

# 2015-17 Phase II Budget Presentation

Joint Committee on Ways & Means  
Subcommittee on General Government

April 28, 2015



# 2015-17 Policy Option Package Overview

Package title	Funding source			
	General Fund	Other Fund	Positions	FTE
<b>Core systems replacement</b>	\$3,877,830	\$26,250,718	33	33.00
<b>Fraud analytics and detection</b>	\$1,111,204		0	0.00
<b>CAFFA funding shortfall</b>	\$1,836,836	(\$1,836,836)	0	0.00
<b>Senior/disabled citizens property tax deferral</b>		\$497,179	7	4.00
<b>Property Valuation System</b>	\$33,839	\$2,279,209	3	3.00
<b>HB 4055 - 9-1-1 tax</b>		\$339,480	2	2.00
<b>090 – Analyst reductions</b>	(\$2,600,000)		0	0.00



# Core Systems Replacement Project

- Business Case
  - Avoid risk and improve performance.
  - Commercial off-the-shelf solution (COTS)—most viable.



- Execution
  - Implement GenTax integrated tax system & data warehouse.
  - Replaces two-thirds of our core systems.
  - Estimated cost: \$81 million (bonds and General Fund).
    - \$65 million implementation costs.
    - \$9 million finance cost; \$7 million readiness.



# Core Systems Replacement Project

## CSR project costs (in millions), as of December 2014

	2009-13	2013-15	2015-17*	2017-19	Totals
<b>DOR contribution</b>					
Ongoing agency operating costs	\$7.3	\$0.7	\$0.9	\$0.3	\$9.1
<b>General Fund</b>					
Non-bond eligible general services/supplies		\$0.2	\$0.2	\$0.1	\$0.5
Project costs		\$1.8	\$4.2	\$1.5	\$7.5
Total General Fund		\$2.0	\$4.4	\$1.6	\$8.0
<b>Other Funds (bonds)</b>					
Debt financed project costs		\$18.9	\$26.3	\$9.1	\$54.7
<b>Project totals (excluding debt service)</b>	<b>\$7.3</b>	<b>\$21.6</b>	<b>\$31.6</b>	<b>\$10.9</b>	<b>\$71.8</b>

