminates the assessor and deputy assessor positions from the department budget.

3. Requires the department to perform only valuation duties and responsibilities.

4. Transfers all taxation responsibilities to the county. Examples of those duties are calculation of taxes, data entry of special improvement district information, creating lists of property owners for creation of special improvement or rural improvement districts, selling hail insurance, etc.

5. Adds or deletes assessment type positions in each county using the premise that valuation is approximately 60% of the current duties in the assessor's office. Those county specific staffing adjustments were predicated on an annual workload requirement of 2,300 parcels per assessment (FTE) staff member. Total parcels were derived by using 20% of the total real property parcel count from the CAMA system plus the total number of assessments resident on the PPV system

Property Assessment Division
02/08/93

Streamlining the Assessment Functions

Option 2: Cut–Off Duties at Valuation; Adjust Workload Requirements Regionalization; Reduce Staff

6. Contemplates "regionalization" of assessment resources to handle personal property valuation. The state would be divided into 12 regions with the largest urban center designated as the contact point for assessment issues.

7. Results in the following service cut–backs:

(i) Requires some level of office closure in small sized counties. Those offices would be open 1 – 2 days per week. Medium sized and larger counties would have reduced office hours for public access and in some instances an "appointment" approach would be necessary.

(ii) Limits the ability of staff to conduct any field work on mobile homes and personal property. It further harms the ability to handle the annual ownership changes, property splits and transfers.

Other Concerns:

Rent:

The department may be required to rent office space outside of the county courthouse. This potential rent obligation could amount to $338,000 and $359,970 in FY94 and FY95 respectively.

Computers:

This option contemplates moving assessment staff into the appraisal office. Additional computers may be needed for the loss of access to the county terminals for data input into BEVS and CAMAS. Associated with additional computers is additional Department of Administration line charges for the computers.

Office Equipment:

With the transfer of staff additional office equipment will be needed to make up the loss of use of county office furniture. The department would have to purchase office equipment for all of the positions that would be transfered to valuation. This would be a one time expense of $33,488 in FY94.

Termination Obligation:

The termination of state employment will require payout to terminated positions. For this analysis it is assumed that 25% of the Deputies will remain state employees.

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Directors' Office	Tier I Position #	FTE	FY94	FY95	Tier I Total		Tier II Position #	FTE	FY94	FY95	Tier II Total	Revenue Impact
Personnel Tech	1007	1.00	$22,570	$22,601	$45,171						$0	
Admin Aide	1036	0.50	$10,217	$10,231	$20,448						$0	
Para Legal Assistant	1037	1.00	$32,188	$32,325	$64,513						$0	
Admin Officer IV	1040	1.00	$32,188	$32,235	$64,423						$0	
Total		3.50	$97,163	$97,392	$194,555			0.00			$0	$0
Centralized Services												
Reorganization	N/A	1.00	$50,000	$50,000	$100,000	Mail Clerk	90202	0.09	$1,593	$1,600	$3,193	
Admin Clerk	90200	0.50	$11,368	$11,438	$22,806	Mail Clerk Seasonal Agg	90311	2.18	$34,751	$34,808	$69,559	($500,000)
					$0						$0	
					$0							
Total		1.50	$61,368	$61,438	$122,806			2.27			$72,752	($500,000)
Data Processing												
Data Entry	91610	3.60	$68,739	$68,833	$137,572						$0	
					$0						$0	
					$0						$0	
											$0	
											$0	
Total		3.60	$68,739	$68,833	$137,572			0.00	$0	$0	$0	$0
Liquor Enterprise												
Income and Miscellaneous Tax												
Taxpayer Service Rep.	6002	1.00	$29,000	$29,000	$58,000	Close Billings Field Office		0.00	$6,000	$6,000	$12,000	
Eliminate Staff Training/Travel			$16,000	$16,000	$32,000	Eliminate Audit Travel		0.00	$30,000	$30,000	$60,000	
Check Off Administrative Costs			$14,000	$14,000	$28,000	Eliminate Audit/Support Positions		9.00	$118,350	$118,500	$236,850	($4,000,000)
Repeal Drug Tax			$8,000	$8,000	$16,000			0.00			$0	
Cigarette Tax Funding			$90,000	$90,000	$180,000			0.00			$0	
Toll Free Telephone		0.00	$17,000	$17,000	$34,000			0.00			$0	
Total		1.00	$174,000	$174,000	$348,000			9.00	$154,350	$154,500	$308,850	($4,000,000)
Natural Resource & Corporation Tax												
Reorganization		N/A	$42,000	$42,000	$84,000	Multistate Tax Commission			$72,000	$72,000	$144,000	($700,000)
					$0						$0	
					$0						$0	
					$0						$0	
Total		0.00	$42,000	$42,000	$84,000			0.00	$72,000	$72,000	$144,000	($700,000)
Property Valuation		0.00			$0	Reorganization - Option I			$639,500	$701,200	$1,340,700	
		0.00			$0	Reorganization - Option II Increment		60	$904,200	$955,800	$1,860,000	
		0.00			$0							
Total		0.00	$0	$0	$0			60.00	$1,543,700	$1,657,000	$3,200,700	$0
Total Tier I		9.60	$443,270	$443,663	$886,933	Total Tier II		71.27	$1,770,050	$1,883,500	$3,726,302	($5,200,000)
						Total Tier I & II		80.87	$2,213,320	$2,327,163	$4,613,235	

