Department of Revenue				
	2013-15 Actual	2015-17 Legislatively Approved*	2017-19 Current Service Level	2017-19 Governor's Budget
General Fund	160,778,293	193,383,990	210,070,974	197,607,383
Other Funds	49,798,657	135,288,951	115,770,126	119,596,893
Total Funds	**$210,576,950**	**$328,672,941**	**$325,841,100**	**$317,204,276**
Positions	1,063	1,087	1,079	990
FTE	1,009.28	1,025.49	1,020.37	905.42
*Includes Emergency Board and administrative actions through December 2016.				

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 96% of General Fund revenue, through a combination of personal income, corporate income and excise, estate, tobacco, gift, and other taxes. DOR also administers marijuana tax as well as several property tax relief programs. DOR received during the 2016 session the statutory authority to collect local marijuana taxes. DOR is in the final phase of implementing a multi-biennia information technology project entitled the Core Systems Replacement project.

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 (CAFFA) also helps pay for a portion of local property tax assessment and taxation costs. Article XI-Q bonds fund the Core Systems Replacement project and the Property Valuation System information technology project.

CSL Summary and Issues

The 2017-19 current service level budget for the agency $325.8 million total funds (1,079 positions/1,020.37 FTE). The CSL is $2.8 million, or 0.9%, less than the 2015-17 legislatively approved budget of $328.7 million. Full-time equivalents decreased by eight positions (5.12 FTE). The CSL phased-out a one-time expense of the Core Systems Replacement project and includes a $1.5 million General Fund transfer of the Elderly Rental Assistance program from DOR to the Housing and Community Services Department, as a result of legislation enacted during the 2015 session (SB 296). The budget also includes the phase-in of $1.2 million General Fund that was taken as one-time savings during the 2015-17 biennium.

The following are a few issues related to the CSL.

A CAFFA revenue shortfall at the current service level is estimated to be $1.8 million (3 positions; 6.35 FTE). The agency is requesting General Fund backfill in two policy packages totaling $1.2 million (0 positions; 4.73 FTE). There are four options for resolving the CAFFA shortfall: (1) leave the Property Tax Division (PTD) budget unchanged and do not backfill the CAFFA revenue shortfall (i.e., current law budget); (2) increase the percent of CAFFA funding going to the PTD thereby reducing the CAFFA share granted to counties (This would require a statutory change); (3) increase the revenue flow into CAFFA through a fee increase or change in delinquent interest payments (This would also require a statutory change); or (4) backfill the CAFFA shortfall with General Fund. The continued use of General Fund may not be the most appropriate long-term solution to fund the systemic funding issues facing the PTD.

The CSL does not include final phase funding for the completion of the Core System Replacement project, which will require Article XI-Q bond financing, General Fund Debt Service ($1.7 million), and General Fund for non-bondable expenses ($1.1 million)(34 positions; 8.50 FTE). The General Fund Debt Service figure can be reduced by an estimated $525,000 due to a re-estimation of cost by the agency in how the CSR budget was developed. Additionally, $3.8 million General Fund was included in the Governor's budget for ongoing operations and maintenance.

At the direction of the Interim Joint Committee on Ways and Means, DOR phased out the Processing Center Lifecycle project; however, the fund-split the agency used understates the General Fund reduction by $257,272. Separately, a phase-out of the cost of issuance for Article XI-Q bonds issued during the 2015-17 biennium is required ($471,835 Other Funds).

<u>Policy Issues</u>
Of concern is DOR's ability to implement smaller scale information technology projects. In June of 2014, DOR initiated without the approval of the Legislature, "Processing Center System [Lifecycle] Modernization" project to replace electronic high speed scanners. This project was eventually suspended by the agency after implementations issues arose. This resulted in a significant impact to the 2015 tax year processing for which manual work-arounds were required. The agency is requesting approval to re-initiate the project, but at a much higher cost. The project has begun going through the Stage Gate review process.

In 2015, DOR received approval for the acquisition and deployment of a commercial-off-the-shelf (COTS) property valuation or integrated appraisal system (PVS) with some configuration and customization. The project is behind schedule, over-budget, and the status of the scope is indeterminate. This project has been subject to the Stage Gate review process and external project management and most recently independent quality assurance.

DOR's administration of the marijuana tax program appear to be operating well, albeit given continued uncertainty around the federal legal and enforcement environment and allowable banking activities.

After the passage of SB 55 (2015), statewide accounts receivable management will continue to be an area of focus for the upcoming Legislative session as there is a move to centralize more agency liquidated and delinquent account activities with DOR (SB 89). The Legislature should also receive an update on agency actions taken since the release of a Secretary of State audit on delinquent debt collections (2015-25; dated September 2015) and changes to collection practices and collection rates. This should include a discussion of the impact on collections of the Legislature's investment in the Core System Replacement project.

Other Significant Issues and Current Discussions

Customer Service Key Performance Measures have experienced a significant decline since recent years. In absence of a methodological change in how the KPM is calculated, the agency has had difficulty explaining the declines in availability of information, helpfulness, timeliness, accuracy, and expertise. The overall Customer Service KPM for fiscal year 2016 is 13% down from 78.5% in 2013. The number of customer complaints overall is up 180% from 250 complaints in 2015 to 700 in 2016.

The processing of tax returns for the 2015 and 2016 tax years will need to be reviewed given what were significant issues associated with the 2015 tax season. This includes the operation of Core System Replacement project, fraud detection, and other aspects of tax processing. Of note is that the Secretary of State recently announced an information technology audit of the Core System Replacement project.

Opportunities need to be evaluated to true-up the agency's budget by eliminating many long-term vacant positions, especially given the recent automation associated with the implementation of Core System Replacement project. An analysis of the agency's Other Funds expenditure limitation is internal cost allocation methodology is warranted.

The Co-Chair's Existing Resources Budget Framework includes reductions in the administrative, Personal Income Tax and Compliance, and Business Divisions. Deeper reductions were needed to fund the final stage of the Core [Tax] Systems Replacement project and associated high-speed scanners (Processing Center Modernization Project). The Governor's budget made significant reductions to the agency, but without any associated (negative) revenue impact.