OREGON
DEPARTMENT
OF REVENUE

2019

Presentation to the Joint Committee on Ways and Means

March 18–21, 2019

150-800-550 W&M Presentation (Rev. 03-19)

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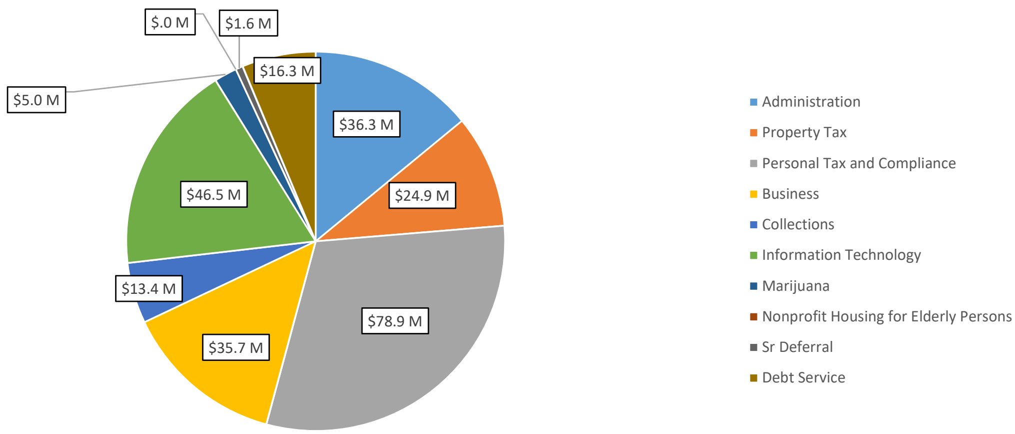
Agency Summary

2019–21 Governor's Budget (GB)
Total Funds by Program $258,685,232



The Governor's Recommended Budget for the 2019–21 biennium is:

Department of Revenue	GF	OF	TF	POS	FTE
2017–2019 LAB	$194,469,572	$129,820,700	$324,290,272	1,101	963.28
2019–2021 CSL	$204,875,450	$123,681,615	$328,557,065	1,024	969.22
2019–2021 GRB	$200,411,318	$58,273,914	$258,685,232	1,031	974.04
CSL–GRB change	$4,464,132	$(65,407,701)	$(69,871,833)	7	4.82

Policy option packages	GF	OF	TF	POS	FTE
101 SB 254 (2018)	$166,029	$29,299	$195,328		
102 Outcome Based Management	$267,035	$29,671	$296,706	1	1.00
105 Marijuana Program/Income Tax Audits	-	$948,722	$948,722	4	4.00
106 Auditing	-	$220,871	$220,871	1	1.00
107 Position Funding CAFFA	$1,097,883	-	$1,097,883	0	2.57
110 Processing Center Permanent Staffing	-	$1,500,231	$1,500,231	11	11.00
111 PCM Project	$780,007	$67,826	$847,833		
112 Shared Services	$4,408,510	$353,321	$4,760,831		
114 Revenue Shift		($69,973,343)	($69,973,343)		

Budget highlights

Personal Tax and Compliance Division

- Provides $166,029 General Fund and $29,299 Other Funds for Financial Institution Data Match, SB254 (2018).
- Eliminates nine full-time equivalent positions consisting of seven Administrative Specialist 1s, one Compliance Specialist 1, and one Revenue Agent 3.

Business Division

- Provides $326,853 General Fund and six positions (2 full-time equivalent) to implement the new Employer Responsibility Assessment created to fund the Oregon Health Authority.
- Provides $876,361 Other Funds and three positions (1.50 full-time equivalent) to administer the Heavy Equipment Rental Tax (HERT).
- Provides $220,871 Other Funds and one full-time equivalent position to audit the state lodging tax programs.
- Eliminates four customer service positions that are no longer needed due to program efficiencies.

Marijuana Program

Provides $948,722 Other Funds and four full-time equivalent positions to establish an audit unit focusing on the marijuana industry.

Property Tax Division

- Provides $1,097,883 General Fund and 2.57 full-time equivalent to fully fund 23 Valuation Section positions that are currently partially funded.
- Recognizes the inclusion of Legislative Concept 576 that reduces the early filing discount for commercial and industrial properties from 3 to 2 percent on July 1, 2020 by providing $11.8 million Other Funds for county grant programs and $2,324,478 Other Funds and 10 positions (five full-time equivalent) for enhancements to the Property Tax Division's appraisal and county support functions.
- Eliminates five long-term vacant positions.

Nonprofit Homes for the Elderly Program

Eliminates $3,348,966 General Fund which went to counties to reimburse their costs for the program.

Administration

- Provides $267,035 Other Funds and $29,671 Other Funds for one full-time equivalent Operations and Policy Analyst 4 position to implement an outcome-based management system.
- Eliminates one long-term vacant position in the Director's Office.

Information Technology Services Division

- Provides $1.5 million Other Funds and 11 full-time equivalent positions to meet processing demands of the new statewide transit tax.
- Provides $671,136 General Fund to pay for contracted IT services necessary to implement the new Employer Responsibility Assessment created to fund the Oregon Health Authority.
- Provides $780,007 General Fund and $67,826 Other Funds to complete the Processing Center Modernization Project, which upgrades the department's paper document image capture and management systems.
- Provides $4,408,510 General Fund and $352,321 Other Funds for maintenance and support for GenTax, the department's new tax administration system.
- Eliminates five positions (3.87 full-time equivalent).

Revenue Clearinghouse

- Increases personal income tax revenues by $45.9 million with two changes to the partnership—pass through tax expenditure: capping the pass-through income at $1 million starting January 1, 2019 and excluding medical and legal professionals from using the expenditure starting January 1, 2019.
- Increases cigarette taxes by $2 per pack starting December 1, 2020, generating an additional $105.3 million for Public Health and the Oregon Health Plan.
- Adds vaporizer oil to the other tobacco products tax program starting December 1, 2020, generating an additional $3.3 million for Public Health and the Oregon Health Plan.
- Creates a new Employer Responsibility Assessment to be assessed on all employers based on the estimated cost of providing their employees with health insurance starting July 1, 2019. Employers who are below the minimum threshold of the estimated cost of providing insurance to their employees pay the Employer Responsibility Assessment, estimated at $119.5 million, with proceeds going to fund the Oregon Health Plan.

Mission: "We make revenue systems work to fund the public services that preserve and enhance the quality of life for all citizens."

Vision: "We are a model of revenue administration through the strength of our people, technology, innovation, service, and collaboration."

Values: In pursuit of its mission and vision, the agency values:

- **Highly ethical conduct—**honesty, fairness, and courage to do the right thing to protect integrity at the highest level.
- **Service and operational excellence—**doing our part, supporting others' success, and pursuing ways to improve service delivery.
- **Fiscal responsibility—**prudent stewards of public dollars, effective financial controls, and information transparency.
- **Quality in relationships—**respectful, supportive, and authentic collaborators.
- **Accountability—**deliver on our commitments to establish credibility and trust.
- **Continuous improvement—**monitor performance results, be open to change, and reinforce an improvement mindset.

The agency administers nearly 40 tax programs. The largest tax programs in terms of budget to administer and revenue received are personal income tax and the associated withholding program, corporation excise, property, cigarette and other tobacco, estate transfer, and marijuana tax programs.

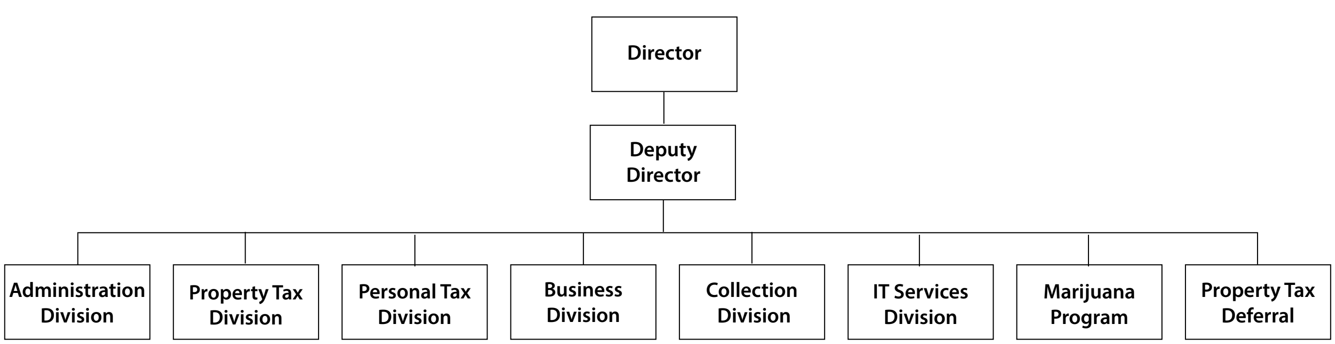
The main administrative functions for the agency's tax programs include:

- Processing returns.
- Accounting for and banking payments, including a large volume of cash transactions.
- Assisting and educating taxpayers.
- Performing audits.
- Enforcing filing requirements.
- Collecting delinquent taxes.
- Developing policy.

Additional administrative duties include collection and distribution of taxes and fees for other state agencies and local governments. These include the state lodging tax, 911 emergency communications tax, transit district taxes, marijuana tax, vehicle privilege and use taxes, bicycle excise tax, and court fines and fees. The department also serves as the primary collection agency for more than 160 state agencies and local governments through the Other Agency Accounts program. This program, previously under the Business Division, will become the Collections Division beginning in the 2019–21 biennium.

The Property Tax Division is responsible for the overall supervision of the statewide property tax system, appraisal of large industrial properties with values of more than $1 million, appraisal of centrally assessed companies designated by ORS 308.515, and support of county property tax administration. The program also establishes and monitors statewide standards for county implementation of the assessment and collection of property taxes, and tax-lot map maintenance. They also administer the timber tax, senior and disabled citizen property tax deferral programs, the Forest Products Harvest Tax, and the Small Tract Forestland Severance Tax.

Agency Budget Structure



Program descriptions

Administration of the department's tax programs will generate 96 percent of the state's General Fund revenue and approximately 80 percent of all local government tax revenue, based on 2019–21 biennial estimates. That administration encompasses nearly 40 programs that can be divided into seven categories. All tax and revenue numbers below are based on 2019–21 biennial estimates at Current Service Level.

The **personal income tax program,** along with its partner **withholding program,** directs and manages the state's personal income tax program, including tax policy, collection, audit, and filing enforcement functions. The program generates $18.9 billion in General Fund revenues.

The **property tax** work done by the department generates nearly $14 billion in local government revenues through utility and transportation valuation, industrial property valuation, mapping, county administrative oversight, and forestland valuation.

The **cigarette and other tobacco tax** programs generated $524 million for the Oregon Health Plan, General Fund, local government, Tobacco Prevention and Education Program, and public transit. Program staff are responsible for processing, banking, auditing, inspecting, and referring appropriate matters to the Department of Justice and Oregon State Police for criminal investigations.

The **marijuana tax program** administers the tax on recreational marijuana products including processing a large number of cash payments, distributes funds to statutory recipients, and assesses marijuana tax amounts on retailers that haven't filed returns. The program generated $215 million for the State School Fund, Oregon Health Authority programs, Oregon State Police, and city and county governments.

The agency's **other tax programs** generated $403 million total in revenues for the General Fund, 911 System, Tourism Commission, Statewide Transportation Improvement Fund, State Highway Fund, Zero-Emission Incentive Fund, Connect Oregon Fund, local governments, schools, Forestry, and toxic waste reduction. Programs supported include: estate transfer tax, amusement device tax, petroleum load fee, state lodging tax, hazardous substance fee, small owner severance tax, forest products harvest tax, vehicle privilege and use taxes, bicycle excise tax, and emergency communication tax (911).

The department **partners** with other agencies, courts, and local government for the administration, tracking, and collection of funds.

- The department collects approximately $116 million in debt owed to agencies that they haven't been able to collect themselves through its Other Agency Accounts program in the Collections Division.
- The department works with the state and municipal courts in collecting, tracking, and disbursing court fines and assessments of about $111 million.
- The department works under an interagency agreement with the Tri-Met and Lane Transit Districts to administer their transit taxes. The programs collect and remit approximately $1.1 billion back to the transit districts each biennium.

The department is responsible for the administration of two **assistance programs:** Non-profit Homes for the Elderly (NPH) and Senior and Disabled Citizen Property Tax Deferral programs. NPH funds property tax exemptions granted to non-profit homes for the elderly. The deferral programs allow homeowners age 62 and older or disabled with low income to defer property tax payments.

The agency's program and support work is divided between six main business areas:

- Administration (including the Director's Office, Financial Services, Communications, Human Resources, Research, Internal Audit, and Legislative Affairs).
- Personal Tax and Compliance Division.
- Business Division.
- Property Tax Division.
- Collections Division.
- Information Technology Services Division (includes IT and Processing Center).

2019–21 Two-year agency plan

Tax administration across the country is rapidly changing. The public demands to do business when it's convenient to their schedules, using tools that are commonplace in the private sector. Businesses are changing, and more are using complex and sophisticated tax planning practices. State agencies must partner together to address issues that affect all citizens.

Meeting the expectations and demands of the public can be challenging at the best of times, but solutions don't lie simply in adding more staff doing more of the same work. Any viable solution requires business transformation. The Department of Revenue has recently updated its core technology systems and is continuing to align business processes and other technology platforms with the changing needs of the public.

The agency's mission, vision, and values set the direction and tone for the organization's activities. The agency's two-year plan outlines specific initiatives and actions to realize the agency's vision. Execution of the plan requires coordination across the agency, transformation within our systems and processes, and partnerships among agencies and other governments. Each biennium, the agency will review and update the plan and extend it for the ensuing two-year period.

The agency achieves its vision through five outcome areas. Each outcome is a focal point for decisions, provides clarity to the vision, and helps determine success:

1. **Employee engagement**—We engage employees so they care about their work and the performance of the organization and they recognize how their efforts make a difference.
2. **Customer experience**—We provide clear, accurate, and timely information and services that yield an appropriate customer experience.
3. **Voluntary compliance**—We remove barriers and provide incentives, tools, and education to encourage taxpayers to meet their obligation to pay taxes.
4. **Enforcement**—We enforce compliance to generate revenue and promote long-term voluntary compliance.
5. **Equity & uniformity**—We administer statutes and rules consistently and treat all taxpayers and partners fairly.

During the 2017–19 biennium, the agency achieved its main strategic priority of the previous seven years in completing the Core Systems Replacement Project. With that priority completed, the agency embarked on a process of defining new strategic priorities for 2019–21.

Along with the findings of completed budget notes, preparatory work for an outcome-based management assessment has focused agency leadership and identified three strategic priorities representing short-term, cross-agency improvement opportunities. Goals have also been identified for each priority.

Strategic priorities:

- **Optimize collections efforts**—Clarify collections potential, improve methods, and more effectively communicate results.
- **Enhance taxpayer assistance**—Create the tools and environment that make paying taxes an understandable and satisfactory experience for taxpayers.
- **Cultivate operational excellence**—Clarify roles and responsibilities, promote data driven decisions, and leverage staff potential to optimize agency performance.

Environmental factors

Effects of significant change—For many years, DOR operated in an environment of stable systems, processes, and tax programs, with few new additions to its administrative duties.

The 2013–15 biennium brought the Core Systems Replacement Project, a significant undertaking to replace two-thirds of the department's application infrastructure with an integrated system. This project not only updated the technology, but new business processes were adopted and changed the way most of the department conducts its business. The new core system also brought numerous opportunities to automate processes, increase efficiency in operations, and change the level to which the department conducts some of its activities. The project spanned the 2013–15, 2015–17, and 2017–19 biennia. The project successfully concluded during the 2017–19 biennium, but work continues on to operationalize and stabilize business processes. This work will continue into the next two biennia.

Large number of new tax programs—The 2017–19 biennium added numerous new tax programs to the department's portfolio at a time when the agency was already fatigued from the frenetic pace of updating its core systems the previous four years. Several of these new programs are Other Funds programs requiring the department's administrative expenses to be paid from a small portion of the receipts of the program. However, the implementation timelines in some cases span multiple biennia, leaving the start of available funding to pay expenses far from when the start-up funds are needed.

Increasing complexity in existing programs—Both Oregon and federal law continue to increase in complexity which makes it harder to understand how these provisions are expected to work, particularly provisions that interact with each other, so the agency can administer them correctly and provide guidance to taxpayers.

Complexity has implications for compliance as well as frustration for taxpayers if clear guidance can't be provided. The recent Tax Cuts and Jobs Act is a great illustration of this. Similarly, adapting Oregon's withholding process in response to federal changes has required considerable effort. One of the risks of such complexity is that policymakers don't actually know the overall effects of the incremental changes they propose to the tax system, even as they seek broader goals like equity. In addition, the department must commit an increasing amount of technical resource to analysis and implementation of new and existing laws or risk administration mistakes.

Funding issues at the IRS—Constraints on the IRS budget have very specific implications for Oregon's Department of Revenue. Changes in federal tax law must be reviewed by the IRS before draft forms are available for Oregon to prepare its own state tax forms. Reduced staff at the IRS lengthens the time the IRS takes before making drafts available to states. This means department staff have less time to thoroughly analyze the impact of any changes on Oregon's forms and make appropriate changes to both forms and processes before taxpayers start filing.

Reductions in the number of audits of Oregon taxpayers conducted by the IRS reduces the amount of associated Oregon audits. Audits based on federal audits are typically low in complexity and high in additional payments compared to other types of audits.

Divide between federal and state tax policy—During the 2017–19 biennium, Congress passed the 2017 Tax Cuts and Jobs Act making broad changes to the federal definition of taxable income.

Over the last several years, there has been a growing divide between federal and state tax policy. Oregon's returns for both personal and corporate income taxes begin with federal taxable income, but then must account for Oregon-specific additions, subtractions, deductions, and credits. The larger the divide, the more work the department undertakes to manage the difference between definitions of federal taxable income and Oregon taxable income. This also makes it difficult for taxpayers to easily understand how to file and treat specific taxable items differently between state and federal tax filings, which increases demand for customer service resources. These differences also provide opportunities for taxpayers to knowingly reduce their tax liability by exploiting the differences and hoping to avoid detection by the department.

Stability of processes and leadership—All of these system, process, and responsibility changes come at a time of transition for the agency's leadership team. The department's leadership has experienced significant turnover during the last two biennia. Several members of the executive team have fewer than two years of experience in their current roles, and the addition of a Collections Division Administrator and a new Business Division Administrator added further change to the agency's leadership structure. Since senior leadership is often comprised of experienced and long-tenured managers, there are always members of the team that are close to or past eligibility for retirement, leading to high potential for turnover of executive staff and loss of comprehensive institutional knowledge.

Potential Oregon tax reform initiatives—Legislators, industry, and special interest groups have differing ideas and expected outcomes from attempts at tax reform for both property taxes and taxing income of individuals, small businesses, and corporations. Oregon has been ambitious recently in changing corporate taxation. Impacted industries and the tax preparation community are still responding to new policy choices. The landscape is quickly changing, and the department is preparing for significant discussion of future policy changes in taxation of both property and income.

High level of external scrutiny—The department has faced an increasing level of scrutiny from external sources. This scrutiny is a double-edged sword. Numerous legislative budget notes, audits by the Secretary of State's Office, and reviews of processes and budget structures provide valuable input on how the agency can improve management and operations. However, supporting auditors, external reviewers, and other inquiries takes time and resources. The department has struggled to provide this support while also implementing new tax programs and stabilizing operations after a significant project implementation. Department leadership is continuing to make progress on addressing findings from audits and recommendations from reviews, but progress must be balanced with delivering on demands for revenue streams.

Culture changes—Changes in agency leadership, technical systems, work processes, and staff's adoption and perceived level of influence on changes to their work all have significant impacts to agency culture. While culture is difficult to measure or strategically change, leadership is aware of issues regarding employee engagement and preferred culture.

Initiatives and accomplishments

Initiatives that will continue into the 2019–21 biennium include:

- Implementing recommendations from multiple budget note reports.
- Continuing to optimize the use of GenTax for more efficient and effective tax administration, including streamlining business processes and incorporating automation where appropriate.
- Improving the department's security programs to ensure employee and taxpayer safety.
- Providing more online services to taxpayers so they can access their tax accounts and pay their tax debts online.
- Continuing modernization efforts through the Processing Center Modernization Project that will deliver a front-end processing system that captures and transmits taxpayer data from paper and electronic forms, reducing the need for manual work and making department processing activities more efficient.

Key performance measures

The agency has 11 performance measures that relate to the agency's mission. In 2019–21, the department will undertake a comprehensive review of its key performance measures that will be informed by the recent outcome-based management assessment and the agency's strategic framework. The agency's 2018 Annual Performance Progress Report can be found in Appendix G.

1. Average Days to Process Personal Income Tax Refund: Measures whether the agency meets taxpayer expectations of a timely refund.

2. Percent of Personal Income Tax Returns Filed Electronically: Measures taxpayers' acceptance and use of electronic filing.

3. Employee Training Per Year: Measures the importance placed on employee development and the commitment of resources toward training.

4. Customer Service: Percent of customers rating their overall satisfaction with the agency as "Above Average" or "Excellent."

5. Effective Taxpayer Assistance: Measures the effectiveness of taxpayer services provided by a data-driven combination of direct assistance and electronic self-help services.

6. Appraisal Program Equity and Uniformity: Measures the degree to which county appraisal program equity and uniformity is achieved by determining the percentage of study areas statewide with real market values that are within accepted appraisal standards.

7. Appraisal Value Uniformity: Measures our ability to deliver high-quality business results by measuring appraisal equity and uniformity for DOR industrial accounts.

8. Direct Enforcement Dollars Cost of Funds: Measures efficiency and effectiveness by measuring the cost of funds for every direct enforcement dollar received by the agency.

9. Collection Dollars Cost of Funds: Measures efficiency and effectiveness by measuring the cost of funds for every dollar collected by the agency.

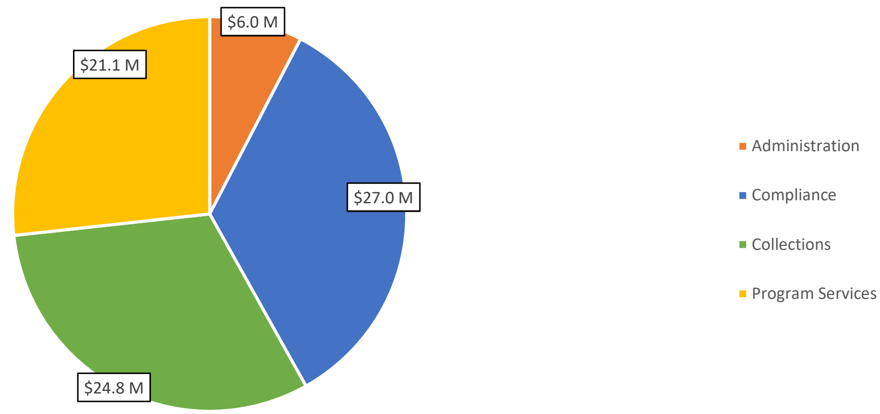
10. Cost of Assessments: Measures efficiency and effectiveness of the agency's suspense, audit, and filing enforcement functions by measuring the cost of every audit and filing enforcement dollar assessed.