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AGENCY: DEPARTMENT OF REVENUE

Checklist
Response to Subcommittee Letter

GENERAL FUND TARGET	$38,818,690

Priority Ranking	SPECIFIC REDUCTION PROPOSALS	Total Biennial Reductions Identified: Does Apply Toward Target	Total Biennial Reductions Identified: Does Not Apply Toward Target	Fund Switch	Fee Increase	Permanent Reduction	Cost Shift to Local Govt?	Loss of G/F Revenue?	Amt. of G/F Rev. Loss	Statute Change
	*Current General Fund Appropriation**	43,420,054								
See Comment (1)	Current Level Adjustments Requested:	0								
	Agency Target Reduction Options:									
Tier I	Director's Office – Reduce 3.5 FTE	(194,555)		N	N	Y	N	N		N
Tier I	Centralized Svcs – Reorg. – 1.5 FTE Reduction	(122,806)		N	N	Y	N	N		N
Tier II	Cent. Svcs – Elim. 2.27 FTE Seasonal Mail Staff	(72,752)		N	N	Y	N	Y	500,000	N
Tier I	Data Processing – Reduce 3.60 FTE Data Entry	(137,572)		N	N	Y	N	N		N
Tier I	Income/Misc Tax – Eliminate Toll Free Service	(34,000)		N	N	Y	N	N		N
Tier I	Income/Misc Tax – Eliminate 1.0 FTE Tax Svc Rep	(58,000)		N	N	Y	N	N		N
Tier I	Income/Misc Tax – Elim. Training & Some Travel	(32,000)		N	N	Y	N	N		N
Tier I	Income/Misc Tax – Cig. Tax Funding Admin Costs		(180,000)	Y (2)	N	N	N	N		N
Tier I	Income/Misc Tax – Fund "Check-off" Admin Exp	(28,000)		Y	N	Y	N	N		?
Tier I	Income/Misc Tax – Repeal Dangerous Drug Tax	(16,000)		N	N	Y	N	N		Y
Tier II	Income/Misc Tax – Close Billings Field Office	(12,000)		N	N	Y	N	N		N
Tier II	Income/Misc Tax – Eliminate Field Audit Travel	(60,000)		N	N	Y	N	N		N
Tier II	Income\Misc Tax – Elim. 8 Audit & 1 Support FTE	(236,850)		N	N	Y	N	Y	4,000,000	N
Tier I	Nat Res/Corp Tax – Elim. 1.0 Sr Mgmt FTE	(84,000)		N	N	Y	N	N		N
Tier II	Nat Res/Corp Tax – Do Not Participate in MTC (3)	(144,000)		N	N	Y	N	Y	700,000	N
Tier II	Prop Valuation – Option 1 (14.3 FTE Reduction)	(1,340,700)		N	N	Y	Y	N		Y
Tier II	Prop Valuation – Option 2 (45.7 FTE Reduction) (4)	(1,860,000)		N	N	Y	Y	N		Y
	GENERAL FUND BALANCE ACHIEVABLE	38,986,819								
	ABOVE (BELOW) TARGET	$168,129						Total Projected GF Revenue Loss =	$5,200,000	
	Agency Additional Options (5% Below '93 Bien.)									
	TOTAL ADDITIONAL OPTIONS	$0	$0							

