

**74th OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session
BUDGET REPORT AND MEASURE SUMMARY**

MEASURE: HB 5041-A

JOINT COMMITTEE ON WAYS AND MEANS

**Carrier – House: Rep. Jenson
Carrier – Senate: Sen. Bates**

Action: Do Pass as Amended and Be Printed A-Engrossed

Vote: 16 – 3 – 2

House – Yeas: D. Edwards, Galizio, Jenson, Nathanson, Nolan, Shields

– Nays: Garrard, Hanna, Morgan

– Exc:

Senate – Yeas: Bates, Gordly, Johnson, Morse, Nelson, Schrader, Verger, Westlund, Whitsett, Winters

– Nays:

– Exc: Carter, Devlin

Prepared By: Jim Carbone, Department of Administrative Services

Reviewed By: Dallas Weyand, Legislative Fiscal Office

Meeting Date: 4/20/07

Agency

Department of Revenue

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Biennium

2007-09

Senators: Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson,
Schrader, Verger, Westlund, Whitsett, Winters

Senator Kurt Schrader, Co-Chair

Representatives: D. Edwards, Galizio, Garrard, Hanna, Jenson,
Morgan, Nathanson, Nolan, Shields

Representative Mary Nolan, Co-Chair

Representative Bob Jenson, General Government Subcommittee Chair

Budget Summary*

	2005-07		2007-09		Percentage Committee
	Legislatively Approved Budget (1)	Governor's Budget	Committee Recommendation	Difference from Governor's Budget	Change from Governor's Budget
General Fund	\$ 137,502,762	\$ 149,961,692	\$ 148,462,303	\$ -1,499,389	-1.0%
Other Funds	30,697,742	34,053,182	32,342,631	-1,710,551	-5.0%
Other Funds Nonlimited	224,358	231,313	231,313	0	0.0%
Total	\$ 168,424,862	\$ 184,246,187	\$ 181,036,247	\$ -3,209,940	-1.7%

Position Summary

Authorized Positions	1,094	1,066	1,048	-18
Full-time Equivalent (FTE) Positions	1,004.91	985.62	968.22	-17.40

(1) Includes adjustments through the December 2006 meeting of the Emergency Board

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Department is mainly supported by the General Fund. Other Funds revenue is derived from charges to various Other Funds' tax, fee, assessment and other programs to cover related administrative costs.

This bill continues the appropriation of cigarette tax revenue and tobacco products tax revenues to reimburse the Department of Revenue, Oregon State Police and Department of Justice for cigarette tax administration and enforcement and tobacco products tax administration and enforcement.

Summary of Subcommittee Action

The Department of Revenue (DOR) administers the state's income tax and property tax programs. In addition, the Department collects revenue from a variety of sources and transfers it to various state and local agencies. These revenue sources include taxes on: a) cigarettes and other tobacco products; b) amusement devices; c) payroll (for local mass-transit); d) timber, oil, and gas severance; and e) the harvesting of forest products. The Department also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; serves as the collection agency for fines, forfeitures, and assessments owed to state agencies; and administers property tax relief programs for senior citizens and persons with disabilities.

The Joint Committee on Ways and Means General Government Subcommittee approved a budget of \$181,036,247 total funds and 1,048 positions (968.22 full-time equivalents) for DOR. This is an increase of \$4,676,157 total funds or 2.6 percent above the agency's Essential Budget Level.

Executive Section

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions. The Subcommittee approved a total funds budget of \$3,875,342 (\$3,480,353 General Fund; \$394,989 Other Funds) and 15.13 full-time equivalent positions, which is the Essential Budget Level for this Section.

General Services Section

The General Services Section is used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. For internal budgetary purposes, the flow of tax revenues is accounted for in this section. The Subcommittee approved a budget of \$5,831,706 total funds (\$5,365,508 General Fund; \$466,198 Other Funds) which is the Essential Budget Level (plus an adjustment moving the remaining personal services limitation to the Administrative Services Section).

Administrative Services Division

The Administrative Services Division provides computer processing systems and support services to the agency's other divisions, processes incoming tax returns, scans returns for errors, processes and banks tax payments, enters and transfers taxpayer data to computer storage, and maintains information files. This Division also provides the Department's purchasing, personnel, facilities management, accounting, and other fiscal support. The Subcommittee approved a budget of \$53,753,160 total funds (\$47,880,776 General Fund; \$5,872,384 Other Funds) and 293.22 full-time equivalent positions for this division.