11. Employee Engagement: Measures active engagement among employees through a standardized survey.

OREGON DEPARTMENT OF REVENUE

Personal Tax and Compliance Division

2019–21 Governor's Budget (GB)
Total Funds by Program $78,946,230



Division	Actual / LAB	2013–15	2015–17	2017–19	2019–21 GB	2021–23	2023–25
PTAC	LAB	$65,408,917	$71,018,838	$74,604,146	$78,946,230	$82,746,514	$86,793,905
	Actuals	$62,935,253	$67,005,695	$70,602,601			

	GF	OF	TF	POS	FTE
2017–2019 LAB	$72,951,663	$1,652,483	$74,604,146	400	390.02
2019–2021 CSL	$80,053,791	$1,829,203	$81,882,994	393	392.17
2019–2021 GRB	$77,134,762	$1,811,468	$78,946,230	384	383.17
CSL–GRB Change	$(2,919,029)	$(17,735)	$(2,936,764)	(9)	-9.00

The Personal Tax and Compliance (PTAC) Division manages the state's personal income tax program. It is divided into three sections, each with varying functions. Overall, the three sections advance the goals and strategy of the program.

Program Services provides support to the program. The work in the section is diverse as it houses several functions including the agency's primary call center, a return processing function (including fraud detection and manual review), policy development, form and instruction development, appeals, and general clerical support.

Compliance enforces Oregon personal income tax laws through auditing and filing-enforcement activities. Enforcement actions affect individuals who understate income, overstate expenses or deductions, failure-to-file required returns, or fail to pay timely. This section also manages the agency's five district offices. The offices provide information and assistance to individuals so they can correctly file and pay tax. Offices also act as an enforcement presence in those communities.

Collections has responsibility to address and collect delinquent taxes from individuals. The collection activity centers around unpaid taxes for returns filed without full payment, assessments based on processing or audit adjustments, and estimated assessments resulting from filing-enforcement activity.

Collectively, the division attempts to improve voluntary compliance by a variety of activities, including providing:

- Assistance through direct contact with taxpayers over the phone or in person.
- Education that includes training practitioners on new law changes.
- Forms and publications.
- Education during enforcement activities.
- Staff updates on the latest changes to the program's policies, laws, and rules.

The PTAC exists to provide tax revenue necessary to fund services for citizens and businesses in Oregon. The division's are linked to all of the agency's long-term outcome areas and the governor's long-term focus area of excellence in state government.

Voluntary compliance is the cornerstone of the program since most taxpayers voluntarily file and pay. A main program goal is to make filing easy and accessible so taxpayers can meet their filing obligations. A variety of services are provided to assist taxpayers, including providing forms and instructions, website updates, in-person help, assistance by telephone, and access to online accounts.

Enforcement activities that ensure taxpayers file and pay the correct amount of tax timely safeguards the health of the personal income tax system. Enforcement activities include auditing returns to ensure compliance with tax laws and pursuing filing enforcement when taxpayers fail to file a required return. Returns are reviewed and adjusted as they are filed to ensure the correct tax is reported and paid. The final enforcement activity undertaken is collection action. When taxpayers file and remit less than full payment, Collections pursues payment. The goal of enforcement is to ensure that all taxes owed are collected which in turn supports voluntary compliance. Taxpayers are aware of compliance activities which encourages them to timely file correct returns with full payment.

Providing timely and effective assistance is a focus for the personal income tax program and a priority for the agency. The customer's experience is supported through a variety of activities and actions. Education and assistance is provided to practitioners and tax professionals through new law update trainings and website updates. Additional assistance is provided through several call centers. The PTAC Division's call center provides phone support for all tax programs the department administers, although the personal income tax program is the largest program supported. Assistance is provided for walk-in customers, emailed questions, and phone calls. Additional walk-in support is provided in our five district offices located throughout the state, so taxpayers receive the same level of assistance regardless of location.

Employee engagement is another outcome area where the division focuses activity. Employees receive annual training in a variety of areas that are designed to enhance understanding of tax laws, the area in which they work, and soft-skill training such as communication or working with customers. Each section holds an annual workshop where employees can learn, engage with one another, and address issues within their work area.

The last outcome area of focus for the division is equity and uniformity. The division aims to treat taxpayers fairly and consistently. This is completed through providing clear forms and instructions, information through administrative rule that helps the public understand how decisions will be made and how those decisions may impact taxpayers. Additionally, having policies and procedures for staff to follow helps us ensure that taxpayers with similar tax situations are treated similarly.

Budget drivers, risks, and environmental factors

- Impacts of the federal Tax Cuts and Jobs Act will likely include:
  - Further changes to Oregon's withholding process to keep it aligned with state withholding needs regardless of additional federal changes.
  - Increased calls requesting information of changes and their impact to Oregon filers.
  - Adjustments to areas the agency audits due to changes in compliance risk (for example, the elimination of employee business expenses).
  - Impact of federal forms changes to Oregon return processing. New forms, different forms mean additional system programming.
  - Increase in taxpayers who itemize expenses for Oregon only.
  - Decrease in audit revenue based on decreased federal audits of areas of compliance due to some tax simplification resulting from the act. For example, simplification of deductions for travel, meals and entertainment may decrease federal audit activity in those areas. This decrease in federal audits would decrease Oregon tax revenue based on those federal audits.
- New tax programs implemented in any program area directly or indirectly affect all DOR resources by temporarily moving staff away from core work to stand up the new tax program.
- The new federal Centralized Partnership Audit Regime (CPAR) will have an unknown effect on our ability to process changes to Oregon returns based on federal audit adjustments of partnerships and their owners. The department has issued proposed legislation based on a model proposed by the Multistate Tax Commission (MTC) to align our statutes with the IRS changes.

OREGON DEPARTMENT OF REVENUE

Personal Income Tax section

At a glance

More than 2 million individuals file Oregon personal income taxes each year.

$18.9 billion to GF projected this biennium.

Budget and FTE: $72 million (98% GF) for 2017–19 and 379 FTE.

Program services

- Policy analysis.
- Forms development.
- Filing enforcement.
- Return processing/refund review.
- Systems.
- Fraud detection (123,461 in 17–19 as of Dec. 2018).
- Customer assistance.

Compliance

- Enforcement (6,271 audits in 17–19 as of Dec. 2018).
- Regional offices.
- Customer assistance.

Collections

- Collect PIT debt ($284.89 million in 17–19 through Jan. 2019).
- Customer assistance.

- Increase in focus on more complex business audits will increase Attorney General services costs due to a higher appeals rate, as seen in additional appeals that corresponded with an increase in S corp/domestic C and partnership audits.
- Income tax compliance is a balance of education and enforcement. Applying the right resource at the right time to reach the right taxpayers to improve compliance with tax law is a constant challenge.

Accomplishments and major changes

- PTAC was part of the second rollout of the agency's Core Systems Replacement Project. The new system provided new and improved tax administration functionality, including:
  - Increased data matching during return processing.
  - Improved "discovery" (scoring, leads, and analytics), resulting in increased dollars per case over legacy systems.
  - Standardization in work products and review processes.
  - System efficiencies allow auditors to work more cases and less on account maintenance or processing functions.
  - Majority of filing enforcement is automated with work performed by the system and a few administrative specialists.
  - Better data for more accurate filing enforcement billings and increased filing compliance.
  - Automated "kicker" adjustments.
  - Improved fraud detection over legacy system.
  - Revenue Online allows taxpayers to communicate with DOR electronically, in addition to submitting appeals and documentation and set up payment plans. It also allows taxpayers' representatives to view their tax information online.
- Reorganized Program Services and Compliance sections to consolidate the Appeals, Discovery, and Processing; Suspense; and Filing Enforcement units in one section—along with fraud and refund work—to allow for better, easier sharing of resources and information between work units with related functions.
- DOR opened its first remote call center in Fossil in October 2018. The call center has two major benefits: more customer service staff available to callers and quality jobs provided in a rural community. This effort was overseen by the Program Services Section.

Customer service improvements and changes include:

- A new practitioner help line was implemented in 2018. This line provides tax practitioners with a dedicated resource to help with resolution of their issues.
- Improved call-tree routing to get taxpayer to the information or person they need quicker and easier.
- Improved language in letters sent to taxpayers to make them easier to understand and respond to appropriately.
- Increased and improved some online services for taxpayers and their representatives.
- Added seasonal call center staff during filing season to reduce wait times and help more taxpayers.
- Quality assurance process implemented for phone interactions to evaluate staff performance and customer experience.
- Implemented an additional "Audit Quality Assurance" peer review process to increase the quality of our audit product and processes and improve taxpayer service.

- Implemented use of Oregon withholding data from quarterly tax reports for return processing, which improves processing accuracy and helps detect possible fraud.
- Increased filing enforcement activities on partnerships using data and tools now available.
- Created new Oregon Form W-4 and an online withholding calculator to assist employees in determining the correct withholding after federal tax law changes.
- Created online training materials for newly hired tax auditors. This effort means a decrease in both the resources and training time needed to train auditors. Less training time means new auditors can start working cases sooner and gives managers more practical time to evaluate their performance during the trial service period. It also allows more flexibility in auditor hiring. In the past, auditors were hired in large groups to most efficiently use training resources, but the online materials mean that auditors can be hired at any time and for any work location.
- Implemented an additional "audit quality assurance" peer review process to increase the quality of our audit product and processes and improve taxpayer service.
- Implemented the "amended after audit" education project where taxpayers are requested to amend other years affected by an audit. This helps educate the taxpayers, decrease the financial impact due to reduced or eliminated penalties and allows the auditor to audit more taxpayers to improve compliance.
- Continued increased focus on business audit to allocate resources to the areas of highest risk to tax compliance.
- Started audits of marijuana business to increase knowledge of possible compliance risks. Adding this information to our database will improve audit case selection in this area.
- Continued improving audit case selection and FE lead generation processes.
- New discovery tools allow for targeted queries that result in better identification of garnishable funds and catching errors in bill items not in collections that should be (includes Financial Institution Data Match and Employee New Hire Report) allowing the department to resolve debt timelier.
- Statements of Account provide customers periodic updates on balances ensuring they remain informed on the status of their debt throughout the letter series and collection process.
- Expanded options now available to taxpayers for resolving their debts, including ACH payment plans, allows for more flexibility to enter into a department approved payment plan.
- Leveraged automated call distribution tools in the new phone system to improve customer experience. Pre-recorded messages provide convenient, consistent information on the collection process and debt-resolution options to all callers.
- New monitoring tools helped management implement new phone performance metrics, reducing wait times and abandoned calls.
- Standardized collection guidelines and documentation standards for personal income tax collections. Staff and leadership got together to streamline documentation and collection guidelines. Customers now have more consistency when speaking with agents, and it's easier for agents to find information about an account quickly. Additionally, improved documentation templates make section account documentation more consistent and thorough.

Efforts to contain costs and improve service delivery

- To contain costs, the division has formed a postage-use review group to look at the division's postage costs and determine how to best use those limited funds while still improving customer service. Some of the topics discussed so far include increasing electronic notices (where allowable under law), performing an analysis of how debtors respond to certain letters, and agency-wide improvements to output generation processes.
- To improve program delivery, the division has:
    - Established a remote call center in Fossil and added temporary seasonal call center staff in Salem in increase the personnel available to answer taxpayers' calls, with the goal of decreasing wait times during filing season.
    - Established a quarterly review process for customer service survey results. Development of recommendations for service or process changes are part of this review. Multiple recommendations from quarterly reviews have already been implemented.
    - Established a quality assurance review process for phone calls and audits.
    - Modified the minimum qualifications for the Tax Auditor 1 classification to expand the hiring pool and improve the agency's workforce. The old qualifications experience requirements were too restrictive and didn't value experience outside of governmental environments. This limited the pool of tax and accounting professionals applying for positions.

- Continued work on improving the language used in taxpayer correspondence so it's clearer and easier to understand.
- Developed a process for using decision analytics to automate write-offs and optimize work queues.
- Reorganized audit unit structures, and increased resources dedicated to direct audits in both the area of greatest compliance risk (businesses) and geographical area with the largest population (Portland).

Program Services Section

The Program Services Section supports the division's goal to improve voluntary compliance within the personal income tax program through taxpayer assistance, education, and enforcement activities. Voluntary compliance is the biggest revenue stream for the personal income tax program.

Activities to support this goal are designed to connect with all taxpayer segments. By keeping that process healthy, the section helps protect a major funding source for the state of Oregon.

The Program Services Section promotes voluntary compliance by providing education and assistance to taxpayers and practitioners prior to and during the return processing season. This is accomplished through legislative support, policy and rules development, annual updates to forms and publications and the processing system, working with vendors to update tax preparation software, presenting new law updates to staff and tax practitioners, and answering filing questions through the call center. As returns are being processed, the section impacts the accuracy of results through fraud detection, correcting errors on returns and refund review to address issues upfront rather than through back-end enforcement activity.

The work in the section is diverse, as it houses several different functions:

- The Tax Services Unit is the agency's main call center and supports all tax programs, not just the personal income tax program. This unit also staffs the front desk at the agency's main building in Salem, where they field questions and processes documents received from walk-in visitors.
- Return processing, which includes review of tax returns where staff are required to manually work returns that can't be processed through the automated processing system. This occurs because there are errors or issues that must be reviewed to complete the return processing. There are a variety of issues that would cause a return to go through manual processing during any season.
- The Fraud Team reviews returns that are identified as potentially fraudulent and assists taxpayers that are victims of identity theft. The team also coordinates with the IRS and other states to stay abreast of fraud trends to preserve the general fund.
- The Systems Unit coordinates the electronic filing and return processing systems and works with industry partners to ensure the accuracy and speedy processing of returns.
- Refund review and account maintenance, which includes penalty waiver processing, refund apportionment, and other account adjustments.
- Adjustments to Oregon returns based on income data matching adjustments and federal audit results received from the Internal Revenue Service.
- The personal income tax policy group provides policy direction for the program, coordinates administrative rule processes, authors the program's forms and publications, monitors and implements legislation, develops fiscals for new legislation, develops legislative concepts to address issues in program administration, responds to letters from taxpayers, and provides annual new law training to staff and practitioners.
- The Conference Unit handles conference requests, which occur when the taxpayer doesn't agree with the action the agency has taken on a tax return. A conference request can come after either audit or processing adjustments. In response to conference requests, this staff researches the laws governing the action and provides an objective written response to the disagreement. They also coordinate and conduct in-person or phone conferences, and issue the final determination following the conference.
- Filing enforcement is an area of focus for compliance, but recent agency restructuring moved this function to Program Services from Compliance. The division reaches out to taxpayers that have not filed, reminds them of their tax obligations, and informs them that the agency can work with them. The division implemented a more systematic, strategic approach to addressing non-filers when GenTax was implemented for the personal income tax program in 2016. This approach includes prioritizing non-filer leads, streamlining processes, and taking a timelier approach to contacting non-filers. GenTax allowed the agency to automate the issuance of request to file letters and create estimated returns when non-filers do not respond. This automation allows the agency to contact non-filers sooner and frees up staff to answer phone calls and provide personalized assistance to non-filers who contact the agency after receiving notice that they are not in compliance.
- General administrative support for the program, which includes ordering supplies, entering power of attorney forms for the division, and processing garnishment responses for accounts in collections.

Section performance

The number of returns received grows steadily each year.

Processing year (Calendar)	2012	2013	2014	2015	2016	2017	2018
Returns	1,824,788	1,846,257	1,886,438	1,942,678	1,993,570	2,040,738	2,153,425

The division has an agency Key Performance Measure (KPM) for electronically filed returns. E-filing is a less costly way to process returns and typically gives a faster turnaround for refunds. Accuracy in filing also increases with electronically filed return as taxpayers make less math and other errors when taking part in e-filing.

	2012	2013	2014	2015	2016	2017	2018
Percent of personal income tax returns filed electronically							
Actual	79.0%	81.1%	82.5%	84.2%	85.6%	86.7%	88%
Target	71%	80%	80%	82%	82%	84%	88%

A second KPM for the division is the number of days to refund. This measure is impacted by the necessary balance between ensuring return accuracy and expediently issuing refunds.

	2012	2013	2014	2015	2016	2017	2018
Average days to process personal income tax refund							
Actual	10	7	8	5	16	17	18
Target	12	12	12	12	12	12	8

PTAC houses the agency's general call center. The center is staffed by 17 phone representatives. For the last two tax seasons (January–June), there have been between five and seven additional seasonal staff. In addition, the call center has an interactive voice response (IVR) system that allows many callers to find answers from the information provided in recorded messages.

Fiscal year	2013	2014	2015	2016	2017	2018
Calls to IVR	371,605	395,570	402,466	720,834	643,181	718,142
Calls answered by staff	143,715	156,963	124,576	139,237	146,030	149,746

Fiscal year	2013	2014	2015	2016	2017	2018
Busy**	*	*	*	121,220	62,646	41,505
Abandoned***	*	*	*	54,723	41,239	32,027

* Numbers not available

** Busy = the numbers of callers that tried to move from IVR to a representative but couldn't because the queue was full.

*** Abandoned = number of callers that successfully transferred from the IVR to the representative queue but hung up before their call was answered (presumably because of wait time).

The call center has an agency target to answer calls in less than five minutes. This target is designed to measure wait time, a factor that has a direct correlation to customer satisfaction.

Fiscal year	2013	2014	2015	2016	2017	2018
Average wait time	7:02	3:52	6:45	11:26	12:59	5:23

Compliance Section

The Compliance Section is the enforcement arm of the PTAC Division. The section enforces Oregon's personal income tax laws through auditing and filing enforcement activities. Included within the section is the management of the agency's five district offices. The district offices provide an agency presence in the state outside of the Salem area. The offices provide information and assistance to individuals so they can correctly file and pay their taxes and an enforcement presence in communities.

The major cost for the Compliance Section is personnel. The section continually looks for ways to increase staff productivity through the use of more efficient processes, technological solutions, and enhancing audit selection and management processes.

The goal of the Compliance Section is to support and improve voluntary compliance within the personal income tax program through enforcement activities, taxpayer assistance, and education. Voluntary compliance is the biggest revenue stream for the personal income tax program. Activities to support this goal are designed to connect with all taxpayer segments. By keeping that process healthy, the section helps protect a major funding source for the state of Oregon.

The section's strategy to increase voluntary compliance is to act as "the cop on the street," by maintaining a presence across the state. By doing so, taxpayers will realize that the state is actively enforcing compliance with its tax laws. The objective is to change the taxpayer's behavior in the future and stay in compliance voluntarily.

The Compliance Section focuses its enforcement efforts on high-risk areas for noncompliance as identified in the *2009 Report on Personal Income Tax Compliance in Oregon.* The main focus areas are lack of third-party verification, cash-based businesses, partnerships, and pass through entities. The Compliance Section also focuses on Oregon-specific issues, such as residency determinations, credits and deductions.

Enforcement activities are employed when people do not voluntarily comply with Oregon's personal income tax laws. Noncompliance includes understating income, overstating expenses or deductions, and failing to file required returns. The Compliance Section partners with the Attorney General's office to conduct additional investigation for situations where there may be potential criminal prosecution. The section also provides enforcement resources to ensure compliance on partnership, corporation, and transit tax returns because these enforcement actions have a direct impact at the entity level and may flow through to the individual owner's personal tax returns.

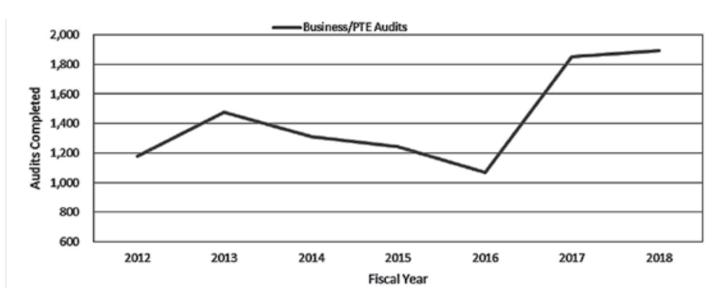
The section also supports voluntary compliance by providing exemplary taxpayer assistance in the district offices located across the state and providing thorough, professional responses to tax-related questions. The section also strives to support voluntary compliance by providing education to taxpayers at every opportunity, whether during an audit, an interaction at a district office, or an interaction with the tax professional community. By understanding how to comply with personal income tax laws, taxpayers are more likely to remain in voluntary compliance.

Without a strong enforcement component, there would be no motivation for taxpayers to comply with tax laws, which would weaken Oregon's voluntary-compliance-based system and the largest revenue stream for the personal income tax program impacted.

Section performance

The following graph shows the business audits completed in the Compliance Section on a fiscal year basis. This represents the core work of the section and targets the higher risk cases that have a high impact on strengthening voluntary compliance.

PIT Compliance



Collections Section

The Collections Section is responsible for addressing and collecting delinquent taxes. Collection activity occurs when there are unpaid taxes resulting from a return being filed without full payment, assessments based on processing or audit adjustments, and filing enforcement activity. The section's revenue agents also provide collection support for other divisions' tax programs, including payroll withholding, Lane and Tri-Met transit district, property tax deferral, timber, cigarette and other tobacco products, and marijuana tax programs.

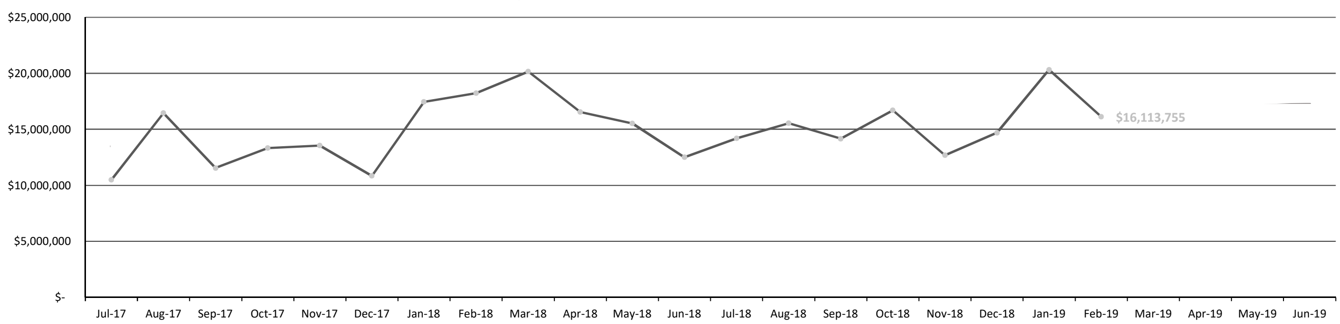
All revenue agents work on a daily basis with taxpayers to resolve unpaid tax issues. Our revenue agents offer a multitude of repayment options including but not limited to: ACH payment plans, manual payment plans, temporary payment plans, temporarily uncollectible, and suspended collection status in order to fit taxpayer's needs. When taxpayers are not on an approved repayment option our revenue agents locate assets through garnishments and advanced collection action. Agents make it a priority to work with taxpayers to promote future compliance and self-efficiency by providing information so taxpayers understand how to comply in the future. The Revenue Agent 2s and 3s provide presence throughout the state by making in-person visits to businesses and personal residences.

In addition, the Collection Agency Program (CAP) contracts with private collection firms (PCFs) to collect tax debt. The section also has a Bankruptcy Unit that protects the interest of the state in bankruptcy situations including receiving, processing, and monitoring bankruptcy cases; performing filing enforcement actions; and applying bankruptcy payments.