* This amount represents subcommittee action to date, or LFA current level if there has not yet been committee action.

COMMENTS:
(1) The department describes its reductions in relation to "Tiers I and II". Tier I is said to "not have short term negative effects on revenues". For Tier II reductions, it is indicated that "immediate lost revenue" would result, "far in excess of any savings achieved". The department indicates that the Tier II reductions are proposed because there are no other alternatives.
(2) The use of cigarette tax moneys to replace general funds here would ultimately reduce the amount of general fund otherwise available for appropriation, resulting in no net change.
(3) MPC = Multistate Tax Commission
(4) Option 2, as described in the letter includes Option 1, but takes the proposed reduction further. The reduction amount & FTE shown on this form for Option 2 are the incremental difference betv difference between Option 2 and Option 1.

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Department of Revenue

Director's Office
Investigations Program

Budget Issues

<u>Investigator II Office of Investigations</u>

1. The proposal to eliminate positions vacant as of December 25, 1993 would eliminate position 01020-Revenue Investigator II (1 FTE-grade 14) for a total of $34,604 for the biennium. In excess of 30% of this cost would be returned to the department from federal sources if the position is reinstated, due to the positions' welfare and medicaid fraud investigative activities.

   This position **<u>purposely</u>** remains vacant to this date.

Reinstatement Rationale

This revenue investigator position resides in the Office of Investigations attached to the Director's Office and is used to meet the department's statutory requirement to investigate liquor license applications and to perform other investigative.

This position has been held open since the incumbent terminated due to the department wide hiring freeze imposed for FY93 and the necessity to generate vacancy savings. The vacancy of this position on December 25th has no relationship to its criticality to the department. The elimination of this position represents a 12.5% reduction in the staff available to perform the department's investigative functions listed above. This reduction results in a corresponding increase in workload and additional driving time to cover larger territories for the seven remaining investigators, whom together must cover the entire state, and each of whom already had more potential investigative work than they could accomplish. The result is that work of increasing priority must be done in a cursory fashion or deferred altogether. The Office of Investigations has been unable to respond to numerous requests for support from local law enforcement jurisdictions, and routinely defers premises inspections for some remodeling work that had previously been reviewed for compliance with the applicable suitability standards.

In the welfare and medicaid fraud areas, a decrease in investigative staff results in a lowered compliance enhancing impact of the prosecution of these violations, which would encourage others to engage in fraudulently attempting to obtain welfare benefits at a substantial cost to the state.

Justification

- The department has not filled this one FTE position purely because of the hiring freeze and the necessity to generate vacancy savings. Its vacancy

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on December 25, 1992 has no relationship to its long term importance to the mission of the department.

- Depletion of the department's investigative resources will have an adverse affect on its ability to provide investigative support to the Liquor Division for its statutorily mandated functions as well as for support of and liaison with local law enforcement in the liquor area.

- Elimination of this position also has a negative impact on the department's ability to perform investigative services to the Department of Social and Rehabilitative Services under its contract with that agency. Because most of the costs associated with the activities performed under that contract are reimbursed to the state at a 75% rate by the federal government, the state would not realize the full benefit of the vacancy savings for this position due to the loss of the federal reimbursement funds associated with it, if it were eliminated.

The department requests the subcommittee to approve the retention of this position.