*Note: Component figures may not total accurately due to rounding.*

*\*Governor's Budget*



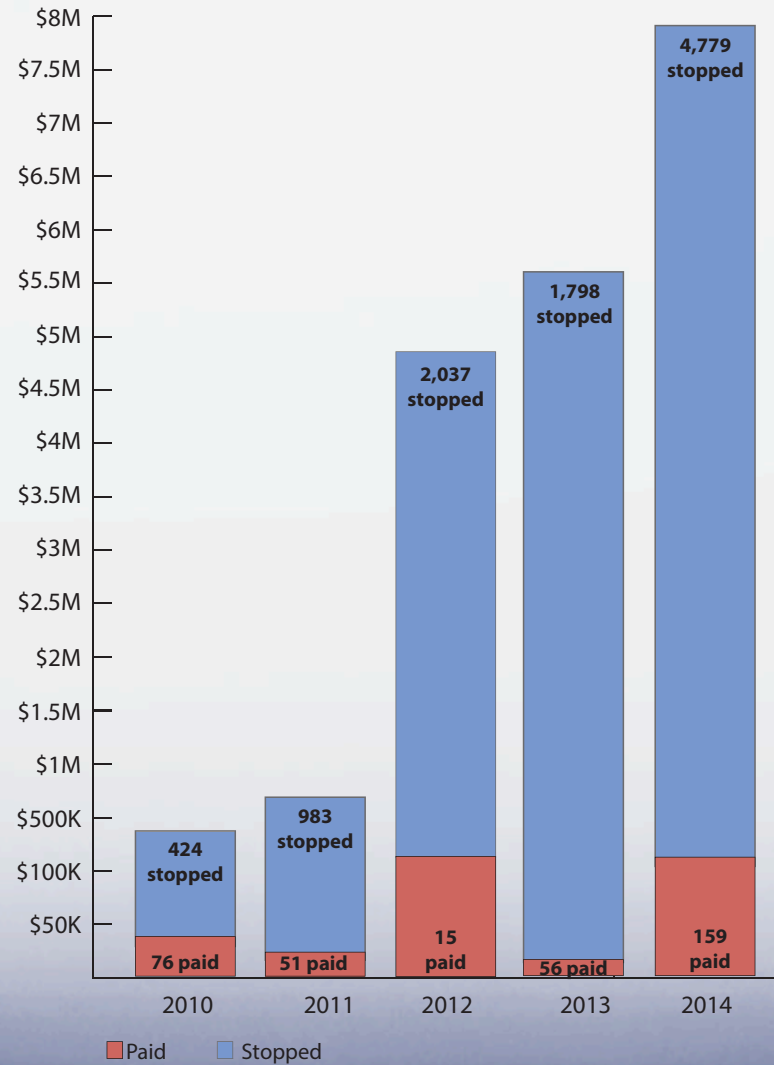
# Core Systems Replacement Project

Rollout 1 has already improved our business, and will be continued in future rollouts. Examples include:

- Employees can see actions in real-time without waiting for overnight batch processes.
- Employees can view images of correspondence when taxpayers call with questions or concerns.
- Customers can now use Revenue Online for self-service options including looking up their account information, requesting penalty waivers or appeals, reviewing correspondence, and making payments.
- More sophisticated risk scoring of refunds to determine what needs to be reviewed by whom.



# Fraud Analytics and Detection



Note: Paid amounts reflect unrecovered refund amounts.



# Fraud Analytics and Detection

There are two components to this package:

1. Purchase a fraud analytics module from FAST Enterprises that will:
  - a. Integrate data exchange analytics from Thompson Reuters to allow for further filtering of personal income tax returns during processing.
  - b. Add an online identity verification quiz that works in tandem with the data exchange to verify personal identity before a refund is issued on questionable returns.

This component is \$750,000 General Fund.



# Fraud Analytics and Detection

2. Create real-time withholding match prior to issuing personal income tax refunds by working with the Employment Department to modify the combined quarterly payroll report. The necessary programming would:
  - a. Add a column to the payroll report to capture the amount of state withholding remitted on behalf of each employee.
  - b. Modify incoming reports from Employment to Revenue to include the newly captured data.
  - c. Configure system to match personal income tax returns against employer withholding data.
  - d. Configure system to match employer reported withholdings with employer deposited withholdings.

Cost for this component is \$361,204 General Fund.