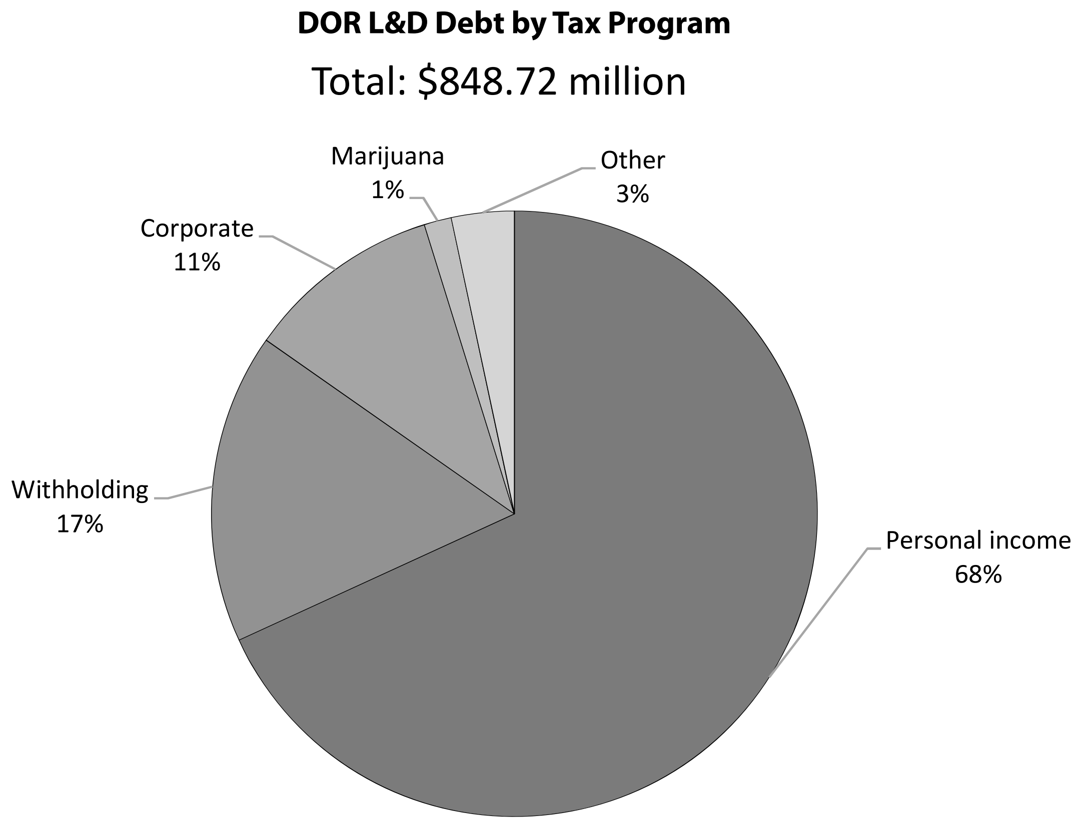
Section performance

The section averages approximately $330 million in personal income tax collections each biennium. FY 2018 personal income tax collections were approximately $176.59 million. Through January 31, 2019, collections for the biennium are approximately $284.89 million.

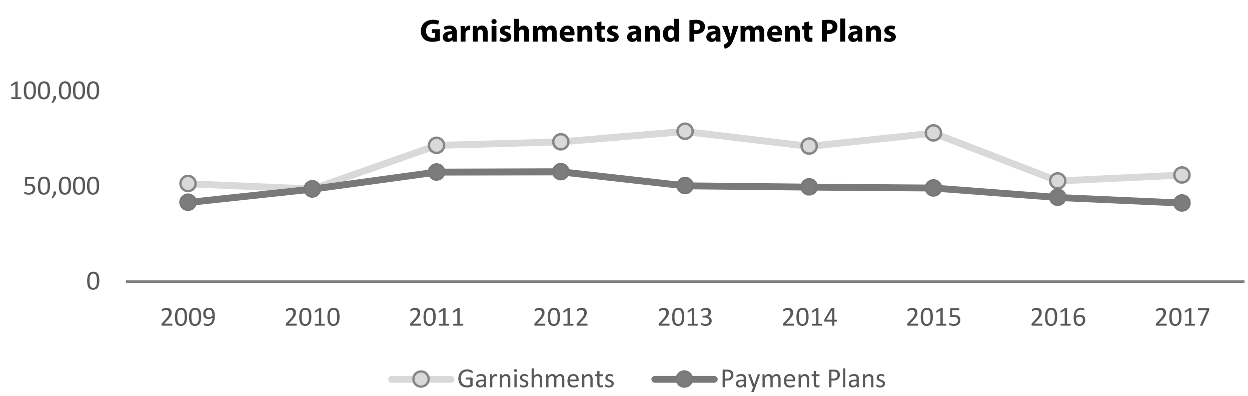
Monthly Collections with Trend Line



The following chart shows DOR's liquidated and delinquent (L&D) debt remaining at the end of fiscal year 2018. There was approximately $578.45 million in remaining L&D debt assigned to personal income tax collections staff.

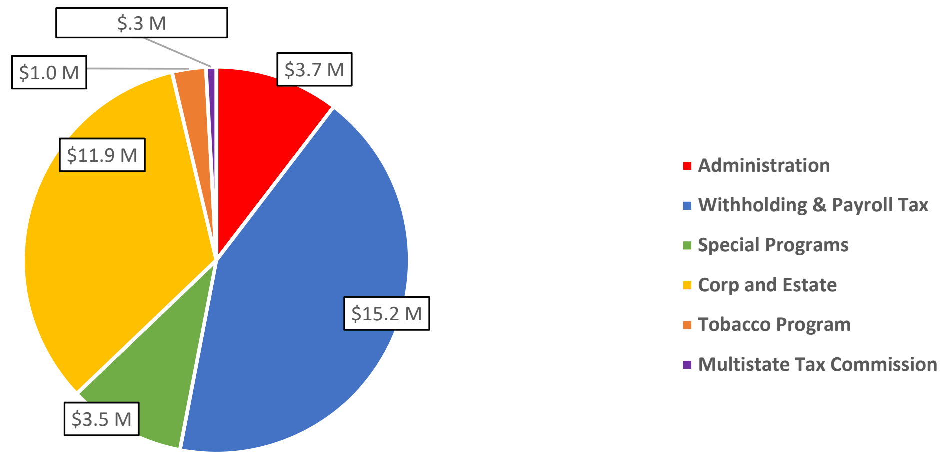


The following graph shows the dollars collected through wage and bank garnishments in contrast to collections from payment plans over the past nine years. The Collections Section makes every effort to setup a payment plan prior to garnishment in order to help taxpayers understand their obligations and encourage future voluntary compliance.



Business Division

2019–21 Governor's Budget (GB)
Business Division Total Funds by Program $35,658,025



Division	Actual / LAB	2013–15	2015–17	2017–19	2019–21 GB	2021–23	2023–25
Business	LAB	$34,142,766	$38,191,294	$41,625,457	$35,658,025	$37,367,009	$39,185,733
	Actuals	$31,759,893	$36,167,747	$39,921,030			

	GF	OF	TF	POS	FTE
2017–2019 LAB	$21,350,670	$20,248,850	$41,625,457	227	209.65
2019–2021 CSL	$23,775,091	$11,621,735*	$35,396,826	154	152.75
2019–2021 GRB	$23,296,473	$12,361,552	$35,658,025	154	152.65
CSL–GRB Change	$(478,618)	$739,817	$261,199	-	-0.10

*The change in OF for CSL is due to the transfer of the Other Agency Accounts program from the Business Division to the Collections Division.

The Business Division supports many of the programs upon which the state's General Fund depends. Personal income tax withholding and corporate, estate, and cigarette and tobacco taxes are projected to contribute more than $20 billion to the General fund this biennium. More than $17 billion of that is from personal income tax withholding, which is also addressed in the Personal Tax and Compliance Division narrative. The division administers many programs and processes in a manner that most efficiently and effectively uses the resources allocated to align with the long-term focus area of excellence in state government.

The Business Division is responsible for the administration of taxes imposed on large and small businesses. Division staff work with taxpayers to ensure they can easily report and pay the correct amount of tax for each program. Tax programs administered by the division include: withholding tax, corporate excise and income taxes, cigarette and tobacco taxes, recreational marijuana tax, estate and fiduciary taxes, emergency communication tax, state lodging tax, petroleum load fee, amusement device tax, and hazardous substance fee. The division also now administers new tax programs enacted by the 2017 Legislature, including vehicle privilege and use taxes, bicycle excise tax, statewide transit tax, and heavy equipment rental tax. The taxes and fees administered by the division support the General Fund and dedicated Other Funds supporting specific state and local programs.

The clients served by the division are primarily businesses operating in Oregon who have responsibility to pay taxes administered by the division. Clients also include tax professionals, local jurisdictions, and other state agencies. Partnerships are maintained with other state agencies, the Internal Revenue Service, the Federation of Tax Administrators, the Multistate Tax Commission, and the Western States Association of Tax Administrators in our administration of these taxes. These partnerships provide a diverse backdrop of other tax administration agencies with whom the agency can share best practices, compliance leads, and ideas for new ways to serve taxpayer demands.

Depending on the size of the business and the tax program involved taxpayers must pay and file monthly, quarterly, or annually. Program staff regularly interact with taxpayers or their representatives for account maintenance, to answer tax related questions, provide education, and various compliance activities including collection, audit, and filing enforcement. Each of the programs has a different amount of resource assigned to it. Smaller programs have few resources and can offer only basic services such as return processing, taxpayer assistance, and education. Larger programs have the most resources and thus offer a broader variety of services including outreach and active compliance activities such as audit and filing enforcement.

The activities of the Business Division are linked to all of the agency's long-term outcome areas (voluntary compliance, enforcement, customer experience, employee engagement, and equity and uniformity) and the governor's long-term focus area of excellence in state government.

Voluntary compliance is the backbone of any tax program since most taxpayers voluntarily file and pay. Taxpayers use services and materials provided by the division to understand and meet their obligations. These include forms and instructions, administrative rules, website updates, education and assistance, and online access to accounts. These activities and others ensure the health of tax systems by making it easy for taxpayers to comply with tax program requirements. Making services accessible and understandable not only supports voluntary compliance but also the taxpayer's customer experience.

Improving customer experience is a priority for the agency. The division supports that in many ways. Staff educates taxpayers by attending outreach events for new businesses; provides one-on-one assistance through phone calls and email when taxpayers have questions; and partners with tax professionals and stakeholders while developing policies that will impact them. All of these activities ensure that taxpayers feel supported and have the information they need to comply with tax laws. Feedback is important to improvement so division staff partners with others in the agency to use a customer service survey allowing customers to provide meaningful feedback on services and suggest improvements.

For a smaller set of taxpayers, enforcement activities ensure that they are filing and paying correctly and on time. These activities include collecting past due amounts, auditing returns to ensure compliance with tax laws, filing enforcement for those who haven't filed, and business inspections designed to check compliance for a variety of taxes and fees. These activities support voluntary compliance as well. Taxpayers are aware of compliance activities, which encourages them to be accurate in their reporting.

Employee engagement is also important to the agency and the division supports this by providing training, recognizing achievements, and listening to feedback about how operations can improve. Employees are consulted when making many decisions, as they are the ones performing the work and interacting with taxpayers. It is imperative that they have a voice in how work is accomplished in the division. This leads to staff empowerment and greater buy-in which leads to better individual and team performance.

The final long-term outcome area is equity and uniformity which the division supports by treating taxpayers and representatives fairly and consistently. In many instances policy statements provided through administrative rule outline how decisions will be made. In other instances, the same level of consistency is provided through employee training and desk procedures. The Business Division strives to be fair and balanced in administration of the tax programs for which the division is responsible.

Business Division administration consists of two positions, the division administrator and division executive assistant. The administrator participates on the department's executive leadership team to contribute toward the management of the agency and establishes broad division policy and strategic plans to align the Business Division's programs with the agency's desired outcomes. Programs administered by the Business Division include the withholding, corporate, estate, cigarette and tobacco, marijuana, and eight special tax programs that include the vehicle, bicycle, and emergency communication taxes. These programs generate over $16 billion per biennium.

The division administrator leads the development of Business Division strategic plans, strategies, resource, and organization plans for the effective delivery of services by developing teams that work toward meeting the department's mission, vision, and goals. The administrator plans, coordinates, monitors, implements, and reports progress on multiple facets of operations, including voluntary compliance, enforcement, customer experience, and employee engagement. Core functions include tax administration, audit, filing enforcement, collection, policy development, and budget management, which all require coordination within the division and with key business partners, both internal and external.

Three sections within the division, each lead by a section manager, manage these programs and functions. They join the administrator on the division's leadership team representing the Corporation and Estate, Special Programs, and Withholding sections. The division executive assistant supports the division administrator and leadership team by organizing meetings, processing personnel action forms, keeping documentation and organization charts updated, and providing clerical support for division management.

Budget drivers, risks, and environmental factors

- Implementation of six new tax programs impacts the division as resources are shifted to accommodate increased administrative rule writing, supporting technology development, increased outreach and education for taxpayers and stakeholders, as well as ongoing administration of the new programs.
- The Corporation program has several pending court cases dealing with various issues related to apportionment of broadcasters. Uncertainty in this area as well as other complex areas of corporate tax law increase resource needs for appeals as well as cost for attorney general charges.
- HB 2400 authorized DOR to collect local lodging taxes on behalf of local governments. Currently, no locality has asked DOR to administer their lodging tax, likely due to the requirement in ORS 305.620 that DOR's administrative costs (which would include the initial cost of reconfiguring the department's GenTax system) be deducted from the local lodging tax revenue. If a funding mechanism is established this will require additional work for the division.

Accomplishments and major changes

- Since 2015, the division has implemented six new tax programs: recreational marijuana, statewide transit, vehicle privilege, vehicle use, bicycle excise, and heavy equipment rental.
- From 2014 through 2016, the agency's Core Systems Replacement Project modernized the information technology systems that the division uses in its daily work. New business processes allow the section to efficiently administer all business tax programs.
- The division continues to encourage (and in some cases require) taxpayers to use Revenue Online—the agency's self-service application—to facilitate filing, payments, and registration.
- The Withholding and Payroll Tax Section stood up the statewide transit tax program (House Bill 2017), which is a tax on employee wages of Oregon residents (regardless of where the services are performed), and nonresidents performing services in Oregon. For the first quarter of the tax (3rd quarter 2018), DOR received over $22 million in payments.
- SB 254 (2017) requires financial institutions to participate in a data match system to identify assets of debtors held at financial institutions. This partnership allows DOR to efficiently identify sources of funds to collect to satisfy debts collected by the department. The department has received $1.5 million in payments directly attributable to garnishments issued from information provided through this data match program for 934 withholding, iWire, TriMet Transit District, and Lane Transit District account debts.
- We recently reorganized the Business Division, placing special programs within the Withholding and Payroll Tax Section. This consolidation will improve operational efficiency and reduce redundant processes across the multiple programs administered by the division.
- HB 3180 enabled DOR to exchange lodging tax data with local governments. Per the requirements in HB 3180, DOR worked with local governments to develop rules governing data exchange. These rules were finalized in 2018 and DOR is now configuring systems to enable the electronic exchange of confidential tax data. The department expects to begin sharing data with local governments later this year.
- Corporation and Statewide Transit tax forms were configured into the agency's new imaging system as part of phase 1 of the Processing Center Modernization project in August 2018.
- Federal tax reform had an impact on the state corporate income tax by requiring companies to repatriate foreign earnings from 1986 through 2017. Because these earnings are treated as dividends, prior law would have provided more than 100-percent deduction of this income when taking both the federal and state benefits into account. This was further complicated by an Oregon specific law that required companies to include income from certain listed foreign jurisdictions from 2014–16. The 2018 Legislature passed HB 2460 which disconnected Oregon from the federal repatriation deduction and also repealed the states listed foreign jurisdiction law. Finally, the bill provided a tax credit to ensure that corporate taxpayers were not double taxed on foreign income during the years the law was in effect. Program staff worked with legislative staff and stakeholders to ensure administrative guidance covered as many situations as possible, was clear, and ensured fair tax treatment.

- SB 28 (2017) repealed cost of performance apportionment in favor of market-based apportionment for services and sales of intangibles. This was a department-sponsored bill and brings Oregon in line with current model laws recommended by the Multistate Tax Commission. The change in apportionment applies to tax years beginning in 2018 and means that companies now source their receipts to the state where the market is instead of where they are physically located. Even though this was a concept the department requested, there was still work to do in updating administrative rules, training staff, and updating forms and website information. The agency is pleased with this change and anticipates that litigation over cost-of-performance standards will decrease over several years.
  - Due to the removal of cost of performance, which was referred to in administrative rules, program staff also needed to revise the administrative rule that provides apportionment guidelines for financial institutions. The department worked extensively with stakeholders to ensure a fair and balanced approach that stayed in line with model regulations.
- HB 2273 (2017) changed Oregon law to exclude the sale of business assets, functional income, from sales factor. This was again department sponsored legislation that brings Oregon in line with Multistate Tax Commission model statutes.
- SB 153 (2017) was insurance company legislation to clarify treatment of dividends paid between parent and insurance subsidiary. The department worked with industry stakeholders to find a legislative solution to an uncertain law. This change should reduce the amount of litigation over time.
- SB 30 (2017) legislation allows auditors to look at foreign corporations to determine unity. This legislation was sponsored by the department and will allow for a more efficient audit process when auditing a consolidated group that has a question over unity.
- Capital One–The Oregon Supreme Court ruled in this case that the taxpayer had income from an Oregon source and therefore they were subject to income tax. This was an important case to affirm the department's long-standing position of economic or substantial nexus exists when there is sufficient contact with the state through its residents, even though the taxpayer has no physical presence.
- Comcast–The Oregon Supreme Court affirmed the department's interpretation of statutes that apply to apportionment of broadcasters. Basically, the ruling upheld the fact that if a taxpayer is a broadcaster then all their receipts are sourced using the broadcaster.

Efforts to contain costs and improve program delivery

To improve program delivery, the division has:

- Implemented HB 2156 (2017), which required the department to create a new way for S and C corporations to contact the department. As a result of this legislation, an automated call system was implemented, including the incorporation of the new number and email on correspondence, and trained additional staff to handle calls. The bill required the agency to provide prompt service by trained employees. Through December, the line has handled over 3,600 calls. The section is tracking customer service related to this line and results are overwhelmingly positive.
- Another improvement that we made to our customer service is to ensure there is an auditor available to assist on technical questions, five days per week during normal business hours. Auditors provide backup assistance to the automated call system as well as answer questions received through the corporate tax help email box.
- All division staff now include a link to our customer service survey in email communications with taxpayers and representatives. Staff who mostly handle phone calls utilize a phone-based survey. The survey results are reviewed quarterly to identify improvement opportunities in customer service.
- Utilizing information from employer registrations and new system functionality allows us to timely identify non-filing taxpayers for withholding and statewide transit taxes. This is an improvement and benefits voluntary compliance as we are notifying non-compliant taxpayers in a timelier manner which reduces their potential liability.
- The Financial Institution Data Matching program has allowed more targeted issuance of bank garnishments on business debtors resulting in payments of $1.9 million through December 31, 2018 from over 850 garnishments.

The division has also made specific changes to further enhance administration of the separate tax programs, including:

- Hazardous substance fee: The fee is assessed by the State Fire Marshal (SFM). In 2018, DOR worked with SFM to ensure fee data could be easily exchanged between SFM's new IT system and DOR's system.
- State lodging tax: DOR modified its filing process, allowing taxpayers to file one quarterly SLT return online rather than paper returns for each region in which they operate. These changes also made program administration more efficient, particularly in incorporating legislative changes, including tax rate increases in 2016 and modifications to statutes in 2018 (HB 4120) that required additional entities to collect and remit tax.
- Emergency communications tax (E911): DOR updated its systems, modified internal business processes, and conducted numerous outreach activities to incorporate legislative changes to the E911 program, including modifications to the taxpayer base due to 2014 legislation (HB 4055) that applied the E911 tax to prepaid wireless service.

Withholding and Payroll Tax section

At a glance

Taxpayers are 163,000 Oregon businesses and out-of-state employers.

Withholding is how the majority of the **$18.9 billion** in personal income taxes is collected.

Budget and FTE: $13.17 million total funds for 2017–19 and 77.87 FTE.

Staff participated in more than 150 employer outreach events in 2018.

Core administrative work

- Policy analysis.
- Forms development.
- Compliance investigations.
- Return processing/refund review.
- Collections.
- Business registration.
- Customer assistance.

Statewide transit tax

147,000 employers expected to file quarterly or annually.

$33.56 million to the Statewide Transportation Improvement Fund as of Jan. 2019.

Withholding and Payroll Tax Section

Withholding and Payroll Tax Section (WPTS) administers the withholding program as part of a multi-agency effort to administer combined payroll tax programs. WPTS secures approximately $8 billion in revenue to the state annually (this includes personal income tax withholding that employers remit to us and are then claimed on individual income tax returns.)

In addition to direct responsibility for the withholding program, the section is under contract to administer the Lane and Tri-Met transit districts' payroll taxes and is preparing to administer the statewide transit tax. The section also collects delinquent debts for all tax programs administered by the Business Division.

The primary responsibility of the WPTS is to provide the means for employers to report and remit employee income tax withholding. Our goal is to make registering, filing, and paying as easy as possible for employers. When voluntary compliance is easy it reduces the need for enforcement efforts. The section partners with the Employment Department, Department of Consumer and Business Services and two transit districts to provide streamlined payroll reporting for employers using a combined return. It provides education for businesses to improve their ability to comply with the state's various business tax laws. During the current biennium we have attended 154 outreach events with over 4,500 attendees. The most common topics staff are asked about at these events are worker classification (independent contractor vs. employee), filing iWire returns, and the new statewide transit tax.

WPTS programs have a far-reaching impact as they affect the payroll reporting of more than 163,000 employers in Oregon and many outside of Oregon. The section's budget for these programs is over $13 million for the 2017–19 biennium. Employers are required to report quarterly (annually for agricultural and some domestic employers), and then again annually to provide a reconciliation for the year. Depending on the amount of tax withholding, employers have varying requirements to pay the tax. Employers with a large number of employees pay as frequently as the next business day. WPTS regularly interacts with employers to provide information and education to help them comply with regulations. The section also conducts enforcement activities such as filing enforcement to ensure those who have a filing requirement file, audit to verify that the correct amount of tax has been reported and paid, and collections on past-due debt.

Withholding, transit tax, and marijuana compliance projects continue to be conducted throughout the state. The section also works with community partners to educate business owners about their responsibilities under the tax programs administered by WPTS. WPTS is also responsible for the collection of other delinquent business taxes. In addition to income taxes withheld by employers, the section collects past-due debts on corporate income and excise taxes, local transit district taxes, retail marijuana tax, and the statewide transit tax. As of December 31, 2018, delinquent accounts totaled $187.3million in unpaid payroll, Lane Transit District (LTD), Tri-Met, corporation, marijuana, and statewide transit taxes. Through December 31, 2018, during the 2017–2019 biennium, the Withholding section generated approximately $98.6 million from collection activities.

The units that make up the Withholding and Payroll Tax Section and the work they are responsible for include:

Program Coordination Unit (6 positions): This unit's function is to provide legal, technical, educational, and operational assistance and direction for the WPTS tax programs. This unit processes appeals, coordinates with the Attorney General's office, and ensures accurate information to support Finance/Accounting's payment transfers for other agencies and internal programs. They are responsible for creating forms, publications, and filing and payment methods to facilitate tax compliance.