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Department of Revenue

Centralized Services Division

Budget Issue

Maintaining a sufficient funding level in the division to provide basic required support services for the department.

Background

The **LFA** established the Current Level budget for the Centralized Services Division at **$896,000** and 30.27 FTE (Includes the 1 FTE eliminated by the 5% cut in the Executive Budget).

The **Executive Budget** established the Current Level budget for the division at **$882,000** and 28.68 FTE and the department is requesting 1.00 of the 1.59 FTE cut by the 5% cuts to be restored in an **$18,000** Budget Modification.

Justification

- The LFA and Executive budgets are in substantial agreement as to the funding level for Centralized Services. That level is about 30.00 FTE and $896,000.

- The $896,000 funding level is based on the same FTE level used for Centralized Services Division is FY93. In FY93 the division is experiencing serious budget problems that will not allow the division to perform its basic support functions without significant loss of revenue to the General Fund and significant reduction in necessary support services to other divisions.

- The problems experienced by the Centralized Services Division in FY93 in attempting to provide essential services without overspending the current appropriation give us the best indication of our future budget needs. FY93 experience shows that any cuts from the FY93 base, which is the same base projected into FY94 and FY95, will cause loss of revenue and reduction of base services.

- Substantial cuts have been made in the past few years in the Centralized Services Division. Cuts prior to FY93 reduced non-revenue support staff to the minimum necessary to perform essential support services and in FY93 we reached a point where we do not have sufficient money or staff to efficiently process the revenue support workload and the result could be up

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to a $320 to 400,000 interest loss in General Fund revenue from untimely processing of tax returns.

<u>The department requests the subcommittee to approve the Centralized Services budget at the level established in the Executive budget including the modification for 1.00 FTE.</u>

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Department of Revenue

Data Processing Division

Budget Issues

Data Processing Data Entry

1. The LFA current level recommendation eliminates 3.6 FTE from the grade 7 Data Entry Operator III aggregate position (91610) for a total of $137,316.

Reinstatement Rationale

While it is possible to reduce the FTE levels in the Department of Revenue data entry section, it would necessitate a significant deterioration of taxpayer service and ability to process tax refunds on a timely basis.

Currently, the staffing and management of the Data Entry Section of the Department of Revenue has been performed with the goal to process all timely filed refund returns within 6-8 weeks of the April 15th filing deadline and the have all returns completed by December 1 of each year. This allows audit staffing the Income Tax Division time to complete edit correction and auditing in preparation for the start of the next filing season. This requires that a large number of temporary data entry staff be put on for the early portion of the year that are released after the refunds are processed and projections indicate that the remaining permanent staff can meet the December deadline. It also has typically required some amount of overtime during the refund season. Since our experience indicates that it takes a new employee an average of three months to become reasonably proficient keying Income Tax returns, a significant amount of time is spent every year training new staff and operating with a number of FTE that are only performing a fraction of the work of our permanent staff. These employees are then released shortly after they reach a reasonable production level and never return for a subsequent processing season. This is necessary, however, to realize the 6-8 week target timeframe for return of refund monies to taxpayers.

This item represents a 19% reduction in the number of FTE devoted to key entering the Department's data. In order to make a reduction of this magnitude, entirely permanent staff would be required on a full year basis to eliminate the retraining and low productivity hit that is incurred at the beginning of each year. Obviously, this would mean that there would not be nearly as many FTE working during the refund season and taxpayers would see refunds significantly delayed from the service that has been enjoyed in the past. It should be noted that the Department at times receives an enormous number of taxpayer inquiries (many irate) at what they feel is too much delay in the current refund processing timeframes. The reduction of FTE would require that staff perform data entry on

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tax returns through the historic year end closing period in December and January of each cycle. This will compress the time during which Income Tax Division staff perform their year end function and delays the availability of final Income Tax tape information to the Budget Office and the Legislative Fiscal Analyst. It should additionally be noted that analysis indicates that the commitment of 15 day turnaround for an error free short form tax return will still ordinarily be attainable if these returns continue to be the priority work for data entry and the current filing numbers and submission trends continue. It is possible, however, that there will now be a few days when the reduced staff would not be able to meet their portion of this commitment.