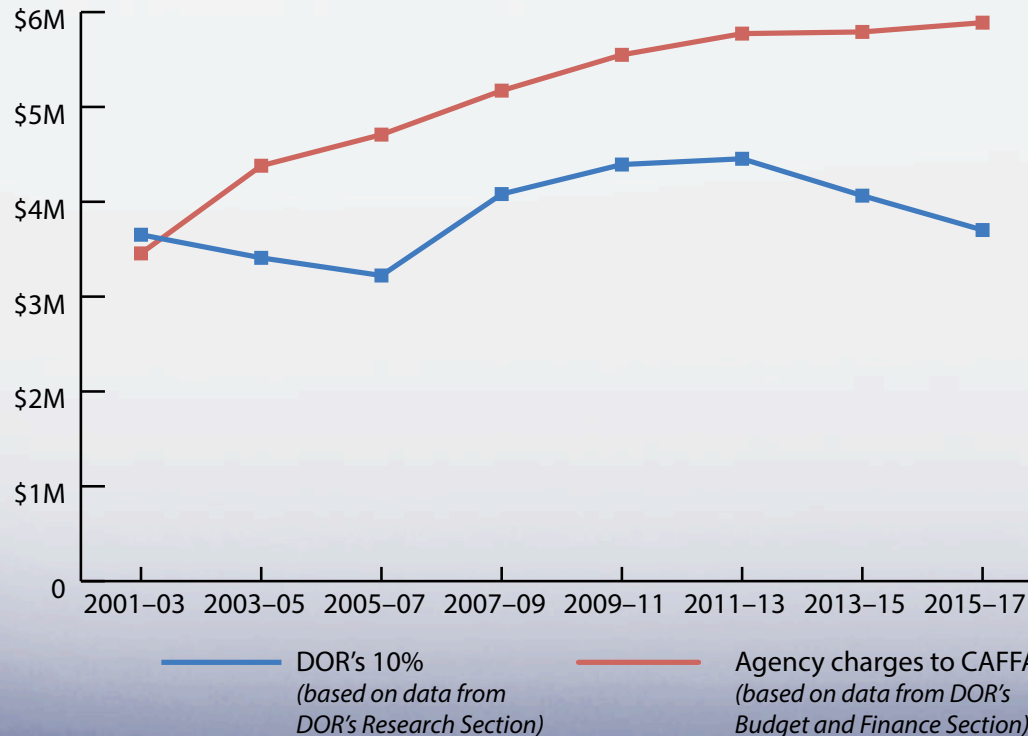




# CAFFA Funding Shortfall

Replaces \$1,836,836 in Other Funds expenditure limitation with General Fund to recognize that CAFFA revenues are no longer covering expenses for the property tax valuation program due to increased costs of personnel and Services and Supplies.

**CAFFA receipts and charges**



# Senior/Disabled Citizens Property Tax Deferral

- Changes in the 2011, 2012, 2013 and 2014 legislative sessions have driven the need for additional staff to manage the program's administration.
- Revenue is requesting one permanent Administrative Specialist 2 position and six seasonal Administrative Specialist 1 positions to manage workload.
- Package would be funded by the Senior and Disabled Property Tax Deferral Revolving Account.



# Property Valuation System

- Industrial Program
  - February 1 to June 30 (processing season).
  - Excel, paper files, and database.
  - Lack of integration, data analysis or stability.
- Central Assessment
  - March 1 to August 25 (appraisal season).
  - Excel and paper files.
  - Lack of integration, data analysis, or stability.



# Property Valuation System

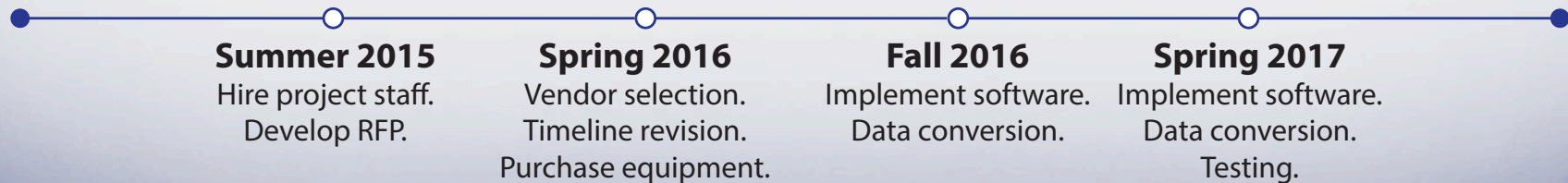
- Integrate appraisal technology.
- More broadly and equally employ appraisal industry-standards.
- Improve customer service.
- Promote higher degrees of confidence in Real Market Value outputs.
- Provide a stable, long-term Information Technology platform.
- Increase the time available to focus on the appraisal process itself.