In addition to the Essential Budget Level, the Subcommittee approved an adjustment, moving personal services in from the General Services Section. The Subcommittee also authorized moving the application development and support of electronic filing for the personal income tax program from the Department of Administrative Services (DAS) into the Department of Revenue (DOR). (Two positions were abolished in the DAS budget in Senate Bill 5502 and are now established in the DOR budget).

A proposal to replace the Department's two check processing machines was approved, with replacement of one machine occurring immediately and replacement of the second occurring 12 months later. The Department was also authorized to automate its 10 field offices with a remote-capture processing system. This will allow them to more quickly bank payments. In addition, it will allow the cancellation of armored car services that are currently required to transport the local payments to Salem.

The Subcommittee approved the first phase of an electronic document management system, beginning with corporation tax returns. Pursuing this strategy will reduce the cost of processing documents and enhance the productivity of employees who access the documents to do their work. It

will also improve service to taxpayers by reducing the time to process documents and enable the department to be more responsive to taxpayers' inquiries. The Department is directed to report on the system implementation and plans going forward (including estimated savings) during its budget hearings in 2009.

The Department's proposal to increase staffing related to refundable tax credits was scaled back. Only four of the requested 12 additional positions were approved to deal with claim verification workload. One of the positions was added to this section and the other three are in the Personal Tax and Compliance Section. The Department is directed to develop metrics for evaluating the impact of these four positions and to report back during its budget hearings in 2009.

All current Tobacco Tax and Other Tobacco Products Tax administration and enforcement activities, including Jenkins Act Tobacco enforcement, funded by the cigarette tax and tobacco tax revenue streams, are continued in the Subcommittee's recommendation. A portion of this budget is located in the Administrative Services Division, a portion is in the Personal Tax and Compliance Program Division and a portion is in the Business Division. The Subcommittee also approved separating the funding for administration and enforcement activities relating to Cigarette and Other Tobacco taxes in the Department's budget bill.

The administrative costs associated with a proposed increase in Cigarette and Other Tobacco Products tax, and the administrative costs associated with a proposed change in the Corporate Minimum Tax are not included in this bill. Any appropriation that might be needed for increased administrative costs associated with these proposals can be included as part of the authorizing legislation.

Property Tax Division

The Property Tax Division oversees the property tax system and ensures that counties comply with all property tax laws and rules. The Subcommittee approved a total budget of \$30,361,956 (\$20,322,964 General Fund; \$10,038,992 Other Funds) and 120.21 full-time equivalent positions which is the Essential Budget Level for this Division.

Personal Tax and Compliance Division

The Personal Tax and Compliance Division administers the personal income tax program. The Subcommittee approved a total budget of \$51,221,241 (\$49,544,530 General Fund; \$1,676,711 Other Funds) and 363.46 full-time equivalents, which is the Essential Budget Level plus the following adjustments:

1. Expenditure authority for purchasing computer application support from the Department of Administrative Services (DAS) has been removed since this activity will now be accomplished by the two positions that are to be transferred from DAS to DOR.
2. Three positions were added related to the refundable tax credit workload expansion.
3. Jenkins Act Tobacco enforcement expenditures were continued.

Business Division

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties. The Subcommittee approved a total budget of \$28,261,528 (\$14,368,171 General Fund; \$13,893,357 Other Funds) and 176.20 full-time equivalent positions which is the Essential Budget Level plus the following adjustment:

Funding for the administrative and enforcement costs associated with the Tobacco Tax Task Force is continued. The Departments of Revenue, Justice and State Police are expected to reasonably allocate costs of administration and enforcement efforts between cigarettes and other tobacco products.

Additional administrative costs associated with proposed increases in the Cigarette and Other Tobacco Products tax and costs associated with proposed changes in the Corporate Minimum tax are not included in this bill.

Multistate Tax Commission/ Elderly Rental Assistance/ Senior Citizens' and Disabled Citizens' Property Tax Deferral

The Subcommittee approved a budget for these functions totaling \$7,731,314 (\$7,500,001 General Fund; \$231,313 Nonlimited Other Funds). This is the Essential Budget Level for the Multi-state Tax Commission dues and for the Senior Citizens' and Disabled Citizens' Property Tax Deferral program. General Fund expenditures for the Elderly Rental Assistance Program were reduced by \$500,000 below the Essential Budget Level. This recognizes reduced participation in this program.

Summary of Performance Measure Action

See attached Legislatively Adopted 2007-09 Key Performance Measures form.