Justification

- If the department is to continue historic levels of taxpayer service, data entering all timely filed tax refund returns within 6-8 weeks following the April 15th filing deadline, these FTE must be restored.

- If the Budget Office and Legislative Fiscal Analyst are to receive Income Tax data in the December timeframe, these FTE must be restored.

<u>The department requests the subcommittee to approve the Executive request to retain these FTE.</u>

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Department of Revenue

Data Processing

Budget Issues

<u>Data Processing Data Entry</u>

2. The proposal to eliminate positions vacant as of December 25, 1993 would eliminate positions 91613-Data Entry Operator I (.5 FTE-grade 5) and 91618-Data Entry Operator Trainee (.5 FTE-grade 4) for a total of $35,414 for the biennium.

These positions **<u>purposely</u>** remain vacant to this date.

Reinstatement Rationale

These two aggregate positions are used to hire entry level data entry staff. Data entry advancement in the Department of Revenue is based on the keystroke rate produced by the individual and operators rarely remain at the grade 4 and 5 level as they gain any degree of experience. These two positions, therefore are maintained as a starting point for new and seasonal employees. Since the Department has not hired any new data entry staff during calendar 1992 and currently has only veteran permanent staff, these positions have remained open. It should be noted, however, that the money for these two positions has been expended to pay FTE in the higher level aggregate positions within the data entry operator series. As of the January 8, 1993 pay period ending 54% of the available salary appropriation had been expended with only 52% of the time elapsed within the fiscal year. It should additionally be noted that with the 5% reduction initiative potentially removing 3.6 FTE from the data entry section this additional FTE reduction will increase the total reduction in staff entering the department's data from 19% to over 24%. This will further exacerbate all of the problems with timeliness of Income Tax refunds and tax data for the Budget Office and Legislative Fiscal Analyst, which are discussed in the previous budget issue.

Justification

- The department has not filled these two .5 FTE aggregate positions because they are used for new hires to the data entry operator series and the department has not hired any new or seasonal data entry staff during calendar 1992. All current employees are permanent staff who have reached keystroke production which would place them in higher aggregates within the data entry operator series.

- All monies for these positions has been expended to retain veteran operators at the higher classifications (grade 6 and 7).

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- This proposed elimination in conjunction with an additional 3.6 data entry FTE targeted for the 5% reductions causes over 24% reduction in staff entering the department's data. This will enhance the inability to meet taxpayer expectations regarding timeliness of refunds plus the Office of Budget and Program Planning and Legislative Fiscal Analyst desire to receive Income Tax data in the December 1 timeframe.

The department requests the subcommittee to approve the retention of these two .5 FTE aggregate positions.

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Department of Revenue

Data Processing

Budget Issues

Systems Development Staff

3. The proposal to eliminate positions vacant as of December 25, 1993 would eliminate positions 03010 and 03052-Information Systems Specialist III-Implementation (2 FTE-grade 15) for a total of $149,172 for the biennium.

   These positions **purposely** remain vacant to this date.

Reinstatement Rationale

These two systems development positions reside in the Systems Development Bureau within the Data Processing Division and are used to develop and maintain the Department's mainframe based data processing systems. These positions have been held open since the incumbents terminated due to the Departmentwide hiring freeze imposed for FY93 and the necessity to generate vacancy savings. The vacancy of these positions on December 25th has no relationship to their criticality to the Department. The elimination of these two positions represents in excess of a 14% reduction in the staff available to maintain the Revenue Control, Individual Income Tax, Withholding Tax, Accommodations Tax, Accounts Receivable, Corporation Tax, and Business Equipment Valuation Systems. This reduction, over time, will create an even larger backlog of maintenance requests for these systems. Since availability of the computer systems is critical to the work of all divisions of the Department, the inability to react timely to these requests and maintenance issues will inhibit the ability of the tax divisions to perform their revenue collection functions.