# Property Valuation System

	2015	2016	2017	2018	Total cost
Software	\$1,000,000	\$500,000	\$150,000	\$150,000	\$1,800,000
Staff	\$312,000	\$326,000	\$340,000	\$354,000	\$1,332,000
Hardware	\$50,000				\$50,000
Quality assurance	\$75,000	\$75,000			\$150,000
<b>Total</b>	<b>\$1,437,000</b>	<b>\$901,000</b>	<b>\$490,000</b>	<b>\$504,000</b>	<b>\$3,332,000</b>

## 2015-17 Biennium



# HB 4055 (2014)–911 Tax

- Changed the method of prepaid telecommunication service subscribers tax collection from a \$0.75 per month per subscriber of prepaid telecommunications to a point of sale method imposed at a rate of \$0.75 per transaction effective October 1, 2015.
- The tax collected is used to support the state's 911 emergency communications system.
- When the 2014 Legislature passed HB 4055, it was acknowledged that Revenue would have a need for additional administrative responsibilities and enforcement capabilities in the 2015-17 biennium.



# Pkg. 090—Analyst Adjustments

Division	Category	General Fund	Savings
<b>PTAC</b>	PS/Add'l vacancy	\$500,000	
	S&S/Rent	\$500,000	
	CO/Furn & fixtures	\$225,000	
	CO/Telecommunications	\$175,000	
			<b>\$1,400,000</b>
<b>ASD</b>	PS/Add'l vacancy	\$500,000	
	S&S/Telecommunications	\$150,000	
	S&S/IT expend. property	\$100,000	
			<b>\$750,000</b>
<b>Business</b>	PS/Add'l vacancy	\$450,000	
			<b>\$450,000</b>
			<b>\$2,600,000</b>



# Reduction Options—Summary

Division	Activity	Program	Governor's Budget (in millions)			AF reductions (in millions)			Revenue loss
			GF	OF	Total	1 <sup>st</sup> 5%	2 <sup>nd</sup> 5%	Total	
PTAC	Audit/filing enforcement	Personal income tax	38.8	0.9	39.7	(2.1)	(1.9)	(4.0)	(10.5)
PTAC	Collections	Personal income tax	28.6	0.6	29.2	(1.5)	(1.3)	(2.8)	(38.2)
BUS	Collections	SPA, Other Agency Accounts, Withholding	4.1	10.3	14.4	(0.4)	(0.8)	(1.2)	(9.6)
BUS	Audit/filing enforcement	Corporation, Withholding	16.1	4.5	20.6	(1.4)	(1.0)	(2.4)	(6.9)
ASD	Processing/IT/ Finance	Infrastructure	47.5	7.9	55.4	(2.6)	(2.5)	(5.1)	
Exec.	Internal audit/ Communications/ HR	Infrastructure	7.3	1.0	8.3	(0.4)	(0.5)	(0.9)	
PMO/ GSD	Project management/ centralized expenses	Infrastructure	6.8	3.1	9.9	(0.2)		(0.2)	
PTD	Valuation/ appraisal/county oversight	Property tax	12.6	9.3	21.9	(1.0)	(1.6)	(2.6)	
GSD	Attorney general	Personal income tax, Corporation, Property tax	5.3	0.5	5.8	(0.6)	(1.2)	(1.8)	
Other	Core systems replacement, including debt service, ERA, and MTC		15.1	6.3	21.4				
			182.2	44.4	226.6	(10.2)	(10.8)	(21.0)	(65.2)





# Reduction Options—First five-percent

Division	Activity	Program	Governor's Budget (in millions)			AF reductions			Revenue loss
			GF	OF	Total	1 <sup>st</sup> 5% (M)	Pos.	FTE	
PTAC	Audit/filing enforcement	Personal income tax	38.6	0.9	39.7	(2.1)	(14)	(13.50)	(4.5)
PTAC	Collections	Personal income tax	28.6	0.6	29.2	(1.5)	(11)	(11.00)	(24.5)
BUS	Collections	SPA, Other Agency Accounts, Withholding	4.1	10.3	14.4	(0.4)	(3)	(3.00)	(3.6)
BUS	Audit/filing enforcement	Corporation, Withholding	16.1	4.5	20.6	(1.4)	(9)	(8.57)	(2.9)
ASD	Processing/IT/ Finance	Infrastructure	47.5	7.9	55.4	(2.6)	(23)	(16.45)	
Exec.	Internal audit/ Communications/ HR	Infrastructure	7.3	1.0	8.3	(0.4)	(2)	(2.00)	
PMO/ GSD	Project management/ centralized expenses	Infrastructure	6.8	3.1	9.9	(0.2)	(1)	(1.00)	
PTD	Valuation/ appraisal/county oversight	Property tax	12.6	9.3	21.9	(1.0)	(8)	(6.26)	
GSD	Attorney general	Personal income tax, Corporation, Property tax	5.3	0.5	5.8	(0.6)	0	0.00	
Other	Core systems replacement, including debt service, ERA, and MTC		15.1	6.3	21.4				
			182.2	44.4	226.6	(10.2)	(71)	(61.78)	(35.5)