Business, Compliance & Investigation Unit (10 positions): Compliance specialists in this unit investigate employers that are not accurately reporting their payroll. They spend a great deal of time in the field working directly with Oregon employers and investigating businesses who don't accurately classify their employees or pay withholding taxes. This unit also participates in the Interagency Compliance Network formed under House Bill 2815 in 2009. They participate in joint audits with multiple state agencies to establish consistency in agency determinations of worker classification. This effort creates a coordinated enforcement process that benefits participating agencies and taxpayers by streamlining processes and sharing information.

Business Tax Collections (28 positions): The revenue agents in this unit collect all tax liabilities of the programs that WPTS administers as well as collecting for the corporate income and excise taxes, marijuana taxes, tobacco taxes and other small programs. The agent's primary function is to pursue collection actions that most effectively and timely resolve delinquent tax accounts. In the course of their work, agents also secure delinquent tax returns and resolve account maintenance issues such as mismatched payments.

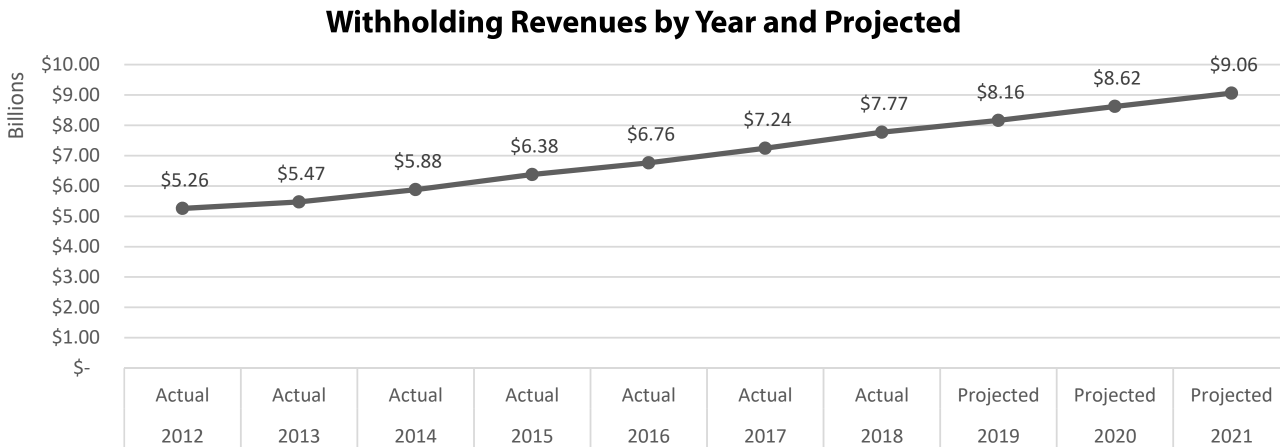
Account Resolution Unit (28 positions): This unit provides education and assistance to ensure that new employers and the more than 160,000 current employers comply with their obligations. The unit is responsible for processing returns, wavier requests, payments, refunds, and assisting businesses in complying. This unit reconciles the annual reconciliation returns to quarterly reports and performs other duties to assist employers in their efforts to accurately report and pay their payroll taxes.

Registrations & Support (12 positions): The staff in this unit register employers for combined payroll reporting, resolve registration issues, and act as the first level of investigation for employers. They also provide general clerical support such as ordering supplies, forms, and handling mail for the section. Work in this section has grown substantially due to our improved business processes and new integrated tax system. When registration work isn't complete or finished timely it creates a variety of problems for staff and taxpayers including, not knowing where to apply payments or direct returns, sending mail to the wrong place, issuing inaccurate assessments, issuing garnishments when debt isn't owed, and creating additional and unnecessary expense for the agency.

WPTS cooperates with other state and federal agencies to simplify the tax programs affecting Oregon employers. For example, the agency continues to participate in the Oregon Business Registry, which provides a single starting point for Oregon businesses to register with state agencies. The section partners with two other agencies for the combined payroll tax reporting of five different programs. The department has also partnered with seven other state agencies and boards to comprise the Interagency Compliance Network (ICN). These seven agencies and boards work together to achieve better compliance with independent contractor laws. The ICN provides an information website, outreach activities, and joint audit and enforcement efforts to establish a level playing field for all businesses whether they hire employees or independent contractors.

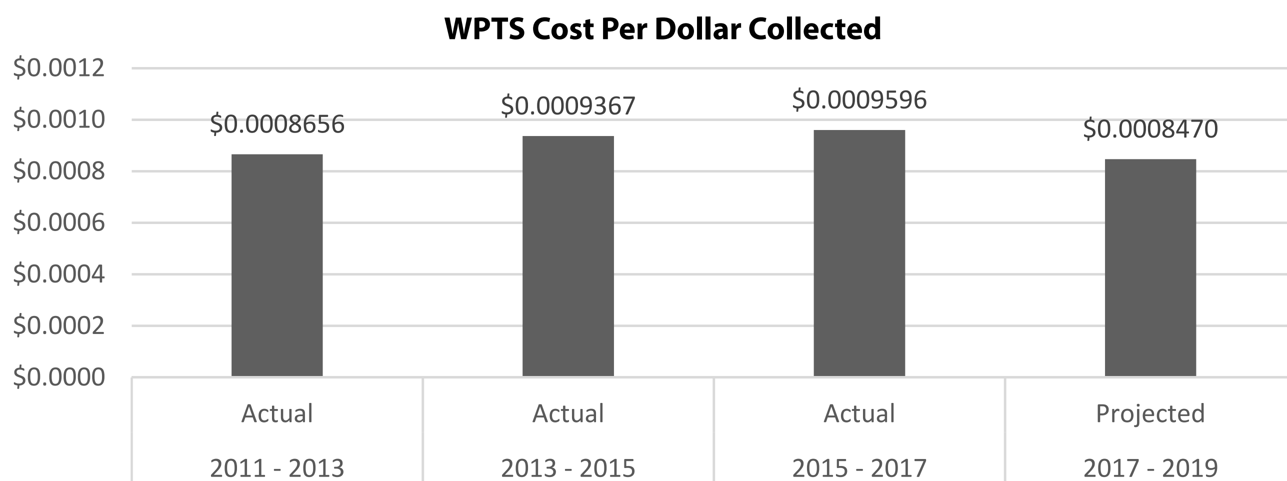
Section performance

The work of WPTS impacts nearly every single wage-earning Oregonian. The program continually adapts to the business needs of taxpayers and has transitioned to using GenTax to perform much of the work previously done through legacy systems. As the economy has stabilized after the Great Recession and wage growth has continued, the program has had to scale up to keep pace with the increased revenue and bring new businesses in compliance with filing and payment requirements.

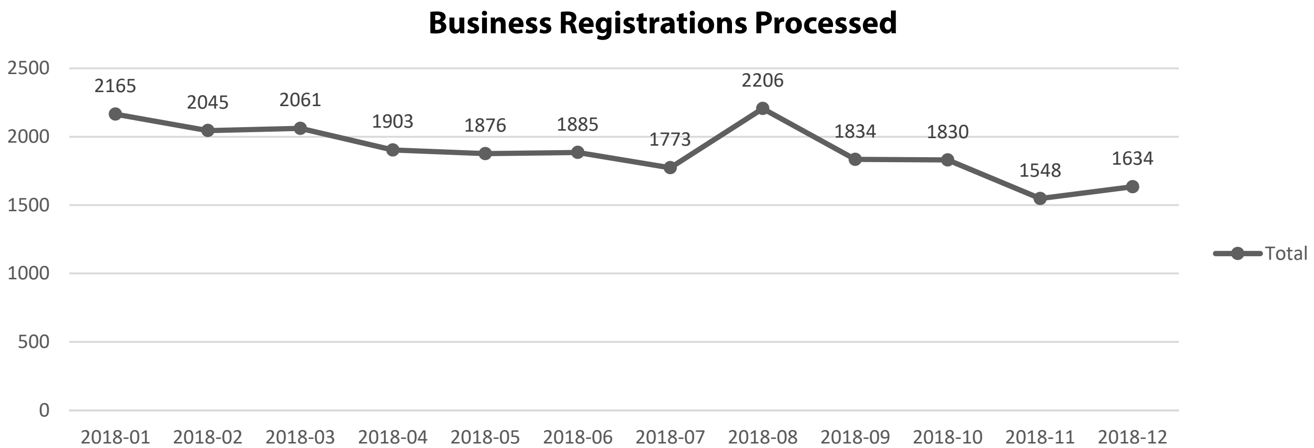


This chart reflects revenues received by the program since 2012 and projected through 2021 using projections released in December 2018 by the Office of Economic Analysis. Revenue for withholding taxes has increased annually and is projected to continue to increase. In 2018, revenues exceeded $7.7 billion. The increased withholding revenues are in part attributed to an increase in the number of Oregon taxpayers and businesses, as well as new revenue streams such as the new statewide transportation tax beginning July 1, 2018.

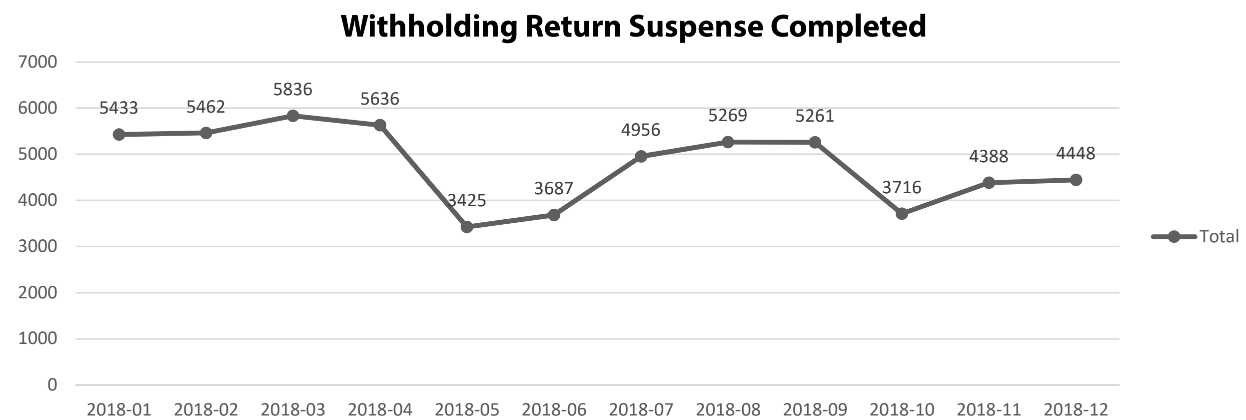
This chart demonstrates the cost to the agency per dollar collected by the program. WPTS spending per dollar collected is expected to be approximately 8 hundredths of a cent for 2017–19. The cost has decreased from the previous biennium and is projected to continue to decrease due to program efforts and increased revenues attributed to economic growth.



This measure helps to identify the rate at which businesses register with the department and provides insight to potential changes in numbers of returns suspended, refunds requiring review, and collections. New accounts are created relatively consistently and may require associated outdated accounts to be closed. New accounts often require additional education and outreach when they are registering. This may identify fraudulent activity and unpaid amounts.

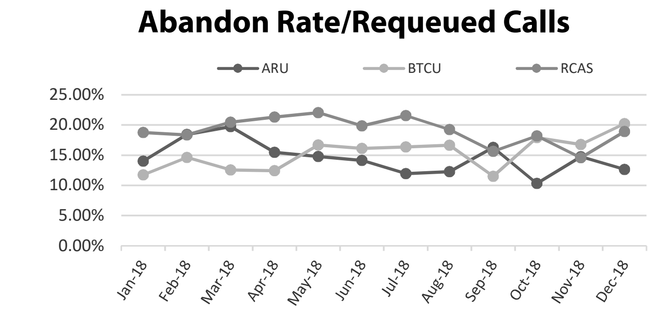


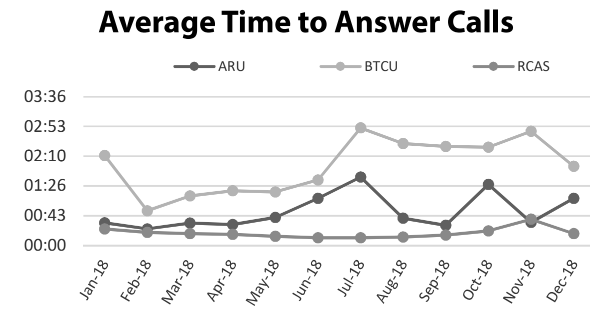
This chart measures the number of suspended returns resolved on a monthly basis. Returns are suspended for many reasons including incorrect or mismatching information. This requires an investigation into the cause of the suspended return and may require substantial two-way communication with taxpayers.

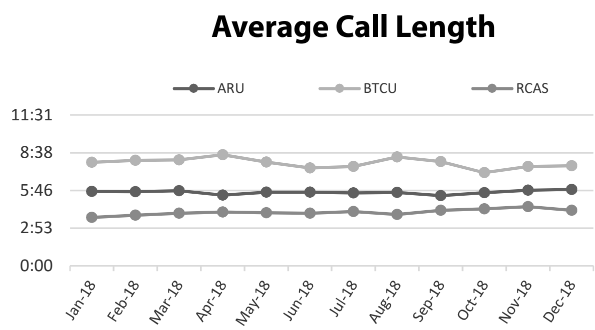


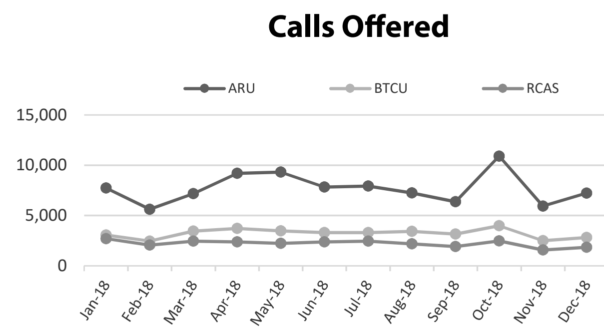
Customer experience

These measures all focus on ensuring that our customers are not having abnormally long wait times or unpleasant experiences. If one unit appears overwhelmed over a given period of time, the section uses these measures to anticipate where to direct resources from other units to address the issue.









OREGON DEPARTMENT OF REVENUE

Corporation and Estate Tax section

At a glance

Corporate income and excise

63, 620 taxpayers. **$1.20 billion per biennium,** primarily to the General Fund.

Budget and FTE: $10,831,836 (GF) for 2017–19 and 47 FTE (shared between corp and transit programs).

Transit self-employment

Administered on behalf of Tri-Met and Lane transit districts.

91,687 taxpayers and $29.89 million in revenues back to Tri-Met.

15, 271 taxpayers and $3.76 million in revenues back to Lane.

Estate and fiduciary

Estate: Estates of $1 million or more (3,547 in 2015–17).

$341.64 million to GF last biennium.

Fiduciary: 71,976 estates or trusts that earn income in Oregon or from Oregon sources.

$133.35 million to GF last biennium.

Budget and FTE: $484,026 (GF) and 3 FTE for both programs.

Section's core administrative work:

- Policy analysis.
- Forms development.
- Audit.
- Appeals.
- Filing enforcement.
- Return processing/refund review.
- Systems.
- Customer assistance.

Corporation and Estate Section

The Corporation and Estate Section administers the corporate income and excise taxes, estate transfer tax (previously the Estate Inheritance tax), fiduciary income tax, and Tri-Met and Lane County self-employment transit taxes. Administration of these taxes provided $1.8 billion in general funds and $35 million in funding to the local transit districts. These outcomes are supported by voluntary compliance activities including return processing, taxpayer education and assistance, policy development, forms, and payment processing. The section also conducts enforcement efforts that include discovery of non-filers and audit.

In tax year 2015, corporate income and excise taxpayers consisted of approximately 30,000 C corporations reporting $465 million in tax and 64,000 S corporations reporting $60 million in tax, who file returns on an annual basis. Oregon corporate returns closely follow federal tax law. Estate transfer tax returns are filed only once following death if the value of the estate is over $1 million. In tax year 2016 there were 1,640 returns filed reporting $153 million in tax. Fiduciary income tax returns are also filed annually, with approximately 35,000 returns per year. Receipts for fiduciary taxes are combined with personal income tax collections, and thus not restated here. Tri-met and Lane transit self-employment taxes are filed annually and account for over 54,000 returns filed and over $17 million in taxes paid during fiscal year 2017.

Most of the taxes the section administer are reported and paid voluntarily by taxpayers. A critical role of our resources is to support voluntary compliance for this stream of revenue by developing forms, providing assistance to taxpayers and representatives, interpreting laws and rules, and correctly processing tax returns. A large part of this work involves getting forms and systems ready for filing season where the section partner with others in the department for about 10 months each year. This includes making necessary changes to forms, the processing systems, programming that is used to identify returns that require manual processing, and testing both data capture and processing system changes. It also includes working with vendors who supply tax preparation software and e-file platforms to taxpayers to ensure they understand the changes and apply them correctly.

Administrative support staff manually process returns that can't be processed by the system because there is incomplete or mismatched information. Many times the issue can be resolved quickly and without notifying the taxpayer. However, in some instances it is necessary to contact the taxpayer for additional information in order to complete processing of the return. One of the main reasons a corporate return will stop for manual processing is a mismatch in payments between the account and the return. This unit also provides account maintenance support as well as processing support for the other programs administered in the section.

Customer service is a key to supporting voluntary compliance, during the 2017 session the legislature passed House Bill 2156 which required the department to provide a separate means for corporations to contact the department by phone and email. In response to this, a new phone line was added that is staffed with existing employees in our administrative support unit who are familiar with basic corporate tax information and account maintenance. In 2018 this phone line averaged just under 70 calls per week. This is a new process for our agency, so as the department, taxpayers, and tax professionals become more accustomed to the new phone line, the agency anticipates the usage will increase.

Our policy unit plays a vital role in administering tax programs by being a resource for the rest of the section, providing assistance to taxpayers, monitoring federal and state legislation for impacts on our programs, updating and promulgating administrative rules, and holding conference-level appeals that stem from our enforcement work. The amount of work in this unit has increased over the years due to annual legislative sessions, increased review of administrative rules, complex federal tax reform, and external requests related to interpreting Oregon tax statutes.

In order to ensure staff are knowledgeable about best practices and uniformity initiatives and using the best data possible, the section uses partnerships with other states and the IRS as well as the Federation of Tax Administrators and Multi-State Tax Commission. These relationships provide staff with leads for enforcement work, opportunities to learn from what other states are doing, and to participate in the development of uniform model statutes and rules. Overall these venues provide the opportunity to share and learn from other taxing agencies.

These units generally support voluntary compliance, which is imperative to the health of these tax programs by providing taxpayers with clear forms and instructions and assisting them with understanding the sometimes-complex tax laws. Some of the work they do also touches on enforcement activities, but the section also has staff dedicated to that work.

Enforcement work to ensure compliance is another important aspect to administering the section's programs. This starts when the return is filed. The processing system is used to identify potential errors and correct them before the return is processed. Refund requests are also analyzed by risk score so that large or unusual refunds are reviewed for accuracy. Following this, the agency uses federal tax information and its internal discovery system to identify returns for audit and corporations that have not filed but are required to. As the section continues to use the discovery system and generate results, it will refine and update the methods of selecting cases as appropriate.

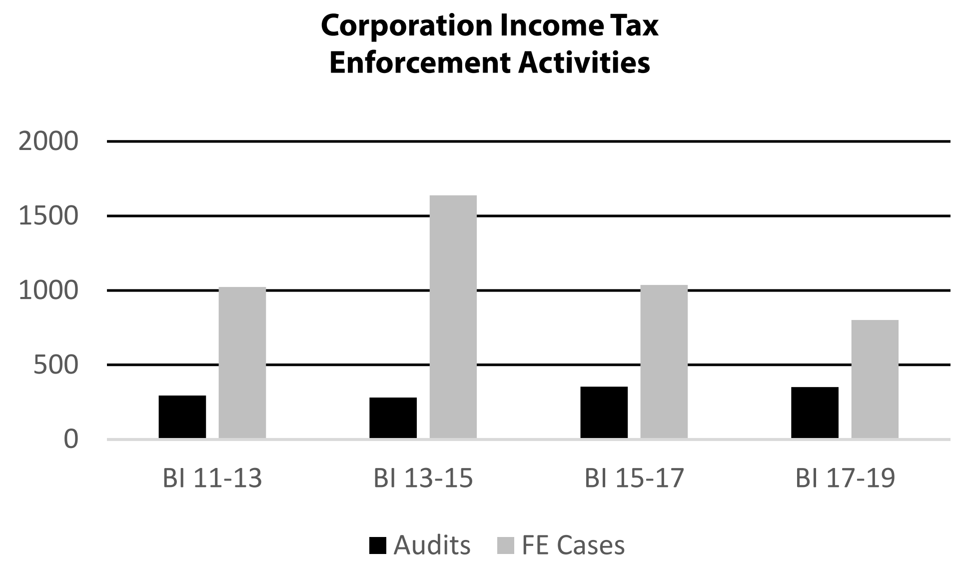
Filing enforcement leads are separated by domestic or instate corporations and out of state corporations. With domestic corporations, the obligation to file is automatic and these leads are somewhat easier to process. Out of state corporations are more complicated and thus require an auditor to determine if the activities of the company meet the constitutional requirement for Oregon to impose a tax on them. This is one of the areas in which the section sees an opportunity for growth as the discovery system is populated with more data.

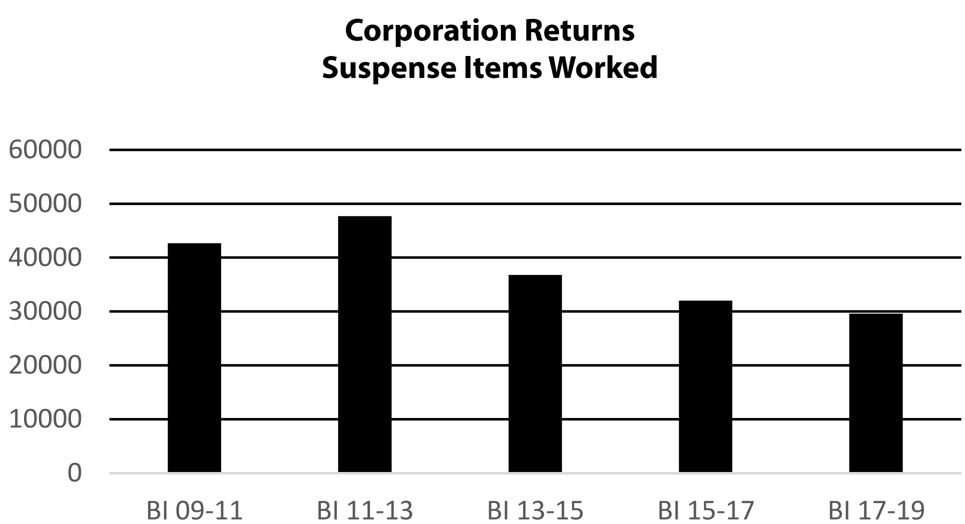
Oregon corporate tax audits generally focus on state level issues such as apportionment of income to Oregon and the unitary filing group. These issues and others are specific to Oregon and sometimes warrant further investigation to ensure correct application of Oregon statutes. Audits may take anywhere from one month to one year to complete depending on the complexity of the issues and the amount of documentation required. Many of our audits are conducted out of state at the corporation's headquarters to facilitate efficient review of books and records. Once an audit is complete, taxpayers have the choice to pay the deficient taxes or appeal the result through one of several methods.