Justification

- The department has not filled these two FTE positions purely because of the hiring freeze and the necessity to generate vacancy savings. Their vacancy on December 25, 1992 has no relationship to their long term importance to the mission of the Department.

- Inability to keep the tax processing and associated support systems running, will cripple the Department's ability to collect revenue.

The department requests the subcommittee to approve the retention of these two positions.

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Department of Revenue

Liquor Division

Budget Issues

Language Appropriation Requirement

1. The LFA (on page A-159) states that "all language appropriations must include the maximum amount of funds that can be appropriated." (per Legislative Council attorneys) The LFA recommends adding the limit to the traditional language appropriation.

   The LFA also recommends including the Licensing Bureau in this overall cap.

We concur with the LFA recommendation with some modifications:

A. The appropriations cap needs to be tied to growth components of HJR3 relating to growth in liquor sales. The largest portion of the appropriation cap is for the purchase of liquor inventory. The second largest portion of the cap is for transfers of liquor profits and excise taxes to the General Fund.

If the cap is not large enough to adequately cover the expected growth in sales, a supplemental request would be required every time sales grew beyond the appropriation.

B. The FY94 cap should be: $ 52,474,000
The FY95 cap should be: $ 54,578,000

Justification

- A cap on total expenditures plus a percentage of net sales limit provides the flexibility that's needed to respond to market changes and controls expenditures.

The department requests the subcommittee to: (1) continue the current language appropriation and add the appropriation cap as recommended, (2) to set the maximum expenditure in FY94 to $ and in FY95 to $, and (3) to include Licensing, Administration, Purchasing, Warehouse and Stores Programs under the maximum expenditure limit in the language appropriation.

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Department of Revenue

Income and Miscellaneous Tax Division

Budget Issues

Restoration of Personal Services

1. Restoration of 8.20 FTE lost as a result of the legislative mandate eliminating vacant positions prior to December 29, 1992.

Reinstatement Rationale

Each of the positions identified in the December snapshot were vacant due either to the requirement to achieve certain levels of vacancy savings necessitated by current budget realities,or because the position was a seasonal position purposefully held vacant in non-peak periods of the year.

ADMINISTRATIVE SERVICES BUREAU

Positions 06016, 06033 and 06034 - Administrative Clerks - 3.00 FTE

These Administrative Clerk III positions are assigned to conduct the time consuming research necessary to Division collection efforts. The type of research includes locating debtors, confirming addresses, obtaining phone numbers, identifying current employers or other levy sources and the like in preparation for the file to be worked by Division Collection staff.

On average, 4811 accounts are added to the Accounts Receivable System per month. Vacancy or loss of these positions will result in higher graded (10's and 12's) collector positions doing this research significantly detracting from collection efforts, increase aging of accounts and decreasing assessment revenues. Of the $13.4 Million in Assessment Revenues recorded by the program in FY 92, a full $7.7 million was brought in by the collection staff.

Position 06029 - Accounting Technician - 1.00 FTE

This Accounting Technician carries the sole responsibility for processing and reconciling exception reports/problem transactions identified in the Department Account Receivable System. In FY 92 the Division recorded approximately 385,000 transactions in the DAR system. Of these, 11,540 transactions (almost 1,000 per month) rejected and required personal intervention to reconcile the account. The work must be done to insure proper recording of payments and billing of debtors. Currently it is being performed by a Grade 12 Collector significantly detracting from the position's normal collection duties which

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results in increasing aging of the collector's inventory and decreased collections.

Position 06136 Administrative Clerk I - .50 FTE

Position is normally hired full time for the period January thru June - corresponding with our peak processing workload. The person in this position is assigned to support the processing of approximately 2,000 returns per day. The work involves document control, correlating computer identified errors or exceptions with returns and distributing the same for further processing, coordinating documents necessary to originate files on those accounts assessed additional amounts owing, and similar assignments necessary to maintain accountability on the high volume of documents that enter our system daily.