# Reduction Options—Second five-percent

Division	Activity	Program	Governor's Budget (in millions)			AF reductions (in millions)			Revenue loss
			GF	OF	Total	2 <sup>nd</sup> 5%	Pos.	FTE	
PTAC	Audit/filing enforcement	Personal income tax	38.6	0.9	39.5	(1.9)	(14)	(13.00)	(5.9)
PTAC	Collections	Personal income tax	28.5	0.6	29.1	(1.3)	(9)	(9.00)	(13.6)
BUS	Collections	SPA, Other Agency Accounts, Withholding	4.1	10.6	14.7	(0.8)	(6)	(6.00)	(6.0)
BUS	Audit/filing enforcement	Corporation, Withholding	15.6	4.5	20.1	(1.0)	(5)	(5.00)	(4.2)
ASD	Processing/IT/ Finance	Infrastructure	46.2	7.9	54.1	(2.5)	(22)	(16.42)	
Exec.	Internal audit/ Communications/ HR	Infrastructure	7.3	1.0	8.3	(0.5)	(3)	(3.00)	
PMO/ GSD	Project management/ centralized expenses	Infrastructure	6.8	3.1	9.9				
PTD	Valuation/ appraisal/county oversight	Property tax	14.5	10.2	24.7	(1.6)	(8)	(7.50)	
GSD	Attorney general	Personal income tax, Corporation, Property tax	5.3	0.5	5.8	(1.2)			
Other	Core systems replacement, including debt service, ERA, and MTC		15.1	6.3	21.4				
			166.9	39.3	206.2	(10.8)	(67)	(59.92)	(29.7)

# Bills with fiscal impact

Potential impacts		Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)	Location as of 4/21/15	Last action
<b>Agency-wide bills</b>						
HB 2137	Creates a sales and use tax on artworks with a sale price over \$250,000. The department will administer.		X		(H) Revenue	Referred 1/16
HB 2164	Makes tax compliance project for licensees permanent with an automated method developed by January 1, 2016.		X		(H) Revenue	PUB 2/23
HB 2167	Requires a business entity to be in compliance with tax laws of the state before getting a business license.		X		(H) Revenue	Referred 1/16
HB 2169	Requires state agencies issuing grants to ensure applicants are in compliance.		X		(H) Revenue	PUB 2/24
HB 2590	Enacts sales and use tax.			X	(H) Revenue	Referred 1/16
HB 2732	Enacts sales and use tax. Reduces income tax rates. Increases EIC. Creates credit for business investment.			X	(H) Revenue	Referred 1/16
<b>Corporation-related bills</b>						
HB 2822	Creates a tax credit for capital improvement projects. The department will determine eligibility.		X		(H) Revenue	Referred 2/5
<b>Payroll tax-related bills</b>						
HB 2960	Retirement security.			X	(J) W&M	Do-pass w/amend. Refer to W&M 3/26
SB 56	Statewide lien register.	X			(S) Rules	PUB 3/5
SB 615	Retirement security.			X	(J) W&M	No pass recc. Refer to Rules 4/1
<b>Personal income tax-related bills</b>						
HB 2068	Increases the amount of the Earned Income Credit to equal the federal earned income credit if a taxpayer has a dependent under the age of three (tax years 2016-19) (ORS 315.266).	X			(J) Tax credits	WRK 4/15 (H) Human Services/ Housing
HB 2073	Disallows the mortgage interest deduction for non-personal residences if the AGI is greater than \$250,000 (\$125,000 MFS) beginning with tax year 2015 (ORS 316.695).	X			(H) Revenue	Referred 1/16
HB 2076	PTE reduced tax rate is limited to \$1 million of nonpassive income. Decreases the employee's hours to 1,000. Raises PIT rate to 10.8 percent or 11 percent if over \$125,000 or \$250,000 of income beginning with tax year 2016 (ORS 316.043 and 316.037).	X			(H) Revenue	PUB 2/16