The first path for appeal is an administrative appeal with the department and gives us the chance to take a second look at the application of the statutes to the individual facts and circumstances. Auditors and conference officers in our policy unit fill this role for our programs. They communicate with taxpayers to gather additional information and hold an informal hearing, if one is requested, before issuing a final decision. Following the first level of appeal, or if there is no administrative appeal, the taxes become assessed and may then be appealed to the Magistrate Division of Oregon Tax Court. At this stage, the department is very involved in the appeal; however, representation by an Assistant Attorney General from Department of Justice is generally sought. Appeals at this level can take a year or more to resolve depending on the number and complexity of issues involved.

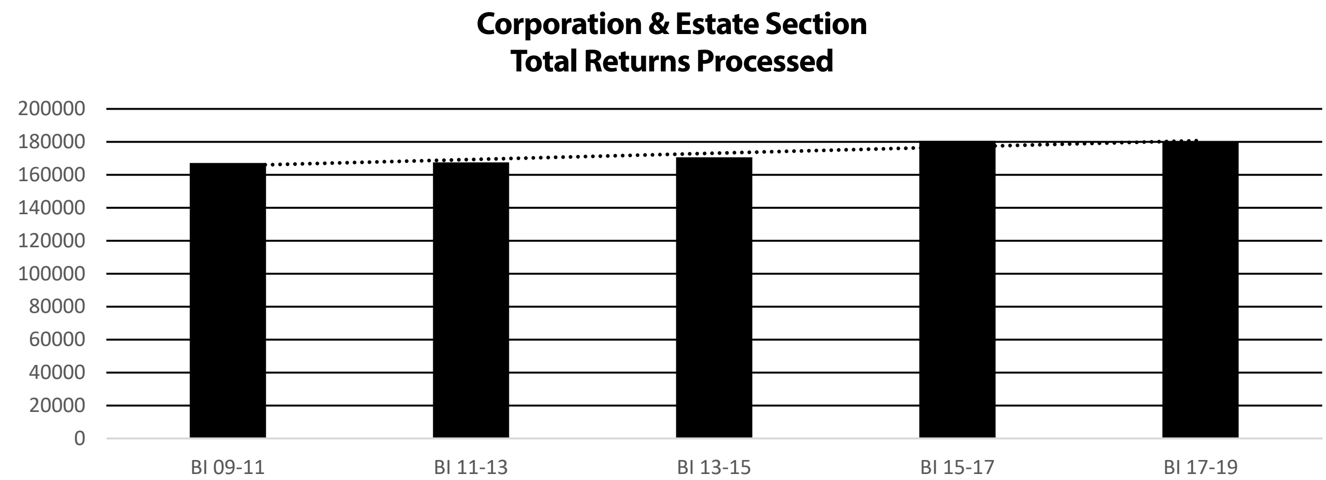
The predominant costs for the section are personal services that are needed to complete the work necessary to effectively and efficiently administer the six tax programs for which the section is responsible. Other costs include training, travel to educational conferences, and travel for out of state audits. One area the section is currently evaluating for improved efficiency is determining which audits require a field visit to the taxpayer. Our goal is to find ways to reduce audit travel without impacting the revenue generated from tax assessments made by auditors.

Section performance

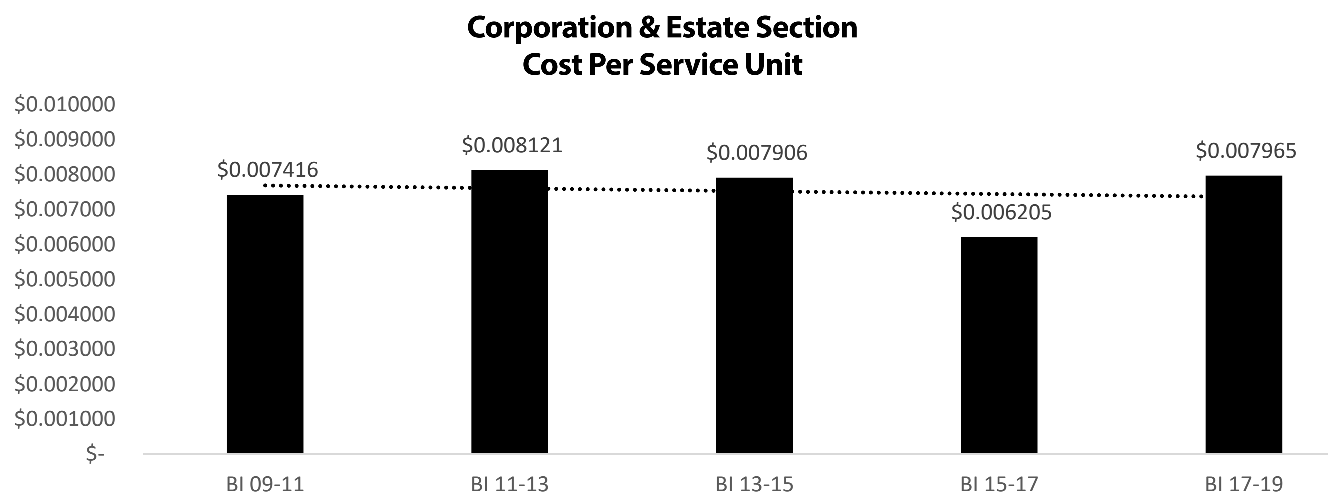




As previously described, the work of the section is abundant and varied. Enforcement activities are tracked by the number of audits performed and the number of filing enforcement cases worked. These activities are impacted directly by resource levels, including when staff are asked to work on special projects, such as implementation of a new system. The number of audit cases remains fairly consistent over the years, and the section anticipates that will continue. Filing enforcement cases are more volatile, as resources may be shifted away from that activity from time-to-time. The spike of cases in the 2013–15 biennium relates to activity immediately following implementation of GenTax, where resources were shifted to support system implementation, but then the section needed to catch up with its normal work. Since that time, the section has experienced periods when it needed to focus on other priorities, such as taxpayer assistance and correctly processing returns. Section management are also evaluating better methods to accomplish this work, perhaps through greater information gathering, which may allow for a more automated system.



For our smaller programs, performance is best described by the number of returns processed. Prior to GenTax implementation, these returns were processed manually mostly by resources in our section. Currently they are all processed through GenTax, and our resources only work those that can't process automatically. The number of returns is trending upward for the most part and one of our goals is to minimize the number of returns that require manual intervention. In the future, when the agency has more experience with the new processing system, it will provide data related to those rates as well.



The cost of program incorporates the revenues for five of the six programs administered in the section and overall expenses. Fiduciary revenues are tracked together with personal income tax revenues so those are not included here. The cost per service unit is trending down, which can be correlated to both increased revenues and reduced expenses. As previously described, most of these taxes are paid voluntarily; however, without our administration and enforcement, these revenue streams would be in jeopardy. Corporate tax revenues are the largest stream of revenue and most of our resources are dedicated to this program. The dip in cost for the 2015–17 biennium relates to a larger than normal increase in corporate tax payments, which are impacted not only by agency efforts but also the overall economy and law changes

Special Programs

At a glance

14.75 FTE are responsible for administering a wide variety of smaller, primarily Other Fund tax programs.

Cigarette taxes: Revenues to ODOT, cities, counties, Oregon Health Plan Fund, Tobacco Use Reduction Account, General Fund.

Other tobacco products taxes: Revenues to General Fund, ORS Chapter 414 medical assistance program, and Tobacco Use Reduction Account.

State lodging tax: Revenue to Travel Oregon.

Vehicle privilege tax (new program): First $12 million to the Zero-Emission Incentive Fund, remainder to Connect Oregon.

Vehicle use tax (new program): Revenues to the State Highway Fund.

Bicycle excise tax (new program): Revenues to Connect Oregon.

Heavy equipment rental tax (new program): Revenues to local taxing districts.

Emergency communications (E-911) tax: Revenues to the Office of Emergency Management for 911 call centers.

Also administers the petroleum load and hazardous substance fees (State Fire Marshal) and the amusement device tax.

Special Programs

The agency's special programs possess their own unique characteristics, some of which are represented in the program description below. The administration of the programs, however, requires common administrative processes. Tax rate and revenue information specific to each of these tax and fee programs are represented below.

State lodging tax:

- **Tax rate:** 1.8 percent of lodging accommodation charges (administrative expenses capped at 2 percent of revenue).
- **Revenue recipients:** Travel Oregon, for administrative expenses and distribution to location tourism organizations.

Emergency communications (E-911) tax:

- **Tax rate:** 75 cents per month for telecommunications service; 75 cents per sales transaction for pre-paid telecommunications services (administrative expenses capped at 1 percent of revenue).
- **Revenue recipient:** Office of Emergency Management, for E911 call centers.

Petroleum load fee:

- **Tax rate:** $8 per load.
- **Revenue recipient:** Office of the State Fire Marshal.

Amusement device tax:

- **Tax rate:** $135 per Lottery issued video lottery terminal per year (base rate; additional fees dependent upon per-device revenues).
- **Revenue recipients:** General Fund, Oregon Youth Conservation Corp., and county governments.

Hazardous substance fee:

- **Tax rate:** Fee set by Office of the State Fire Marshal.
- **Revenue recipients:** Funds Community Right to Know and DEQ Toxic Use Reduction and Orphan Site activities.

Vehicle privilege tax:

- **Tax rate:** 0.5 percent tax for privilege of selling taxable motor vehicles in Oregon.
- **Revenue recipients:** First $12 million funds the Zero-Emission Incentive Fund administered by the Department of Environmental Quality, with remainder to Connect Oregon, administered by the Oregon Department of Transportation.

Vehicle use tax:

- **Tax rate:** 0.5 percent tax on purchase of taxable motor vehicles outside of Oregon.
- **Revenue recipient:** State Highway Fund, administered by the Oregon Department of Transportation.

Bicycle excise tax:

- **Tax rate:** $15 per bicycle with retail sales price of $200 or more.
- **Revenue recipient:** Funds Connect Oregon, for pedestrian and bicycle transportation improvement activities.

Heavy equipment rental tax:

- **Tax rate:** 2 percent of rental amount collected by qualified heavy equipment provider (administrative expenses capped at 5 percent of revenue).
- **Revenue recipients:** Local taxing districts.

Cigarette taxes:

- **Tax rate:** $1.33 per pack of 20 cigarettes.
- **Revenue recipients:** Department of Transportation, cities, counties, Oregon Health Plan Fund, Tobacco Use Reduction Account, General Fund.

The cigarette program differs from most other tax programs in that revenue is pre-collected through the sale of more than 316,727,000 tax stamps to distributors, as opposed to payment being delivered along with self-reporting of the tax liability through the submission of returns. However, there are returns required to reconcile prior stamp purchases. Return information is also useful in identifying potential noncompliance.

Other tobacco products taxes:

- **Tax rate:** Tobacco products are taxed depending on the type:
  - Cigars—65 percent of the wholesale sales price. The maximum tax is $0.50 per cigar.
  - Moist Snuff—$1.78 per ounce. The minimum tax is $2.14 per retail container.
  - All other tobacco products—65 percent of the wholesale sales price.
- **Revenue recipients:** General Fund, 41.54% of that shall be dedicated to ORS Chapter 414 medical assistance program and 4.62% credited to the Tobacco Use Reduction Account.

Key external partners:

- Tax collection partners (see above).
- Funding recipients (see above).
- Oregon Department of Justice (DOJ).
- Trade associations (such as Oregon Auto Dealers Association).

Special programs administers each of the tax programs summarized above. This administration consists of three primary categories of activity: new program implementation, return processing and revenue collection, and filing enforcement and associated compliance consistent with budgeted position authority.

As an administration area responsible for a wide range of tax programs, special programs is responsible for most of the department's new dedicated-fund tax programs. Therefore, the special programs team has recently expended significant resources in implementing new programs. This new program implementation work includes the development of fiscal requests and other planning documents associated with the appropriate resourcing of a new program. Additionally, the team is directly responsible for the establishment of the new program. This work includes the development of new tax forms and processes, the development and testing of updated technology systems, the drafting of new program rules and policies, the hiring and training of new staff, collaboration with key stakeholders throughout the implementation process and identification, communication, and education of taxpayers.

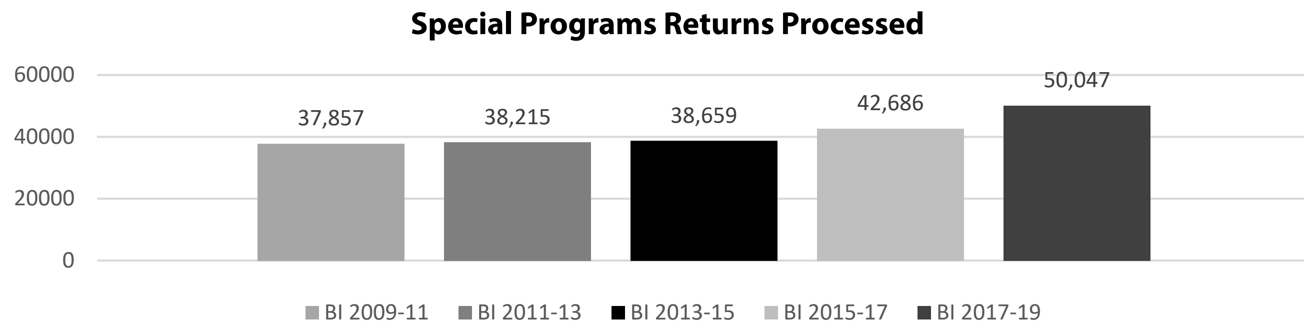
Once a new program is established, the special programs team is responsible for the collection of revenues through processing tax returns, or other tax collection processes specific to an individual program. The table below highlights the increase to return processing activities over recent biennia. These return statistics are generally representative of revenue collection and customer activities performed with the special programs team.

Although the special programs team expends significant effort to facilitate voluntary compliance, the enforcement of tax payment requirements is also an important component of special program tax administration work. Here, special programs staff conducts activities that support voluntary compliance, including the processing of returns, verification of correct amount paid, payment processing, education, assistance, and additional customer assistance.

Program performance

The effective performance of special programs is reflected in the collection of more than $145 million in revenues per biennium. This outcome is supported by program activities, including the processing of more than 50,000 returns per biennium. Also reflective of the special programs' successful launch and administration of its tax programs, are the revenue to expense ratios reflected below. The more recent reductions to the positive revenue to expense ratio is impacted significantly by the costs associated with new program implementation. The expenses associated with new program implementation are, in many cases, one-time expenses. Therefore, revenue to expense ratios are expected to improve over time.

BI 09–11	BI 11–13	BI 13–15	BI 15–17	BI 17–19
86.1 : 1	79.6 : 1	63.6 : 1	70.0 : 1	57.0 : 1



Although the return processing information above is representative of a broader set of program administration activities, in GenTax return processing is largely automated. Program administration activities, particularly those directly associated with revenue collection and reconciliation via tax returns, has remained largely consistent or decreased slightly over the last biennia. Implementation of new tax programs, however, has required the deployment of significant special programs team resources, given the disproportionate amount of time associated with new tax program establishment and early-stage implementation. Special programs has performed program administrative services needed to secure the cited revenues, while also devoting significant time and resources to the development and implementation of new programs and initiatives.

Among the activities associated with return submission, the special programs team also fields associated customer inquiries about the various taxes. As many new programs require adjustments following initial implementation, the special programs staff regularly use customer feedback to modify forms, update technologies, revise policies, and to otherwise improve its core tax administration activities.

Recreational Marijuana Tax
At a glance

Retailers collect the tax from **consumers** at the point of sale.

Monthly payments, quarterly returns.

580 licensed recreational marijuana retailers (as of Dec. 7, 2018).

$236.5 million in tax revenue projected for 2019–21 (OF).

Revenue distribution:
(After administrative costs and fixed payments)

- State School Fund = 40%
- Mental Health, Alcoholism, and Drug Services Account = 20%
- Oregon State Police = 50%
- OHA = 5%
- Eligible cities/county = 10%

19–21 GRB: $5.0 million (OF)

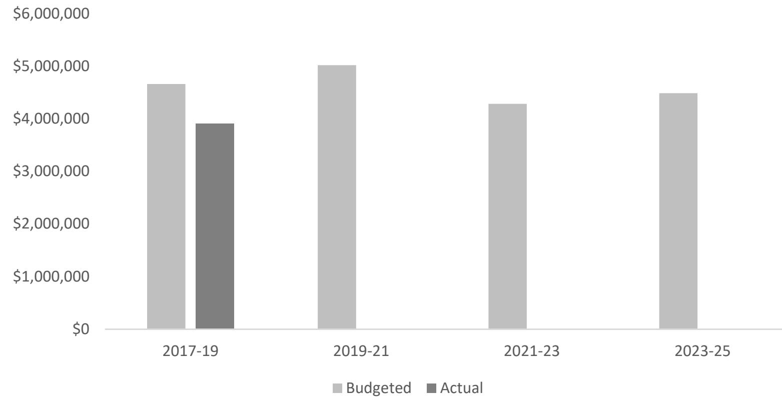
Staff: 14.25 FTE

Administration

- Process registrations and payments.
- Education and outreach.
- Customer service.
- Coordinate distributions.
- Review and validate returns.
- Includes administering local taxes for 82 localities.

2019–21 Governor's Budget (GB)

Marijuana Tax Program



	2017–19	2019–21 (GB)	2021–23 (projected)	2023–25 (projected)
LAB	$4,659,957	$5,020,026	$5,255,223	$5,504,523
Actuals	$3,905,268			

	GF	OF	TF	POS	FTE
2017–2019 LAB	-	$4,659,957	$4,659,957	15	14.25
2019–2021 CSL	-	$4,093,306	$4,093,306	15	14.25
2019–2021 GRB	-	$5,020,026	$5,020,026	19	18.25
CSL–GRB Change	-	$926,720	$926,720	4	4.00

In 2015, House Bill 2041 established a 17-percent tax on the sale price of marijuana leaves, flowers, immature plants, cannabinoid edibles, cannabinoid concentrates, cannabinoid extracts, cannabinoid products used on skin or hair, and other cannabinoid products sold for recreational purposes. The recreational marijuana tax has a quarterly filing and monthly payment requirement. WPTS regularly interacts with customers to provide them with information and educate them on their tax obligations. They also perform payment processing, filing enforcement, collections, and audit functions.

Additionally, WPTS administers local-option marijuana taxes for 82 municipalities and distributes those revenues quarterly.

The marijuana tax program has a relatively small team and relies on strong partnership with internal and external partners to conduct its work. The team also relies on substantial direct contact with taxpayers to improve understanding of tax laws and obligations. As a relatively new tax program, direct contact helps to resolve outstanding issues before they become too burdensome for the taxpayer to overcome.

This program offers taxpayers easy access to staff who can help them with a variety of questions. Staff also proactively pursue direct contact with taxpayers to resolve issues and provide them with opportunities to comply with the strict requirements for electronic return filing and limited options for payment. Due to the nature of the tax program, electronic payments are not allowed. Taxpayers can pay with check, money order, or cash.

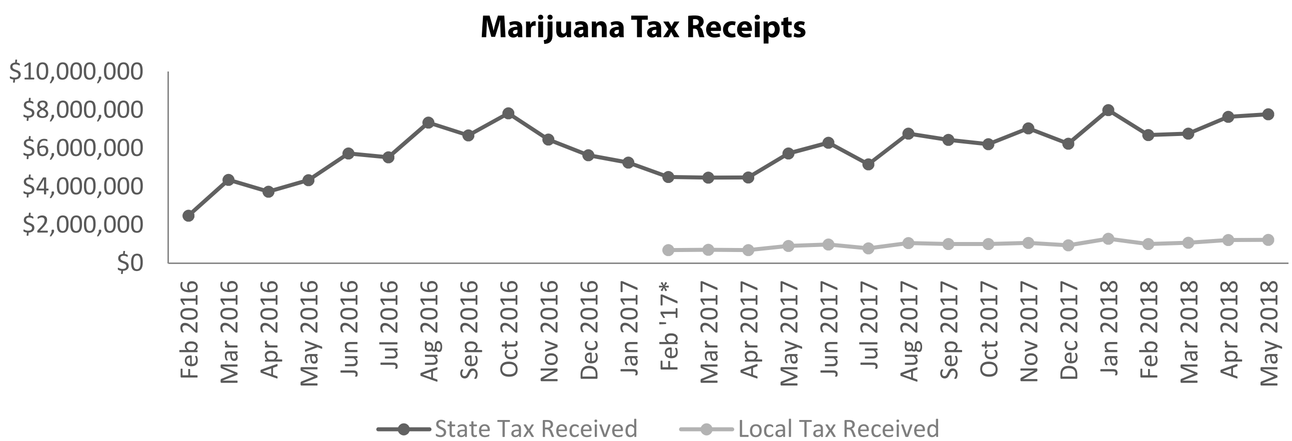
This industry has limited banking options, leading to an increase in cash payments to the department. This is why the department constructed the new payment center at its main building in Salem. Taxpayers are required to make cash payments at the Salem office to ensure safe and accurate cash payment processing. The department also provides resources to perform collection, filing enforcement, audit, and investigation activities, which enhances taxpayer education and enforces compliance.

The program works with many internal and external partners to ensure successful administration of the recreational marijuana tax. Internally, the program partners regularly with, among others: Director's Office, Communications Section, Processing Center, Disclosure Office, and PTAC Collections Section. Externally, the program partners with, among others: Governor's Office, Oregon Department of Justice, Oregon Department of Administrative Services, Oregon State Police, county sheriffs, city and county governments, League of Oregon Cities, Association of Oregon Counties, Oregon Liquor Control Commission, and Oregon Health Authority.

The major cost drivers are related to cash processing and enforcement activities for noncompliant retailers. There are also legal and security costs that vary depending on what legal questions are raised at the state and federal level as the program matures and the legal environment changes.

Program administration costs are recovered from marijuana tax receipts. Under ORS 475B.760, amounts necessary to pay administrative and enforcement expenses are continuously appropriated to the department from the suspense account. The marijuana tax program's administrative costs for the 2017–19 biennium are expected to be more than $4 million.

The recreational marijuana tax generates approximately $65 million in other fund revenues annually. There are 580 marijuana tax accounts registered as of December 2018. Additional licenses granted by OLCC continue to increase the number of marijuana taxpayers. The graph below shows monthly receipts for the marijuana tax since the start of taxation in January 2016.



When looking at the graph above, it's important to remember some key points about this tax program:

- Marijuana taxes are remitted to the department in the month following the month in which the taxes were collected from consumers. For example, taxes collected on January's sales would be due to the department by the end of February and would be included in February's tax receipts. This is why there isn't an entry on the chart for January 2016 receipts.
- Recreational marijuana taxation didn't start until January 4, 2016, even though sales started in October 2015.
- From January through October of 2016, medical marijuana dispensaries were selling recreational marijuana, and the tax rate was 25 percent of the sales price under the temporary "early start" program.
- On June 2, 2016, additional categories of marijuana products became taxable.
- OLCC started issuing licenses to recreational marijuana retailers on October 1, 2016. Their sales were subject to the permanent 17 percent rate, as prescribed in statute.
- From October 2016 through December 31, 2016, there were two recreational marijuana tax rates in effect.
- As of January 1, 2017, only licensed retailers could sell recreational marijuana at the 17 percent rate.