BUSINESS TAX BUREAU

Position 06002 Taxpayer Service Representative - 1.00 FTE

Taxpayer Service Representative is a position assigned to taxpayer education and service activities throughout the year and throughout the State. Specifically, coordinating the Assistance for Business Clinics which in 1992 were conducted as a multi-agency program designed to orient employers and their employees to the many filing requirements imposed by state agencies and the federal government.

In 1992 Training was conducted in 13 communities throughout the State and presented to 1,328 attendees. As well, the position annually conducts VITA (Volunteer Income Tax Assistance) and TCE (Tax Counselling for the Elderly) training throughout the State to assist primarily lower income and elderly households with their tax filing and credit program filing obligations.

Taxpayer outreach/education efforts as well as agency accessibility is critical to problem prevention and encouraging voluntary compliance. Recognize that a full 95.5% of Division tax collections are the result of **voluntary compliance.** A 1% drop in voluntary compliance would require a 22% increase in audit program collections to regain the lost revenue.

Position 06104 - Audit Technician I - 1.00 FTE

Audit Technician I is assigned to process taxpayer inquiries and concerns relative to withholding/payroll tax accounts. Each year this section processes in excess of 170,000 documents and issues approximately 21,000 assessments to employers filing quarterly withholding and payroll reports. Division experience has shown approximately 35% of these assessments will require personal attention to respond to inquiries, assist in reconciling, or respond to a request for waiver of penalties.

Requiring the position to remain vacant has significantly diminished Division customer service causing general delays and backlogs. Response time has increased from the desired standard of 10 days or less to 30 days. This reduced level of service creates considerable ill will with our customers, delays collection of assessments, and adversely impacts customer confidence in the operation of the tax system.

EXAMINATION SECTION

Position 06059 - Tax Examining Technician - 1.00 FTE

Tax Examining Technician Grade 10 is responsible for reviewing and auditing individual income tax return - processing system identified errors, conducting selective audits, processing revenue agent reports and providing taxpayer assistance via phone. The position is a front line revenue generating position - based on a 3 year average Grade 10's in the office audit area have assessed in excess of $500,000 per year - well above Division average and an excellent return for the $25,000 in personal services required.

Position 96010 - Tax Exam Technicians - .70 FTE

Tax Exam Technicians - this aggregate position was used to staff taxpayer assistant positions in Bozeman, Billings, Kalispell, Gt.Falls, Missoula, and Helena during the tax season. Normally hired for the period February 1st through April 15th, these assistants would join IRS staff at offices throughout the state to provide help in filing tax returns. This customer service was targeted to individuals who normally would not hire a preparer and needed assistance in understanding their requirements.

EXHIBIT 11
DATE 2/10/93
HB

Department of Revenue

Income and Miscellaneous Tax Division

Budget Issue

Underfunding Ongoing Expenses related to HB 959 and HB 14

1. Under the methodology adopted by the LFA, the ongoing expenditures associated to administering these new laws have been understated.

Reinstatement Rationale

The LFA approach to eliminating 1 time operating expenditures in FY 92 failed to take into account that HB 14 was passed not by the 1991 Session but instead by the January 1992 Special Session and more importantly, was only funded for the **last quarter of this biennium**. Therefore, by looking to FY 93 as a measure of "ongoing expenditures" for this bill (estimated tax requirements), operating expenses were understated for failure to annualize these expenses.

The new filing requirements of HB 14 did not become effective until January 1, 1993 and the first filing will occur on April 15th, 1993. Thus the Department had requested only 1/4's worth of funding for FY 93. Personal services appear to have been handled correctly but the operating expenses are understated by the amounts identified by LFA as under the Executive Budget.

Justification

As was justified to the January, 1992 Special Session, the Division expects to see a significant workload impact as a result of these changes. Under the old estimated tax provisions we were processing approximately 13,000 documents annually. Under HB 14, which has now become law, we expect 120,000 documents and payments to be filed annually. These documents and payments will need to be processed and reconciled back to the tax return claiming credit for these payments. Accurately accounting for the $34 Million expected to be accelerated by this new law and ongoing communication with the 30,000 Montanans impacted, underlies the ongoing operating costs.