# Bills with fiscal impact

Potential impacts		Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)	Location as of 4/21/15	Last action
HB 2091	Doubles the percentage allowed for the Working Family Child Care Credit (changes from 40 percent to 80 percent) for tax year 2015.		X		(H) Human services/ housing	PUB 3/9
HB 2101	Eliminates the standard and itemized deductions, the blind and severely disabled exemption credit, federal tax subtraction, and foreign tax subtraction limitations. Allows a standard deduction of 33% of the federal amount before tax year 2018.	X			(H) Revenue	Referred 1/16
HB 2104	Eliminates the standard and itemized deductions, the blind and severely disabled exemption credit, federal tax subtraction, and the foreign tax subtraction limitations. Allows a standard deduction of 33% of the federal amount before tax year 2018.	X			(H) Revenue	Referred 1/16
HB 2136	Limits the amount of home mortgage interest allowed on the Oregon return to \$10,000 (ORS 316.695).	X			(H) Revenue	Referred 1/16
HB 2139	Directs DOR to calculate a net federal itemized deduction ratio average over five years. If the projected ratio is greater than the ratio calculated, itemized deductions would be reduced.		X		(H) Revenue	Referred 1/16
HB 2146	Add collection fee for missing income or corporate excise tax installment payment.	X			(H) Revenue	Referred 1/16
HB 2152	Limits amount of certain tax expenditures connected to economic development for corporate-rate excise taxpayers to 1% of Oregon taxable income. (ORS 285C.309, 315.141, 315.331, 315.336, 315.341, 315.507, 315.514, 315.533, 316.778, 317.124, 317.391, and 317.394).	X			(H) Revenue	Referred 1/16
HB 2156	Allows the taxpayer to get a refund of the exemption credit if their federal taxable income is under a dollar limitation. Reduces the taxpayer's itemized deductions if the federal taxable income is over a dollar limitation. (ORS 316.085 and 316.695).		X		(H) Revenue	PUB 4/13
HB 2158	Increases/decreases the tax rate if the high school graduation rate falls/ exceeds a certain percentage.		X		(H) Revenue	PUB 4/20
HB 2239	Creates a new credit for hiring at-risk or disadvantaged youth at 25% of the wages paid to the employee beginning.		X		(H) Human services/ housing	WRK 4/15 Do-pass recc w/ sub. to (H) Revenue
HB 2242	Increases the dependent exemption credit to \$250 per dependent (ORS 316.085).	X			(H) Human services/ housing	Referred 1/16
HB 2289	Creates a new credit for cleanup of Brownfield property 2016.		X		(H) Revenue	Referred 4/15 by Transport. /Econ. Dev.