The recreational marijuana tax is one of the revenue streams that funds public services that preserve and enhance the quality of life for all citizens. As of fourth quarter 2018, the recreational marijuana tax program has distributed $183.3 million to the recipients identified in statute. This has meant an additional:

- $72.2 million to the State School Fund.
- $36.1 million for OHA for mental health, alcoholism, and drug services.
- $27.1 million for the Oregon State Police.
- $9 million to OHA for drug treatment and prevention programs.
- $38.8 million to Oregon's cities and counties.

Receipts from the tax have exceeded initial projections by the Office of Economic Analysis, and Other Fund limitations adopted in SB 5529 (2017) and SB 5703 (2018) require DOR to cap distributions to other agency recipients so as to not exceed the agencies' legislatively-adopted budgets.

Budget drivers, risks, and environmental factors

- Processing of cash payments requires additional staffing and security. This is necessary, as most marijuana businesses are unable to acquire bank accounts.

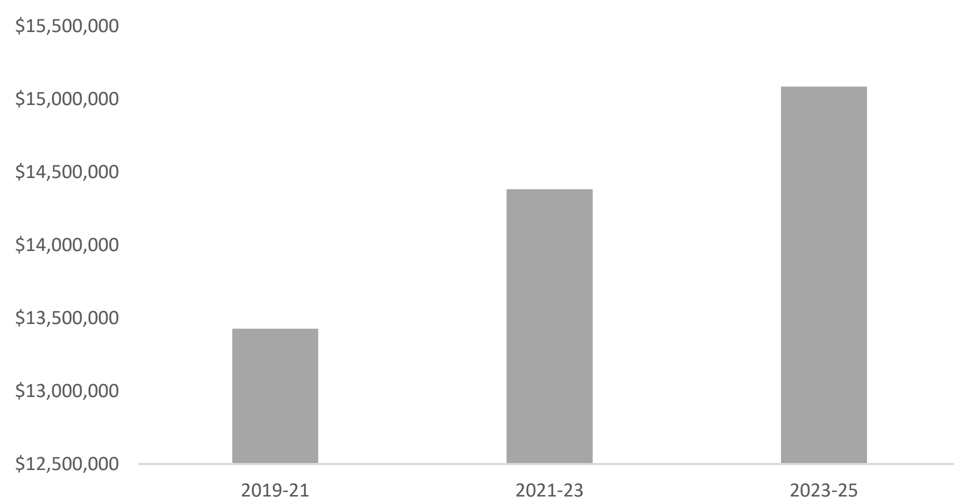
Accomplishments and major changes

- DOR built out the payment processing center, a state-of-the-art facility to process the increased number of large cash transactions that come from Oregon marijuana retailer tax payments. This center has increased the safety of DOR staff as well as taxpayers and ensures more efficient collection and safekeeping of tax receipts. Additionally, the agency built out a team of policy and operations staff to administer the state tax as well as to administer local taxes on behalf of 80 localities.
- As part of the 2016 legislative session, the legislature allowed localities to adopt an up-to-3-percent local marijuana tax and enter into intergovernmental agreements for the Department of Revenue to administer those taxes.

OREGON DEPARTMENT OF REVENUE

Collections Division

Collections Division Budget Projections

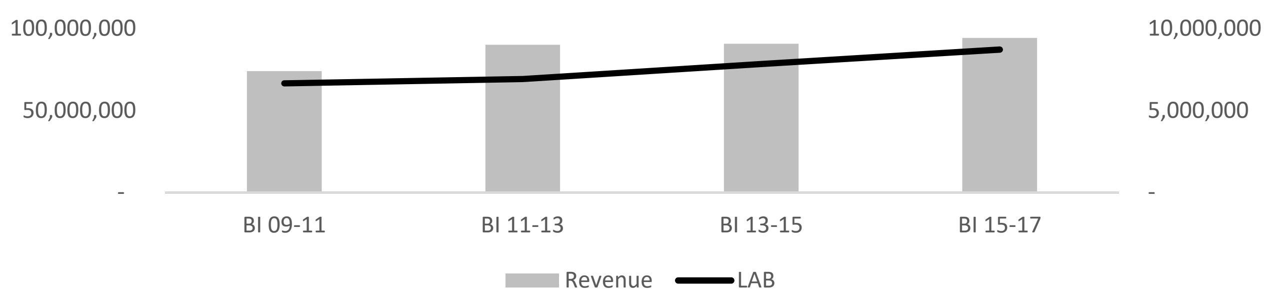


	GF	OF	TF	POS	FTE
2017–2019 LAB	-	-	-	-	0.00
2019–2021 CSL	$190,154	$13,195,426	$13,385,580	73	73.00
2019–2021 GRB	-	$13,426,715	$13,426,715	73	73.00
CSL–GRB Change	$(190,154)	$231,289	$41,135	-	0.00

The Other Agency Accounts (OAA) is the centralized debt collection program for the state of Oregon and is currently the sole program assigned to the agency's newly authorized Collections Division. The program was previously under the Special Programs Section of the Business Division.

OAA was formed in 1971 and serves as the state's centralized collection unit. OAA collects delinquent debt for 180 state agencies, boards, and commissions, including circuit courts and various educational and regulatory agencies. The approximately $100 million in collection revenues per biennium are distributed to customer agencies, less the department's collection fees. OAA has consistently increased its collection revenues over the last several biennia, as reflected below.

OAA Total Funds and Program Performance Over Time



OAA offers two categories of collection services: refund offsets only and full collection services. Offset collection services involve the collection of unpaid debts only through the setoff of refunds being issued by the department that would otherwise be returned to debtors. Full collection services include refund offset, as well as active collections including entering into payment arrangements and garnishment of wages or assets. In providing collection services, OAA's mission is to achieve maximum recovery of debts owed to the State of Oregon while providing quality customer service.

The composition of OAA's account portfolio is most commonly comprised of debt from the Oregon Judicial Department (OJD). Although Senate Bill 1067 (2017) mandates executive branch agencies to send debts to OAA, it is expected to produce a relatively modest increase in near term referrals. The bulk of new account referrals to OAA, and subsequent activities, will likely remain centered on non-executive branch agencies.

OAA collects a wide range of debt types including unpaid court judgments, parking tickets, parole and probation fees, and board-imposed penalties. In addition to the varying nature of the underlying debts collected, OAA also manages various processes and collection expectations among its customers. Although the debt centralization aspects of SB 1067 have resulted in increased process alignment, some variability in customer needs and expectations is inherent to OAA's diverse debt portfolio. Therefore, OAA continually strives to realize the benefits of process streamlining and economies of scale, while meeting individual customer needs whenever possible.

OAA recently implemented the centralized debt collection components of SB 1067, a cost containment bill enacted by the 2017 Legislature. One of the key new centralized collection services provided by OAA is the management of debt assigned to private collection firms (PCFs) for executive branch agencies. This was previously managed individually by customer executive branch agencies.

OAA uses feedback received from customers to continuously update collection strategies and tactics. Also supporting OAA's pursuit of continuous improvement is its partnership with the Department of Administrative Services (DAS) Statewide Accounts Receivable Management (SWARM) team. DAS serves in an advisory capacity, and the SWARM team frequently partners with OAA to tackle emerging collection challenges and improvement opportunities.

Budget drivers, risks, and environmental factors

The primary budget drivers for the division's budget are the initial establishment of the division—removing OAA from the Business Division into its own division, and the ongoing associated personal services, which represent nearly 90 percent of the requested budget for 2019–21.

Accomplishments and major changes

During the 2017–19 biennium, OAA simultaneously pursued various objectives in addition to implementation of SB 1067, with improved collection operations and increased collections being among the key targeted outcomes. There have been several drivers for these improvement measures including the opportunity for enhanced use of the department's new information management system. Additionally, OAA leadership embraced the changes and improvement opportunities associated with the SB 1067 collection centralization legislation. The new legislation contributed to the establishment of a new collection foundation for the state's centralized collection unit.

SB 1067 mandated that every state agency deliver its liquidated and delinquent (L&D) debt, not otherwise exempt from continued collections, to OAA. Although OAA previously collected debts for most state agencies, initial projections provided during the legislative fiscal impact process indicated that OAA would initially receive an additional 16,000 accounts from these agencies, and approximately 8,500 additional accounts from these agencies in subsequent years. In response, the department streamlined and modernized its process for agencies to deliver debts to OAA for collections. OAA also developed and implemented a new "full service" collections approach, where the department would manage all aspects of collections until the debt was paid in full or returned to the referring agency. The new "full service" collections approach includes:

PCF management

Under the provisions of SB 1067, OAA now assigns appropriate accounts directly to PCFs, rather than each state agency handling this independently. OAA entered into agreements with the three PCFs that had been working with DOR's Collection Agency Program unit. Although the State Procurement Office maintains the master price agreement for PCF services, the department is working with DAS SWARM to develop requirements and expectations for future PCF contracts. The department has incorporated language into the PCF agreements regarding expected standards for confidentiality, service, and courtesy to ensure PCFs are "held to the same standard…imposed on the Department of Revenue," as required in SB 1067.

Also related to PCF management, the department configured its system to achieve the necessary account coordination and reporting among DOR collection teams, customer state agencies, and PCFs. OAA also established new performance-based reporting for the PCFs receiving state agency debts via OAA.

Expanded offset efficiency
OAA now retains the ability to capture Oregon tax refunds to offset a debt while the account is with a PCF. Previously, a state agency had to take multiple steps to ensure that a debt was offered both to a PCF and for offset-only service with OAA.

Enhanced reports
Various aspects of the centralization of debt collections required updating and expanding OAA reports. In order to achieve this, the department coordinated with DAS SWARM and state agencies to determine reporting needs among the state agencies and to develop an appropriate reporting framework. Improved monthly reports were designed and distributed to state agencies after the first month of implementation.

While not explicitly required under SB 1067, OAA has made other additions to its offerings as part of the new full-service model:

Debt collection analytics
OAA recognizes the critical role of debt analytics in maximizing recoveries on behalf of its customer agencies. OAA improved the debt scoring business rules used to guide collection activities and prioritize each debt in the collections portfolio. The data points are used to inform the debt score assigned and may be revised on an ongoing basis, depending upon collection outcomes. The system updates these scores as new data is available so that revenue agents are continually provided the debts determined to be the most collectible and that require human intervention for collection action to be initiated.

Bankruptcy filings
Prior to centralization, OAA returned to referring agencies those debts subject to an open Chapter 7 or Chapter 13 bankruptcy proceeding. OAA is launching a pilot project involving these debts during 2019. The pilot will evaluate the effectiveness of OAA handling the coordination of proof-of-claim submissions, monitoring of debts during the pendency of the bankruptcy action, and pursuit of additional collections, if warranted, following the conclusion of the bankruptcy action.

OAA, along with the other DOR collection teams, is targeting various areas for service delivery improvements. The actions taken and projects addressed have been selected due to alignment with agency strategic priorities. Recent measures in OAA designed to increase efficiencies and otherwise improve service delivery includes improvements to interface with client agencies, work queue improvements and the optimization of collection resources.

- Debt ratings and analytics: OAA updated and expanded how it rates its portfolio of debts, to better prioritize the debts for certain collection activities. OAA rates debts using more than a dozen characteristics and analyzes all debts within its collection portfolio, as well as the collection success of its new rating system, by using new analytical tools and reports. The analytical tools enable staff to assess its collection activities and to periodically adjust the factors used to rate its debts. The reports provide collection agents with information about financial institution asset opportunities, in addition to more up to date employer new hire information.
- Collection agent resource optimization: OAA assessed the activities performed by its revenue agents. The objective was to evaluate activities performed by revenue agents in order to maximize collection opportunities. The result was a change to telephone call handling processes, which freed significant resources for additional revenue generating collection activities. The time scheduled for revenue agent direct collection activities increased by as much as 100 percent due to this realignment of resources.

Although it is difficult, if not impossible, to definitively link individual improvement measures to collection increases, the gains from these improvements in the aggregate are apparent. For example, collection amounts have increased approximately 32 percent between FY17 and FY18. The positive trending has been more pronounced beginning in late 2017. Much of this trending is due to the implementation of new efficiency and outcome-oriented initiatives, which aligned with SB 1067 pre-launch improvement and enhancement work.

Efforts to contain costs and improve program delivery

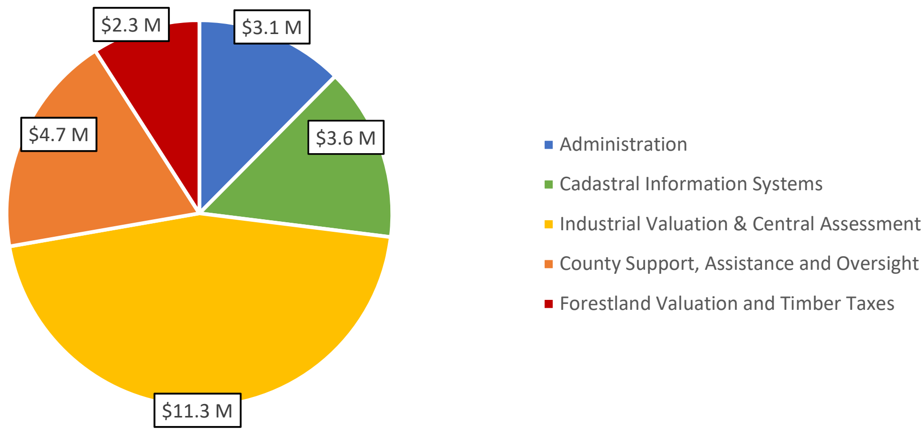
Key accomplishment over the last biennia have involved OAA's updating of operational procedures to align with its new and updated processes implemented as part of the core system replacement project and the expansion of its statewide services as part of the SB 1067 collections centralization implementation. In November 2016, OAA used the department's conversion to a new system software as an opportunity to develop and integrate a debt rating system. The new scoring system improved the treatment and prioritization of accounts assigned to OAA. Implementation of SB 1067 further increased the value of this tool by enabling the incorporation of DOR tax data and other account attributes.

The use of debt scoring combines various data sources to collectively assess a predicted ability to pay, and likelihood of payment. Collection cases are then reprioritized weekly based on their score, with the highest scored cases at the top of the work queue. By using debt scoring, OAA can prioritize collection cases to work the best cases first and spend less time on uncollectable accounts. This improved efficiency has contributed to increased recoveries by OAA.

As mentioned above, OAA implemented SB 1067 (2017) cost containment bill's collection centralization. Among the legislative changes directed to collection centralization, executive branch state agencies were directed to assign all liquidated and delinquent debt to OAA for collections. The option for state agencies to assign these accounts to OAA or to a PCF for collections was removed. This change supports an increase in account volume to OAA. SB 1067 also directed OAA to assign executive branch state agency accounts to PCFs if collections was unsuccessful, instead of returning the account to the originating state agency. Additionally, OAA expanded and improved its delivery of core collection services, to better deliver its centralized collection services, consistent with the legislative changes.

Property Tax Division

2019–21 Governor's Budget (GB)
Property Tax Total Funds by Program $24,924,221



Division	Actual / LAB	2013–15	2015–17	2017–19	2019–21 GB	2021–23	2023–25
PTD	LAB	$21,260,278	$57,118,377	$57,637,511	$24,924,221	$26,114,019	$27,379,339
	Actuals	$19,481,436	$55,805,110	$57,247,261			

	GF	OF	TF	POS	FTE
2017–2019 LAB	$14,856,849	$42,780,662	$57,637,511	81	77.87
2019–2021 CSL	$16,486,789	$44,587,367	$61,074,156	81	77.93
2019–2021 GRB	$16,682,740	$8,241,481	$24,924,221	87	72.00
CSL–GRB Change	$195,951	$(36,345,886)	$(36,149,935)	6	2.79

At a high level, the Property Tax Division (PTD) provides oversight of the property tax system for Oregon's 36 counties and provides property valuations for state-appraised industrial properties and for centrally assessed companies.

To make for a more equitable and uniform system, the division sets appraisal standards through uniform methods of assessment, monitoring of programs, providing training to county and agency staff, evaluating county performance, and offering direct assistance to counties.

The Valuation program determines the real market value (RMV) for two main property types: state-appraised industrial properties (processing or manufacturing activities), and companies operating in this and other states, including airlines, utilities, railroads, and telecommunications—these are referred to as centrally assessed companies. Between the two property types, there is a combined property value of nearly $60 billion, equating to over $535 million in potential property taxes imposed by Oregon's 36 counties.

The division's Timber Unit is involved with three functions directly related to property taxes on forestland:

- Establishing the specially assessed value for approximately 7.9 million acres of forestland.
- Determining the productivity classes of western Oregon forestlands used for property tax values.
- Providing assistance to the counties identifying owners with 5,000 or more acres of forestland and providing general forestland program guidance.

The division administers the Small Tract Forestland (STF) Severance Tax and Forest Products Harvest Tax (FPHT) programs. The STF program generates nearly $800,000 per biennium statewide for the State School Fund, community colleges, and counties. The FPHT raises approximately $33.7 million per biennium for various state programs and the Oregon Forest Resources Institute.

The senior and disabled citizen property tax deferral programs pay the property taxes for qualified senior and disabled citizens in exchange for a lien against the property for the estimated amount of the deferred taxes plus interest. The lien is released upon repayment of the debt when the property is sold. The state paid more than $13 million in property taxes to counties for approximately 5,000 program participants in the 2017–18 tax year. The program is funded by the repayment of the tax paid by the state when the property is sold, or ownership becomes ineligible to remain on the program. The balance in the revolving account is growing and was approximately $35 million at the beginning of the 2017–19 biennium.

The division sets mapping standards for county assessment maps, maintains and updates maps for nine counties, and reviews and approves taxing district boundary changes. The division also administers the Oregon Map (ORMAP) program which supports developing a seamless statewide digital tax lot base map.

The Oregon constitution (Article 1, Section 32 and Article 9, Section 1) requires uniformity in property assessment and taxation in the state. It also requires property taxes to be levied and collected under general laws that operate uniformly throughout the state. The legislature is the body with the authority to adopt uniform rules of assessment and taxation. The Department of Revenue is responsible for providing general supervision and control over the property tax system throughout the state (ORS 306.115). In carrying out these responsibilities the division is focused on improving the services provided to counties and property owners along with achieving an outcome of equity and uniformity in property taxation throughout the state.

Division staff works closely with county staff to identify best practices and develop the most efficient procedures in uniform methods of assessment and tax administration. Training and implementation of best practices is provided to counties in accordance with nationally recognized assessment standards for mass appraisal programs and foundational competencies. Staff collaborates with stakeholders to improve assessment methods by providing instruction on best practices and making progress toward delivering solutions using current technologies.

For valuation of state-appraised industrial properties and centrally assessed companies, the best way to ensure equitable values is through appraisals. The department is a member of the Western States Association of Tax Administrators (WSATA) Committee on Centrally Assessed Properties (CCAP) and the Committee on Valuation of Industrial Property (CVIP). Both committees include representatives from several western states and work towards defining best practices in the appraisal field. Staff regularly collaborates with other states to ensure our appraisal methodology and application meets those of other states.

In recent years, the division has made improvements through technology in many areas:

The division has completed the modernization of its training program. All materials are sent/received electronically and offer online self-service options for customers. The Appraiser Continuing Education Database was also created which allows registered appraisers to comply with reporting and verifying required continuing education training. Last year, 922 appraisers were served for a total of 8,648 hours of training.

The CAFFA grant program including deposits, distributions, and grant applications has moved to Revenue Online and GenTax. This is an all-electronic process reducing requests for assistance by over 90 percent and creating self-sufficiency for the counties.

A measure of uniformity within the assessment programs for ensuring public trust in the assessment of properties is the coefficient of dispersion from annual ratio studies. The computation is important in measuring uniformity of real market value and the mass appraisal program for the 36 counties. The lower the percentage of deviation, the greater the uniformity. The results of these ratio studies comprise a Key Performance Measure.

After the 2016 season, the Valuation Section changed the way it conducted business in order to appraise more sites and achieve its goal of an 8-year appraisal cycle for state-appraised industrial property. In 2017, that goal was met. However, an increase in sites to appraise with less available resource has resulted in a reduction of quality. The reduction in quality was twofold. Most sites were partially appraised (referred to as a partial site appraisal). Each site has multiple accounts and the appraiser had discretion to decide how many accounts they could appraise of a site given their workload and time to conduct the appraisal. Also, some of the appraisal work for each site was reduced to a site visit, rather than a site appraisal (or partial site appraisal). Site appraisals are preferred because the appraiser is appraising the entire site in arriving at a value. Full site appraisals are more limited and specific to a particular portion of the overall site. Going forward, the number of site visits will increase and the number of sites appraised will decrease if the division is unable to fill all of our current appraiser positions.

Budget drivers, risks, and environmental factors

- A higher number of court cases involving our central assessment program are increasing our costs for legal services through DOJ and the decisions made will have significant program impacts. Comcast was settled in the summer of 2018 and involved several issues. The recent Supreme Court decision in DISH upheld the department's interpretation of statutes governing central assessment and will impact other pending cases and may result in more companies being centrally assessed. This will lead to a need for more appraiser resource and likely AG time/resource. The federal district court decision in BNSF (Burlington Northern) would have an adverse impact on taxation of railroads and perhaps other companies and may lead to further appeals by the department or taxpayers.
- Carrying ten or more vacancies in PTD through the biennium is impacting the services it can provide, quality of work, and employee morale.
- Property tax deferral program funding has stabilized as a result of program changes made by the Legislature in 2011 and 2013.
- CAFFA funding continues to be an issue for our budget and county budgets. As a share of expenses, CAFFA is covering a lower percentage of assessment and taxation expenses at the state and county level each year. At the state level it has led to a desire for another revenue source to help cover expenses of the Valuation Section without needing to rely on a continually growing need for general fund dollars. HB 2104 will be considered by the 2019 legislature as an additional revenue source to help cover assessment and taxation (A&T) expenses.
- DOR's legal budget was allocated between the tax program divisions (Property, Personal Tax and Compliance, and Business) for the first time with the 2017–19 biennium. PTD is experiencing a higher level of legal-services spending than in prior biennia; however, the division's allocation was less than what was spent in prior biennia. The division had several Tax Court and Supreme Court cases to defend that required DOJ services and currently has cases in court awaiting trial, a decision, or to be placed in abeyance awaiting the results of another court case.
- The Valuation Section continues to rely on several disparate systems to get its work done. These systems were developed internally within DOR many years ago and haven't been upgraded to more modern technologies. The section continues to have a need to modernize its systems but determined that the course it was on to acquire a Computer Assisted Mass Appraisal System similar to what is used in Oregon counties may not be the best solution. Reliance on manual processes increases the risk of error and extends response times for customers. Automation of some processes would likely help decrease response times and increase accuracy. When there is project management expertise available within DOR, the section would like to explore other software options to get its work done, which may lead to a future request of the Legislature.
- There are dozens of special assessment programs, more than one hundred different types of exemptions, and more than 1,600 taxing districts that receive property tax revenues, all of which have different operational and administrative requirements. County partners rely on DOR to help answer questions regarding Oregon's complex property tax laws.
- Past property tax limitation measures (Measures 5 and 50), and complex programs, significantly increase the work connected with calculating real market values (RMV). Examples include enterprise zone, food processor, gigabit, franchise, strategic investment program, and satellite exemptions.