The department requests the subcommittee restore the operating budget difference between LFA and the Executive Budget recommendation.

EXHIBIT 11
DATE 2/10/93
HB

Department of Revenue

Natural Resources and Corporation Tax Division

Budget Issues

1. Revenue Agent - State Lands Royalty Audit

The Swysgood amendment eliminates a Revenue Agent I (Position #7807) because the position was vacant as of 12/29/92.

The position **purposely** remains vacant to this date.

This position is not a General Fund position, its funding source is the State Lands Resource Development account.

Reinstatement Rationale

The Department of Revenue under a Memorandum of Understanding with the Department of State Lands audits oil, gas and coal producers who operate on state lands. These audits are performed to insure these producers have paid the proper amount of royalties due the state from the extraction of oil, gas or coal from state lands.

This program was initiated in 1985 after the Legislative Auditor's office cited the Department of State lands for not auditing mineral producers extracting minerals from state lands.

The Department of State Lands had no experience in auditing mineral producers, and the Department of Revenue did. Therefore, the Department of State Lands came to the Department of Revenue and asked if the Department of Revenue would manage an audit program for State Lands. In addition to the lack of audit expertise in State Lands there was an opportunity to economize. The Department of Revenue already an ongoing mineral audit program for tax purposes, including the necessary supervisory and clerical staff. Thus, an audit function could be created for state land royalties by merely adding an auditor, and letting the Department of Revenue manage and provide the clerical support for the audit function.

Since the inception of this program the audit activities of the Department of Revenue have generated in excess of $1.2 million dollars in additional royalty collections for State Lands. In addition, the audit program has assessed an additional $1 million more in royalty due. This $2.2 million has been generated at a cost of about $400,000 to the State Lands Resource Development account. These figures do not reflect the voluntary compliance that has resulted from the threat of an audit.

EXHIBIT 11
DATE 2/10/93
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Justification

- Without this position oil, gas and coal producers who lease state lands and produce from them will not be audited.

- The money collected from royalties due from state land go to the education trust fund.

- Its estimated this position can generate between $250,000 and $500,000 in the 1995 Biennium.

<u>The department requests the subcommittee to reinstate this position.</u>

EXHIBIT 12
DATE 2/10/93
HB

Department of Revenue

Natural Resource & Corporation Tax Division

Budget Issues

2. Travel: Out-of-State Lodging

The LFA current level recommendation is $5,002 less for out-of-state lodging costs.

Reinstatement Rationale

- 95% of the division's cost of lodging is due to out-of-state travel in conjunction with the audit of multistate/multinational corporations doing business in Montana.
- The division receives a "government rate" for out-of-state lodging.
- The "government rate" is equal to the maximum Federal Per Diem rate as set for that particular location.
- Therefore, as the maximum Federal Per Diem rates increase the division's cost for out-of-state lodging increases.
- Changes in the Federal Per Diem rates are not tied to inflation, but reflect periodic changes to rates based upon the hotel/motel market for a particular location.
- Therefore, as Federal Per Diem rates increase, the division must correspondingly increase its budget for out-of-state lodging.

Justification

- During FY92, 86% of the division's total audit collections of $24.2 million were the result of field audits which required out-of-state travel.
- Each out-of-state audit averages $375,000 in audit collections.
- Under funding travel associated with out-of-state lodging will require that the division to eliminate 3 less productive field audits (i.e. average audit collections of $100,000) in each year of the biennium.
- Elimination of 6 field audits will result in a decrease in audit collections of $600,000 for the biennium. [$100,000 x 6 field audits]

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

GEN. GOV. & HWYS. SUBCOMMITTEE DATE 2/10/93

DEPARTMENT(S) REVENUE DIVISION

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Cele Pohle	Powell County Assessor	
Marian Olson	Mt. Assessor Assoc.	
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Gary Blewett	DOR	
Jeff Miller	DOR	
Lynn Chenoweth	DOR	
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