# Bills with fiscal impact

Potential impacts		Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)	Location as of 4/21/15	Last action
HB 2747	Increases limit on subtraction for contributing to college savings to amount per designated beneficiary. Creates refundable credit for college savings contributions.	X			(H) Revenue	Referred 4/13 by (H) Higher Ed./ Innovat./ Work.
HB 2751	Reduces rate of tax on capital gains of personal income and corporate income and excise taxpayers if an equal amount is invested in Oregon business during tax year.	X			(H) Revenue	Referred 1/16
HB 2859	Creates reduced rate of PIT capital gains attributable to benefit companies (ORS 316.037)		X		(H) Revenue	PUB 3/2
SB 195	Reduces personal income tax rates for certain taxpayers by modifying income tax brackets (ORS 316.037)	X			(S) Finance/ Revenue	Referred 1/20
SB 197	Modifies provisions allowing for optional reduced rates of PIT on nonpassive income. Makes available to all PTEs. Adds cost-of-living adjustments. (ORS 316.043)	X			(S) Finance/ Revenue	Referred 1/20
SB 200	Creates subtraction from taxable income for net capital gain that is invested in certain businesses.	X			(S) Finance/ Revenue	PUB 3/4
SB 433	Reduces rate on capital gains to half the tax rate. (ORS 316.037)		X		(S) Finance/ Revenue	Referred 1/20
SB 530	Creates a new tax credit for interest on qualified education loans. (ORS 316.037)	X			(S) Education	4/21 failed motion to withdraw from committee
<b>Property tax-related bills</b>						
HB 2078	Imposes state property tax on property subject to local ad valorem property taxation.	X			(H) Revenue	Referred 1/16
HB 2083	Changes eligibility criteria for property tax deferral programs. Authorizes DOR to purchase insurance on behalf of participants.		X		(H) Revenue	PUB and WRK 4/21
HB 2085	Authorizes Multnomah County to establish a property tax deferral program. Requires DOR to transfer accounts from state program.	X			(H) Revenue	Referred 1/16
HB 2588	Creates new timber severance tax of \$19/MBF.	X			(H) Revenue	Referred 1/16
SB 58	Same as HB 2085.	X			(S) Finance/ Revenue	Referred 1/20
SB 60	Same as HB 2083.		X		(S) Finance/ Revenue	Referred 1/20



# Bills with fiscal impact

Potential impacts		Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)	Location as of 4/21/15	Last action
<b>Small Programs Administration-related bills</b>						
HB 2066	Increases cigarette tax by \$1.25/pack (total tax \$2.56). Imposes floor tax. Modifies current tax distribution and prescribes distribution for additional tax.	X			(H) Revenue	Referred 1/16
HB 2074	Expands definition of tobacco products to include electronic cigarettes and nicotine solutions. Makes electronic cigarettes, vape pens, and nicotine solutions taxable as tobacco products.		X		(H) Revenue	PUB 4/6
HB 2082	Creates carbon tax on carbon-based fuel supplied to Oregon consumers and electricity generated from carbon-based fuel. Imposes carbon tax on fuel suppliers and utilities.		X		(H) Energy/ Enviro	Referred 1/16
HB 2086	Imposes fee on fossil fuel or electricity generated from fossil fuels.		X		(H) Energy/ Enviro	Referred 1/16
HB 2134	Expands definition of tobacco products to include electronic cigarettes and nicotine solutions. Makes electronic cigarettes, vape pens, and nicotine solutions taxable as tobacco products.		X		(H) Revenue	Referred 1/16
HB 2147	Requires DOR to study taxation of marijuana and report to interim legislature on or before Sept. 15, 2015.		X		(J) Measure 91	PUB 4/6
HB 2159	Creates carbon tax on carbon-based fuel supplied to Oregon consumers and electricity generated from carbon-based fuel. Imposes carbon tax on fuel suppliers and utilities.		X		(H) Energy/ Enviro	Referred 1/16
HB 2166	Increases cigarette tax by \$1.82/pack (total tax \$3.13). Imposes floor tax. Modifies current tax distribution and prescribes distribution for additional tax.	X			(H) Revenue	Referred 1/16
HB 2555	Increases cigarette tax by \$1/pack (total tax \$2.31). Imposes floor tax. Tax distribution percentages blank.	X			(H) Revenue	PUB 2/25
SB 55	Directs state agencies to impose collection fees on accounts transferred to private collection agencies. Directs DOR/OAA to impose collection fees on accounts collected for state agencies. Directs state agencies to request SSN from applicant when they owe state agency more than \$100.	X			(S) Rules	PUB 3/5



# Questions?

If you have additional questions after today please contact:

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