Accomplishments and major changes

- SB 611 from 2015 session created a gigabit exemption linked to high speed internet service, a franchise exemption, and a satellite exemption. The gigabit exemption led to a bifurcated administration process between DOR and the Public Utility Commission (PUC) with PUC determining whether a company's plans to provide high speed internet service would meet standards and DOR determining entitlement to the gigabit exemption. Google Fiber pulled out of plans to provide high speed internet service to Oregon, which was a primary goal of the legislature in creating the gigabit exemption. That policy objective has not materialized in the way intended.
- DOR entered into a settlement preventing further litigation with Comcast that resulted in approximately $155 million in revenues to local governments which the Governor urged benefiting local governments to apply toward their share of PERS unfunded liability.
- DOR has been an active participant with several other states in the Western States Association of Tax Administrators (WSATA) for several years and recently helped to start a new committee within WSATA that is focused on valuation of industrial properties. DOR had also been involved in a WSATA committee on the valuation of centrally-assessed companies for several years.

- The appeals team was formed in the Valuation Section to increase expertise in handling court cases and has led to a more efficient process of handling appealed cases.
- A regular reappraisal cycle is the best way to validate assets are being valued correctly and reflected on the tax roll. The Valuation Section set a goal of appraising each site every eight years and that goal was first achieved in the 2016–17 tax year and achieved again in the 2017–18 tax year. Resource limitations don't allow for examination of the entire site, so staff are covering approximately 49 percent of each site visited.
- A process was established for the heavy equipment rental tax (HERT) valuation work that will be done in conjunction with counties to identify those assets subject to property tax and those assets subject to the HERT.
- Property tax deferral program changes made by the Legislature in 2011 and 2013 have led to stabilization of the program. These include not allowing reverse mortgages for new applicants; adding net worth, minimum residency requirements, and RMV limitations; and establishing requirements for home insurance and recertification of eligibility every two years. This program has also been put into GenTax, resulting administration efficiencies and less need for seasonal resources.
- Administration of the timber tax, County Assessment Function Funding Account (CAFFA), small railcar, and oil and gas programs have also been moved into GenTax, making those processes more streamlined and efficient, with less manual work required.
- The agency's administrative rules were updated to incorporate a new valuation process for forestlands.

Efforts to contain costs and improve program delivery

To contain costs, the division has:

- Added additional approval steps by upper management to request legal services from DOJ to help control the level of expenditures.
- Included the property tax deferral program in GenTax, resulting in more efficiency and less need for seasonal staff to process program applications.
- Developed the appraiser continuing education database (ACED), which has allowed for a more efficient process for appraisers to enter training information, register for classes, and track progress toward meeting continuing education goals.
- Started work on new rules to clarify the definition of highest and best use for properties and what property interests or characteristics are to be included when valuing property. In addition to providing more direction for counties, these rule changes will also reduce the number of appeals the department has to handle.
- Entered into cost-sharing agreements with county partners to deliver specialized training.

To improve program delivery, the division has:

- Started gathering more information to better measure its customer service, including tracking the number of calls and response rates.
- Expanded its electronic and online self-service offerings.
  - o The new ACED database allows appraisers to enter their own training information, register for classes, and track their continuing education. Previously, staff would need to track this on their behalf and provide that information upon request.
  - o ACED provided online services for 961 users last year.
  - o Through Revenue Online, a number of PTD program taxpayers can perform tasks like filing their returns, reports, or applications and making payments.
    - — This includes the CAFFA grant application process.
    - — Tax programs can also make funds transfers and revenue distributions through GenTax.
  - o The state's online training platform, iLearn, allows appraisers greater flexibility in completing their continuing education requirements, and at a reduced cost.
  - o The department is now emailing attachments for the industrial property return filing process rather than mailing CDs.

Valuation section

At a glance

Industrial valuation:
1,600 taxpayers, including company, business, and leased-equipment owners.

$240 million to county taxing districts.

27 FTE

Central assessment:
522 taxpayers who are the owners, lessors, and/or operators of centrally-assessed companies including airlines, public utilities, railroads, and telecommunications companies.

$295 million to county taxing districts.

9.0 FTE

Revenues:
$535 million to counties from industrial and central assessment work.

Key budget driver:
Ongoing CAFFA shortfall.

Administration:

- Determining values.
- Reviewing returns.
- Sending values to counties.
- Appraising properties.
- Handling appeals.

Valuation Section

The Industrial Valuation and Central Assessment Section is responsible for determining real market value (RMV) for two main property types:

(1) State-appraised industrial properties engaged in processing or manufacturing activities.

(2) Companies operating in this and other states, including airlines, utilities, railroads, and telecommunications. These are referred to as centrally-assessed companies.

For state-appraised industrial properties, there are currently 850 sites with 4,645 accounts. There are over 522 centrally assessed companies in the state. Between the two property types, there is a combined property value of over $60 billion, which equates to over $535 million in property tax assessments for Oregon's 36 counties. The property tax collected is then distributed to taxing districts to fund taxpayer services such as schools, law enforcement, fire safety, and other public programs. For example, about 41 percent of property tax in 2017–18 was for K–12 school districts and Education Service Districts. In the 2017–19 biennium, the Industrial Valuation and Central Assessment section appraisal and assessment work will be responsible for valuing property that will result in almost $450 million of property taxes imposed that will go towards K–12 schools. Success of this system is dependent on our ability to have the proper resources to determine RMV, and therefore, the property taxes that will be imposed. Other stakeholders include taxpayers, taxpayer representatives, and the Oregon Tax Court; most of whom the section serves on a daily basis in some capacity.

The section's appraisers determine RMV by applying commonly accepted appraisal methods and principles to properties and companies; however, the appraisal processes are materially different for state-appraised industrial property and centrally assessed companies.

State-appraised industrial properties have two main seasons each year: industrial property return (IPR) processing season and appraisal season. IPR processing season generally starts in March and ends June 30. This process is heavily driven by information provided by taxpayers on their IPRs. An assigned appraiser uses the taxpayer-provided information and applies appraisal methodology to determine a value. Trending and depreciating are applied, between appraisals completed in the 8-year appraisal cycle described below, to update RMV for the current year. The longer the appraisal cycle is, the less reliable roll values determined by the IPR process become. Because of the volume of information and time constraints, very little can be done to verify the accuracy of the taxpayer-provided information during the IPR season. Verification is done during the appraisal season, which generally starts July 1 and lasts until the end of February. Verification consists of a physical site inspection—or site visit—and an appraisal of the site, which typically incudes buildings, structures, machinery, and equipment.

Historically, the section has struggled to visit all of our sites on a regular basis. In 2012, the section reorganized its industrial valuation appraisers with the goal of appraising all sites within a six-year cycle (discussed above, the longer an appraisal cycle, the less reliable roll values become). Achieving a six-year appraisal cycle is dependent on the number of appraisers the section has and the number of sites to appraise. The section wasn't able to achieve the six-year goal with the number of appraisers and number of sites. In 2016, the section reset its goal to appraise all sites within an eight-year cycle to reflect current staffing levels and the number of sites to appraise. The section met its appraisal cycle goal in 2017, but it was achieved by reducing the scope of work and conducting partial site appraisals. On average, the section appraised approximately 49 percent of each site in 2017. This total is more than the section has appraised in recent years; however, the section is still leaving some portions of sites untouched, which may compromise the accuracy and reliability of the real market values.

One last function for state-appraised industrial property is property tax appeals. It is impossible to forecast how many appeals the section will get in any given year or how complex the appeals will be. But working through the appeal process requires appraisal analysis on the appealed property and ultimately helps us to determine RMV.

The central assessment (CA) program has two main seasons: appraisal season and infrastructure support season. The appraisal season, from January through mid-August, starts with all the CA companies (522 in 2018) receiving a full appraisal every year. The appraisal season includes the director's review process, which is the initial level of appeal. If a CA company wants to appeal the outcome of the Director's Review decision, they may file an appeal with the Oregon Tax Court. With the current budget request, the CA team has enough staff to appraise all the CA companies, with an average of 50–100 hours of required overtime per year, and with personnel working outside their job classification. For example, the manager as currently conducting review work typically done by appraisal team leads. However, CA companies recently added to the CA roll, plus others anticipated to break ground in the next year or two, may require additional CA FTE in order to treat these companies fairly and equitably in the appraisal process.

The CA infrastructure support season starts mid-August and goes until December 31. The work accomplished during this time of the year supports the appraisal season and supports our purpose of determining RMV. Examples of necessary CA infrastructure activities include the following: updating county tax code areas, reviewing and refining appraisal methodology and templates, updating reporting requirements, Tax Court appeal work (year-round task), discovery of new CA companies, and staff training with statutorily required continuing appraisal education.

Program Cost Drivers

Program Diversity and Complexity

- There are dozens of special assessment programs, more than one hundred different types of exemptions, and more than 1,600 taxing districts that receive property tax revenues, all of which have different operational and administrative requirements.
- Past property tax limitation measures (Measures 5 and 50), and complex programs, significantly increase the work connected with calculating RMV.

Cost to Maintain Obsolete Business Processes and Impact of Inadequate Technology

- The Core System Replacement (CSR) project automated a very small part of the section's appraisal work. While these improvements help, the section is still reliant on a patchwork of labor-intensive business processes that don't take advantage of available technology to lower costs using best practice processes.
- Reliance on manual processes increases the risk of error and extends response times for customers. Automation of some processes would likely help decrease response times, and the cost of purchasing and maintaining automated solutions would replace much of the cost of manual processes.
- Most of the applications the Valuation Section uses for industrial valuation and central assessment were designed years ago by DOR IT and appraisal staff, in software that has limited adaptability. Maintenance is cumbersome and imposes both direct and indirect costs. The 2015 Legislature approved funding to purchase a commercial, off-the-shelf product to automate many of the processes currently used in the agency's valuation work. However, the chosen solution cost more than anticipated and the agency no longer has dedicated funding to work on this project. In addition, the agency no longer has the internal resource capability to move the project forward without compromising core and statutorily-mandated work.

Inadequate Customer and Stakeholder Support

Taxpayers and counties have come to expect web-based services to view or exchange information. Since the section doesn't have web-based self-service options for customers, they can generally only get information about their accounts during office hours or when staff is available. Staff must then be redirected toward hands-on customer and stakeholder support activities, taking time and resource away from other necessary appraisal-related work. Technology-based solutions for account management would likely prove less costly to the agency and more valuable to customers and stakeholders.

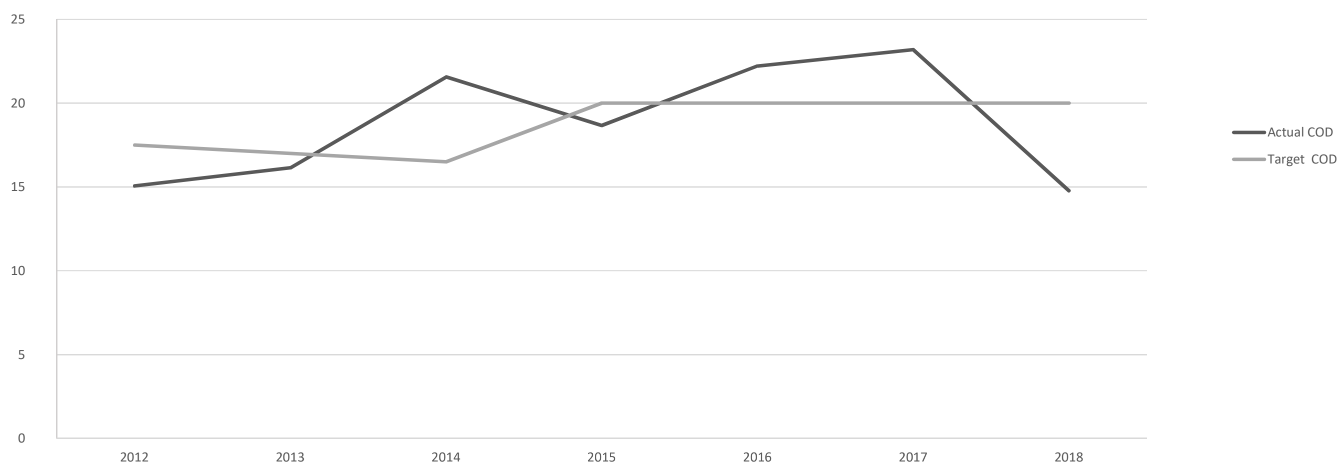
Program performance

Program performance for the valuation programs can be analyzed using Oregon's long-term outcome of equity and uniformity and our appraised values. The best way for us to ensure equitable values are determined is through frequent appraisals of our industrial sites and centrally assessed companies, which ensures our accounts represent real market value. By doing this, the agency conforms to ORS 308.232—Property to be valued at 100 percent market value.

DOR is a member of the WSATA CCAP (Committee for Centrally Assessed Property) and WSATA CVIP (Committee on Valuation of Industrial Property). Both committees include representatives from several western states and work towards defining best practices in the appraisal field. Staff regularly collaborate with other states to ensure our appraisal methodology and application meets those of other states.

The graph below is DOR's KPM 7, Appraisal Value Uniformity, which demonstrates the agency's ability to deliver high quality business results by measuring appraisal equity and uniformity for state-appraised industrial properties.

Appraisal Site Uniformity



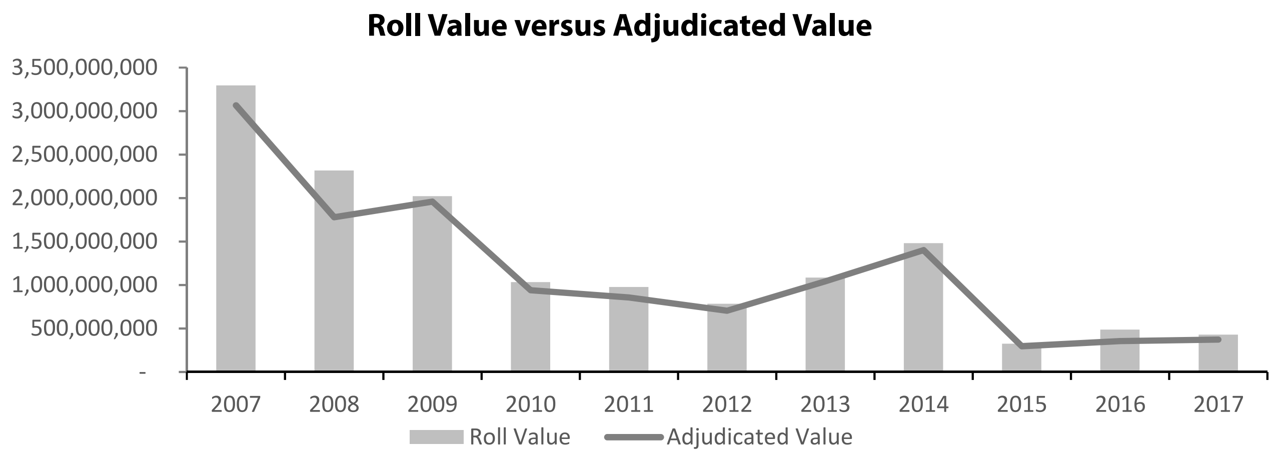
The next graph shows the number of appraisals of state-appraised industrial sites conducted each year. After the 2016 season, the section changed the way it conducted its business in order to touch more sites and achieve its goal of an eight-year appraisal cycle. In 2017, the section met its appraisal cycle goal by reducing the scope of our appraisals. Instead of appraising the entire site, appraisers had discretion to appraise as much of the site as possible in order to meet their appraisal quota for the year.

Industrial Appraisals Completed

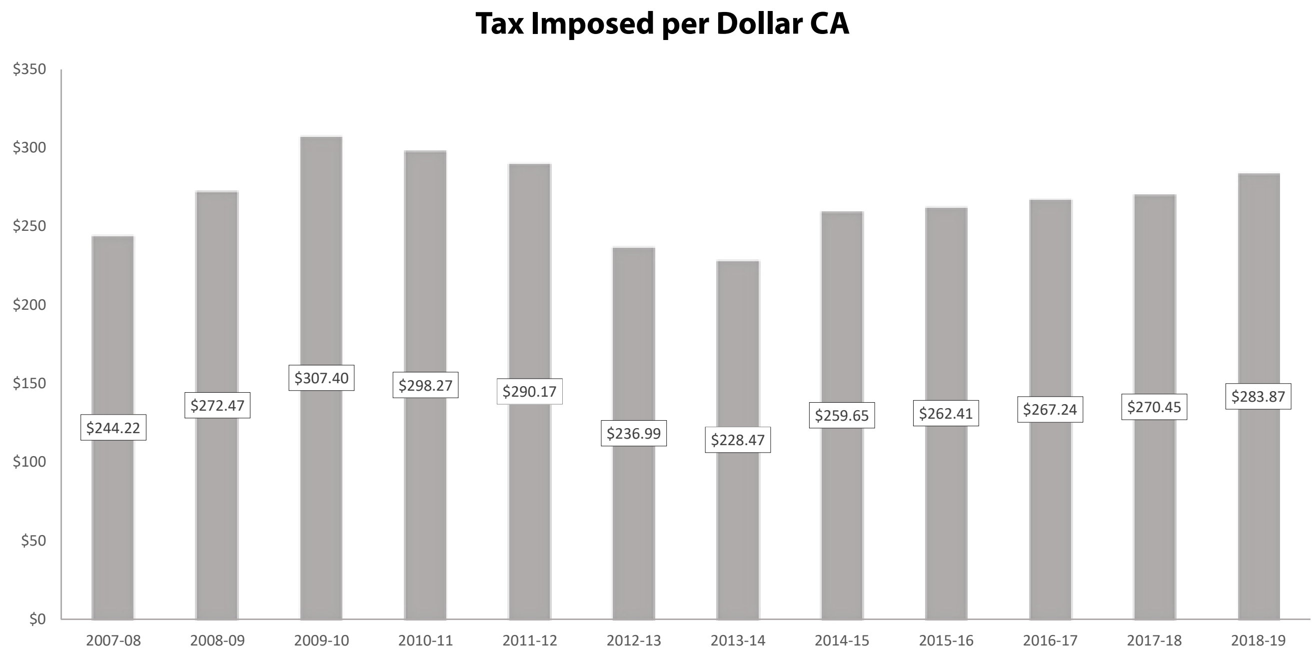
One positive outcome from the increase in industrial sites appraised in 2017 was our ability to identify $64.5 million in omitted property, which equates to approximately $970,000 in property tax potentially imposed by our county partners. In addition, the future benefits of the omitted property are immense since that omitted property will be taxed into perpetuity, or until retired. 2017 was the first year for tracking omitted property, and the section will continue to track it going forward. The more site visits and appraisals the section completes, the more omitted property we can potentially capture.

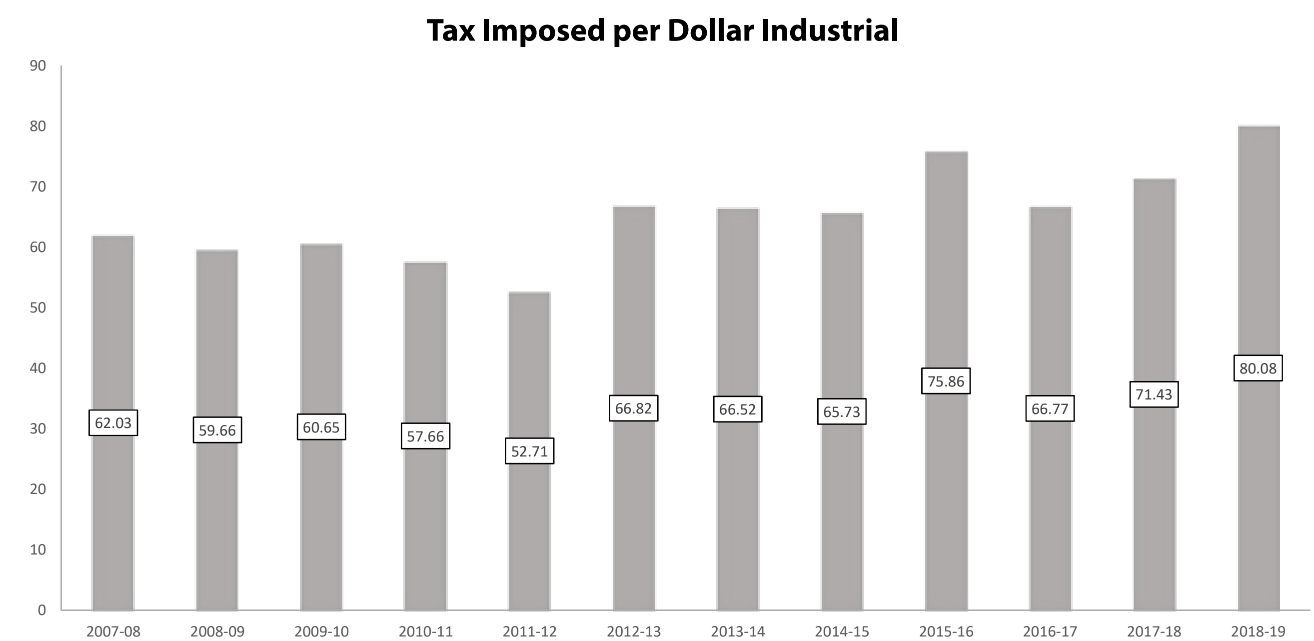
To quantify the quality of appraisal work completed, in 2017 the section started to keep track of how much of each site visited is appraised. Our industrial sites have multiple accounts consisting of buildings, structures, machinery, and equipment. The following points are what one year's worth of data has revealed:

- Section staff appraised approximately 49 percent of each site we visited. If resources are reduced, staff would appraise less of each site going forward. For example, for the 2018 appraisal season, the section has eliminated the appraisal team (due to budget issues) whose function it was to appraise entire sites. Without this team, the section anticipates the percent of each site appraised to drop below the 2017 level of 49 percent. Other options include increasing the timeframe of appraisal cycles or simply abandoning the goal of appraising sites on a regular basis.
- Although staff appraised only 49 percent of each site in 2017, they focused on high value assets and created efficiencies in our appraisal work. Due to this, staff appraised approximately 76 percent of each site's RMV, or $985 million, and left approximately $334 million in RMV unchecked.
- The agency corrected over $200 million in value in 2017, bringing accounts more in line with RMV.
- The next graph measures the quality of the services provided for the state-appraised industrial accounts that are appealed each year. The purpose is to determine RMV. The graph shows the amount of RMV that was appealed in each respective year (bar) and then the eventual value (line) after the appeal process was complete. The data indicates, of the total value that is appealed each year, there is only a small reduction in value after the appeal process is complete. This can be attributed, in part, to the expertise of the agency's appraisal staff in valuing appealed industrial properties.



The two graphs below show the amount of property taxes imposed by the counties for both the industrial properties and CA companies the agency appraises, compared to the personnel cost of the appraisal work. The data indicates for every $1 of CA appraiser cost, between $228 and $307 in property taxes were imposed by the counties each year since 2007–08. Concerning state-appraised industrial property, for every $1 of industrial appraiser cost, between $52 and $80 in property taxes were imposed each year since 2007–08. The ratio between the cost of industrial appraisers and taxes imposed is significantly lower than the ratio of CA appraisers and taxes imposed due to the high amount of exemption programs for state-appraised industrial properties, which decreased the potential of taxes imposed by over 50 percent in 2017–18.





Support, Assistance, and Oversight section

At a glance

Supervisory authority over Oregon's assessment and taxation programs.

