

Department of Revenue				
	2011-13 Actuals	2013-15 Leg. Approved*	2015-17 CSL LFO	2015-17 Governor's Recommended
General Fund	146,312,349	166,641,759	182,285,108	190,359,651
Other Funds	261,337	64,202,113	44,411,510	66,308,855
Other Funds Non-Limited	28,771,284	-	-	-
Total Funds	175,344,970	230,843,872	226,696,618	256,668,506
Positions	1,050	1,074	1,065	1,078
FTE	990.52	1,016.66	1,011.34	1,021.34

*includes Emergency Board and administrative actions through December 2014.

Program Description

The Department of Revenue (DOR) administers the state’s income tax and property tax programs, although property taxes are primarily managed and collected by counties. The tax programs the Department administers generate approximately \$14.8 billion, or 96%, of General Fund revenue, through a combination of personal income, corporate income and excise, estate, tobacco, gift, and other taxes. DOR also administers several property tax relief programs for senior citizens and persons with disabilities.

The Other Funds revenue is derived from administrative charges to various tax, fee, assessment, collections, and other programs. The County Assessment Function Funding Assessment account also helps pay for local property tax assessment and taxation costs and associated DOR valuation and administrative costs. Article XI-Q bonds fund most of the Core Systems Replacement project.

CSL Summary and Issues

The 2015-17 current service level budget for the agency \$226.7 million total funds (1,065 positions/1,011.34 FTE). The CSL is \$4.2 million, or 1.8%, less than the 2013-15 legislatively approved budget of \$230.8 million. Full-time equivalents decreased by 5.32 FTE. The reduction is explained by the elimination of one-time Phase-I cost for the Core Systems Replacement project.

At CSL, the Elderly Rental Assistance and Nonprofit Housing programs are fully funded and Senior Property Deferral program is financial solvent.

There is one revenue issue to be addressed:

1. Revenue Shortfall: The agency is forecasting a \$1.8 million Other Funds revenue shortfall in the Property Tax Division's County Assessment Function Funding Assistance (CAFFA). The Division is requesting General Fund backfill. Systemic revenue budgetary and financial issues in the Division will need to be addressed in order to align available revenues and budget authority. The agency may be able to self-finance this request at CSL as has been its past practice. This shortfall should have been included in an 070 Revenue Shortfall package to reduce CSL resources.

Policy Issues

The agency request budget includes the following policy option packages, by division, totaling \$39.1 million total funds (45 positions/42.00 FTE).

Property Tax Division

1. Package 141 Property Valuation System – An information technology project to modernize the assessment of most industrial and centrally assessed (telecom/transportation/utility) properties (\$33,839 General Fund, \$411,180 General Fund Debt Service and \$2.3 million Other Funds (Article XI-Q bonds); 3 positions/3.00 FTE).
2. Package 142 CAFFA Funding Shortfall – Replace CAFFA revenue shortfall with General Fund (+\$1.8 million General Fund; <\$1.8 million> Other Funds).
3. Package 143 Senior Property Deferral Program – Align staffing with actual efforts. The revenue source is the Senior Property Deferral Account, which has no limitation on the amount of administrative expense that the agency can charge (\$479,228 Other Funds; 7 positions/4.00 FTE).
4. Package 144 Property Tax Division Rebalance – Rebalance General Fund between a number of subprograms including the Senior Property Deferral Program, CADASTRAL, and ORMAP (+\$328,305 General Fund and <\$328,305> Other Funds)

Personal Tax and Compliance Division

5. Package 151 Fraud Analytics and Detection - Fraud Analytics and Detection: DOR is requesting to augment the Core Systems Replacement project by adding a data exchange with other states, integration of a third-party data analytics and identity theft quiz that would reduce the number of refunds issued, and the ability to match, in real time, state income tax withholding claimed on the tax return against that reported by employers (\$1.1 million General Fund).

Business Division

6. Package 161 HB 4055 9-1-1 Emergency Telecommunications Tax - E9-1-1 Administration: The agency is requesting \$339,480 Other Funds and two positions (2.00 FTE) to continue the implementation of HB 4055 (2014), which clarified statute to allow

for the collection of the 9-1-1 tax on prepaid wireless consumers via a point-of-sale model. The revenue source is the Emergency Communication Account (\$339,480 Other Funds; 2 positions/2.00 FTE).

Core System Replacement Program

7. Package 181 Core Systems Replacement (Phase-II): DOR is requesting Phase-II funding for its Core Systems Replacement Project, which will consist of the Personal Income Tax, Emergency Telecommunications Tax, and Estate Tax (2015) and then Withholdings and Collection of Other Agency Accounts (2016). The total is \$3.9 million General Fund for data center and vendor charges, \$3.9 million General Fund Debt Service, and \$26.4 million Other Funds (Article XI-Q bonds and previously issued Article XI-Q bond proceeds carryforward from the 2013-15 biennium)(33 positions/33.00 FTE).

Other Significant Issues and Background

This section is for any other items that are relevant to the discussion, but do not fit into the categories outlined above, including items from the presentation instructions such as significant budget note reports, Emergency Board actions, audit findings, etc.

There are several issues of note:

1. Revenue Enhancement: In past biennia, the Legislature has typically requested a revenue enhancement package from the Department of Revenue. The Department has stated that it will not have the ability to undertake any new revenue enhancement packages during the 2015-17 biennium due to its implementation of Phase-II of the Core Systems Replacement project, which will be focused on the Personal Income Tax and Compliance Division as well as the Business Division.
2. Accounts receivable management will be an issue for the upcoming Legislative session. Efforts undertaken by Willamette University's Institute for Modern Government, in cooperation with the Department of Administrative Services and other affected state agencies, will focus on changes to current statutes and perhaps the centralization of AR management. The write-off of bad debt will be a related issue.
3. The Secretary of State is in the process of finalizing a performance audit of statewide collections, which is to be released later this Spring.
4. The Department of Revenue is again looking to transfer the Elderly Rental Assistance to the Oregon Housing and Community Services Department. A similar undertaking placed on hold last biennium due to the reorganization effort surrounding Housing. Such a change does require legislation, which has been introduced this session (SB 296). The date of the transfer, if the measure were to become law, would be at the start of the 2017-19 biennium.

Co-Chairs' Budget Framework Discussion

The Co-Chairs' budget framework includes \$1.8 million General Fund for Package 142 CAFFA Funding Shortfall and an unspecified reduction of \$1.9 million General Fund.