Goal: Uniformity in property tax application and administration.

Provides assistance and support to counties on budget, tax calculation, collection, and exemption.

Oversees the CAFFA grant program.

Cadastral mapping: Contractual map maintenance, boundary change data approval, and mapping standards development.

Senior and Disabled Citizen Property Tax Deferral program: Approximately 5,000 participants in 2017–18, and more than $13 million in property taxes paid.

Forestland and timber taxes small tract forestland severance tax: Nearly $800,000/biennium for State School Fund, community colleges, and counties.

Forest products harvest tax: $33.7 million/biennium for fire suppression, forest research, and the Oregon Forest Resources Institute.

Support, Assistance, and Oversight Section

The Oregon Constitution requires uniformity in the application and administration of property tax law. To aid in the achievement of uniformity in the property tax system, the Legislature granted the department supervisory authority over the assessment and taxation programs in Oregon's 36 counties. The goal is to promote and ensure uniformity and equity in taxation, and, in general, to strive for an equitable system. This is primarily accomplished by setting uniform assessment methods and standards, monitoring programs, providing training to county and department staff, and directing assistance to individual counties on a variety of special programs.

The Support, Assistance, and Oversight (SAO) Section provides assistance and support to assessors, tax collectors, and county staff. Finance, Taxation, and Exemption analysts work with local taxing districts and counties on a variety of budget, tax calculation, tax collection, and exemption issues. Staff provide assistance on appraisal and complex assessment issues involving mass appraisal ratio studies, indexing studies and uniform assessment methods to include the appraisal methods for unusual or special properties. Staff conduct evaluation and analysis of the County Assessment Function Funding Assistance Program (CAFFA) for all 36 counties. The CAFFA grant application is for assessment and taxation funding adequacy. All staff work with county partners to identify and implement productivity enhancements and efficiencies.

The section works closely with counties to identify best practices and develop the most efficient procedures in uniform methods of assessment and tax administration. This unit evaluates county performance to determine equity and uniformity in property tax assessment statewide. This helps make sure all property is taxed or exempted according to statutory provisions. This is a cornerstone of the property tax system and imperative to maintaining the public's trust.

Section performance

This program has strived to embrace efficiency gains through technology in many areas:

The section completed the modernization of our training program. All materials are provided electronically and there are online self-service options for customers. The section is using two delivery methods for training: web-based and live training. Both methods have produced savings in the areas of printing and delivering training manuals and allowed staff to reach rural Oregon counties. In 2017, staff delivered 33 classes reaching 961 students. Training records are now able to be accessed by students anytime to update information or add classes to their record.

The CAFFA grant program, including deposits, distributions, and grant applications, have moved online with GenTax. The new, all-electronic process has reduced requests for assistance by more than 90 percent and allows counties to better manage their applications and grants.

Additionally, the time saving from automation allows staff to visit counties to review property tax processes for adequacy and compliance with statute and rule. These visits are to examine core functions using a combination of data review, office policy and procedure review and field testing. The intended goal of county visits are as follows:

- Determine if the county's assessment and taxation functions and systems meet statutory obligations.
- Make the governing body aware of any deficiencies found.
- Recognize strengths of the county assessment and taxation system that may exist.
- Suggest more efficient and effective procedures for completing the statutorily required work, if appropriate.

County assessors are responsible for managing estimates of property values and annually developing new assessment and tax rolls. State law mandates assessors track and measure the real estate market in order to maintain 100 percent of real market value on the tax rolls. To demonstrate compliance has been achieved, assessors are required to annually complete ratio studies and publish the Assessor's Certified Ratio Study report. The report assists the department in fulfilling its role in general supervision and control over the statewide system of property taxation. The department reviews the counties' valuation programs to verify standards are met and to measure the health of the statewide valuation system. The department's Key Performance Measure (KPM) #6, reports out the findings of its ratio study review.

One of the key functions of the SAO Section is to measure equity and uniformity of the assessments being done in county assessor's offices. To do this, the section measures the number of geographic areas that are meeting industry performance standards. The chart below illustrates statewide performance.

KPM #6, Appraisal Program Equity and Uniformity

Cadastral Mapping and ORMAP

CISU sets mapping standards for county assessment maps, maintains and updates maps for nine counties, and reviews and approves taxing district boundary changes. The unit also administers the Oregon Map (ORMAP) program, which supports the development of a seamless, statewide, digital tax lot base map that will facilitate and improve administration of the property tax system. CISU also participates in statewide committees to maintain awareness and utilization of industry best practices and efficiencies.

CISU provides services to internal and external customers, including:

- Processing property classification memos for the Valuation Section. These memos identify the assessment responsibilities of the state and counties.
- Performing contractual map maintenance work and providing expertise to solve mapping issues for county cartography offices.
- Approving boundary change data submitted by local taxing districts, as required under ORS 308.225.
- Setting statewide mapping criteria and reviewing county maps for uniformity and adherence to standards to ensure accuracy for map users.

Services are provided upon request or as needed throughout the year. Property classification memos, map maintenance, and boundary changes must be completed before property tax assessments can be made. Setting mapping standards and reviewing compliance occurs as time allows.

Cost drivers for this unit are mainly related to personnel expenses, with a small component for software related to producing the actual digital maps.

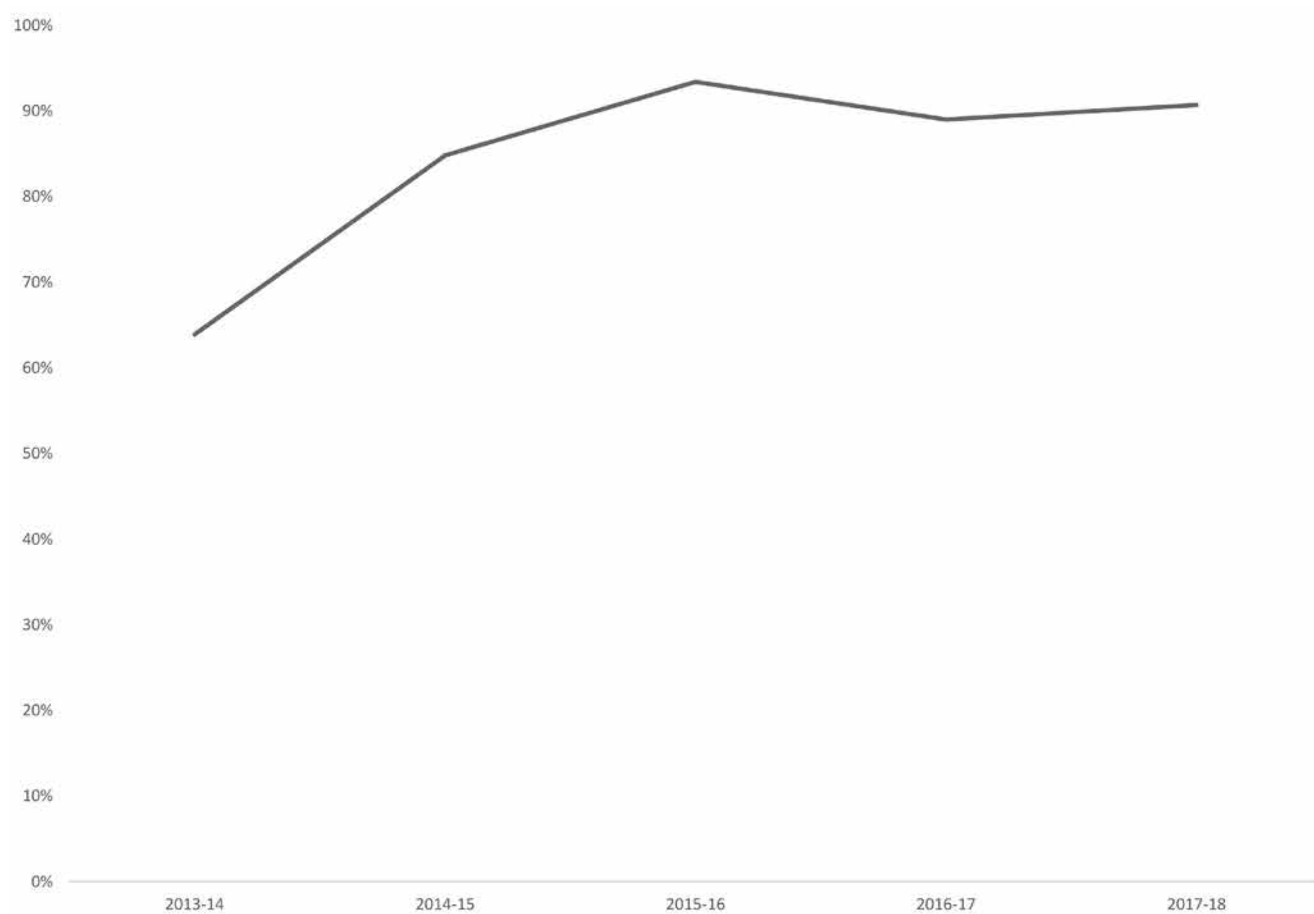
Accurate cartographic maps are essential to ensure accurate real property taxation. The cartography unit was established by the agency in the 1950s after a legislative inquiry found county mapping standards were inaccurate and inconsistent. Although maps have mostly moved from paper to digital, maintaining accurate and consistent mapping standards is still essential.

Some of the services this unit provides—map maintenance, for example—are also available from other providers, such as county cartography units. This competitive environment is unique to CISU and helps assure the unit produces high-quality work at a reasonable price. CISU and ORMAP both convene stakeholder feedback groups and advisory committees to help align efforts to provide timely services that meet our customers' expectations.

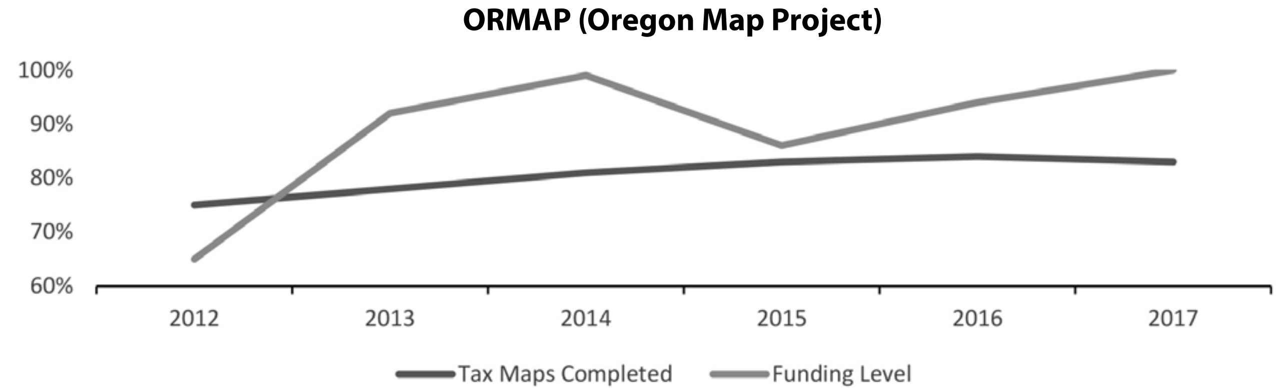
Program performance

The unit uses a cycle time measurement to evaluate performance. For example, ORS 308.225 requires the agency to approve or disapprove boundary change submissions within 30 days. The cartography unit's internal target for returning map maintenance items to the counties is within 14 days of receipt.

Map Maintenance Requests Completed Within 14 Days



The graphic below illustrates two things: The percentage of maps statewide that have been converted to a digital format that meets ORMAP standards, and the funding percentage level for all grant requests.



Senior and Disabled Citizen Property Tax Deferral

The department administers the senior and disabled citizen property tax deferral programs. These programs pay the property taxes for qualified senior and disabled citizens in exchange for a lien against the property for the estimated amount of the deferred taxes plus interest. The lien is released upon repayment of the debt when the property is sold. Since the taxes are repaid to the program when the property sells, the program is self-funded and sustainable.

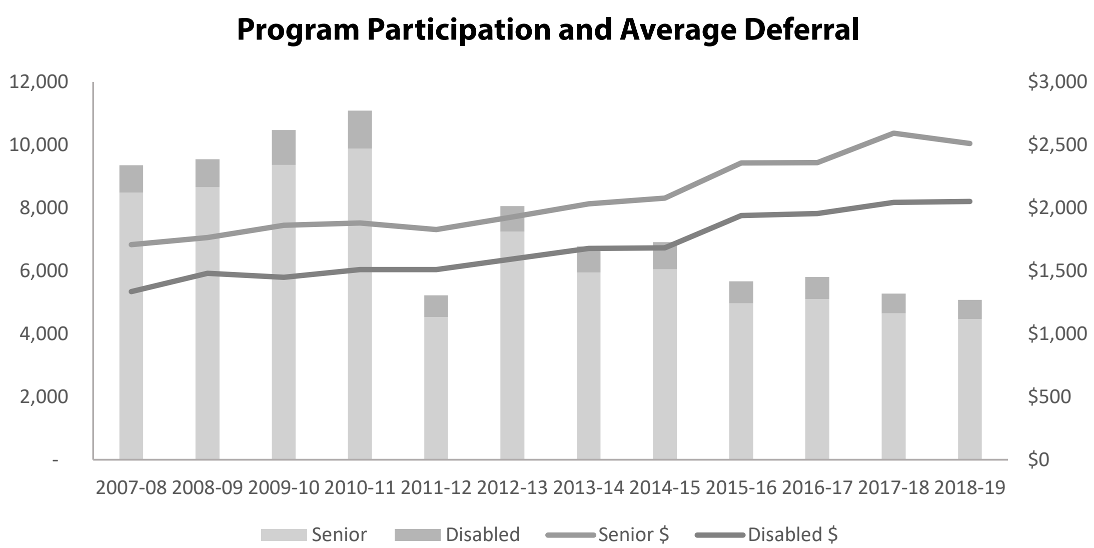
This program allows seniors and disabled citizens a means to have their property taxes paid by the state allowing them to remain in their homes. Without this program thousands of seniors who are unable to pay their property taxes would be at risk of losing their homes.

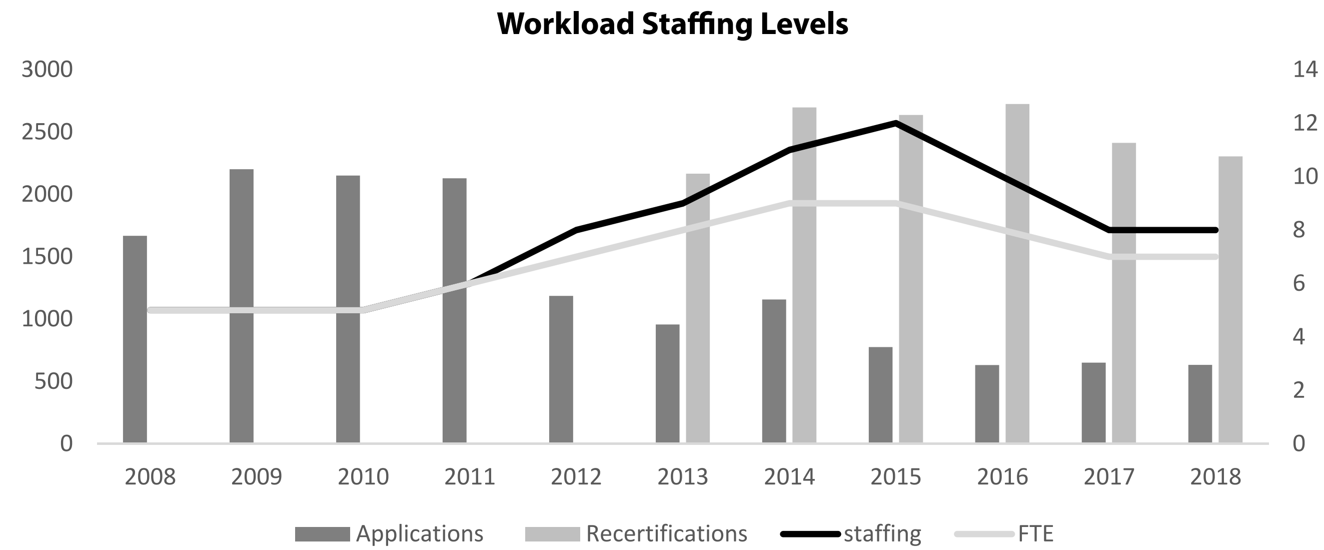
Participation is by application. Those approved are required to recertify every two years to verify they continue to meet the requirements for program participation. The state paid more than $13 million in property taxes to counties for approximately 5,000 program participants in the 2017–18 tax year.

The deferral programs have benefited from the move into GenTax. This has provided quicker access to data and automation of many functions. However, program participants tend to prefer telephone communication and written communications over electronic delivery. This results in somewhat higher call volumes during application season compared to other programs, despite electronic communication and account information options being available.

Program performance

This graph illustrates program participation. The bars represent the composition of program participants (senior or disabled). The lines show the staffing and FTE levels for each year.

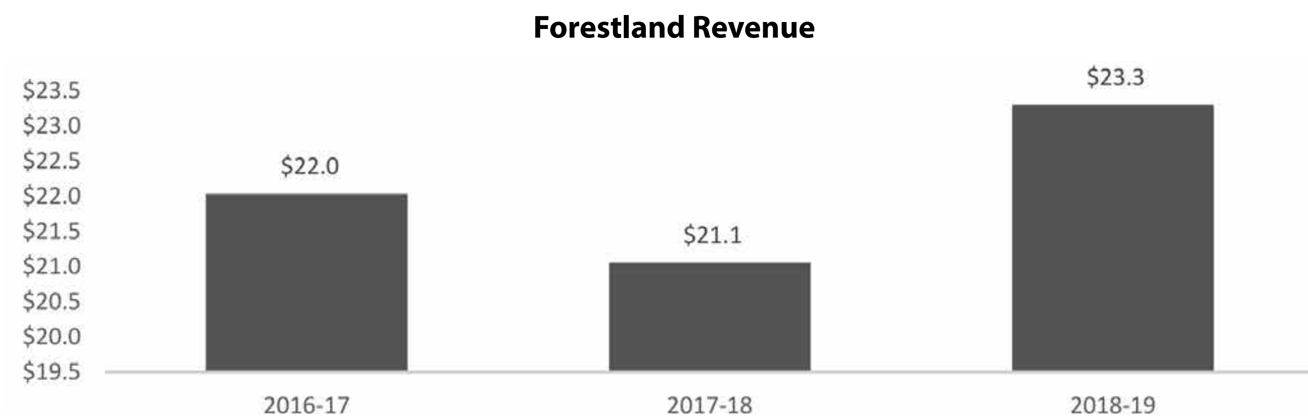




Forestland and timber taxes

The department's work related to forestland property taxes is done by the forestland valuation and timber tax teams. The team establishes the specially-assessed value of forestland. This process uses a market sales analysis of highest and best-use forestland to create the specially-assessed value for approximately 7.9 million acres of forestland. In western Oregon, the unit is responsible for the establishment and review of the productivity classes of western Oregon forestlands. This classification process is used to assign the property tax values based on productivity. In addition, the unit assists counties by identifying owners with 5,000 or more acres of forestland and providing general forestland program guidance.

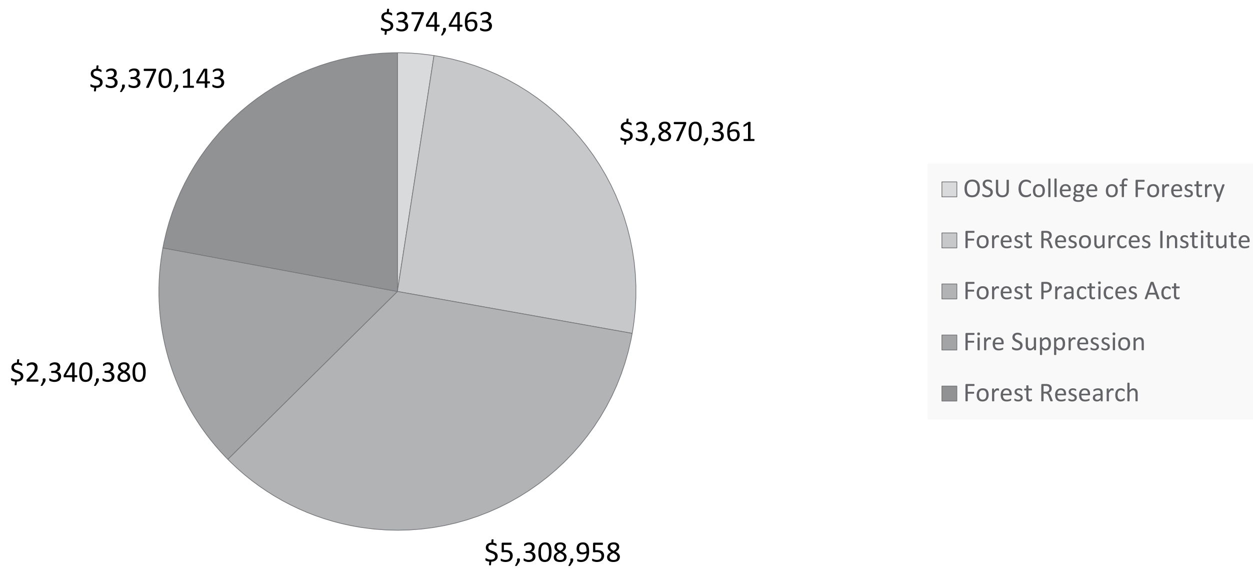
Approximate taxes generated from forestland throughout the state:



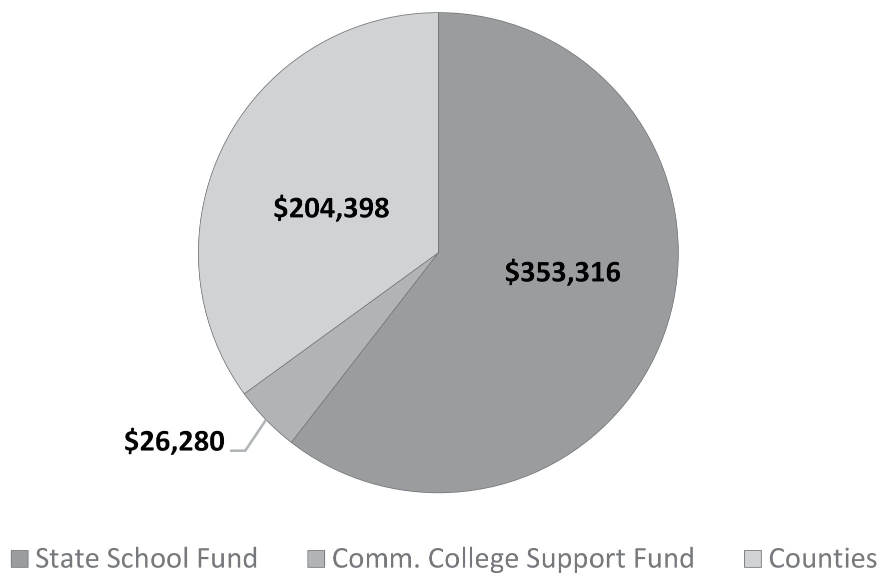
The section also administers the Small Tract Forestland Severance Tax and Forest Products Harvest Tax programs. The Small Tract Forestland Severance Tax generates nearly $800,000 per biennium statewide for the State School Fund, community colleges, and counties. The Forest Products Harvest Tax generates about $33.7 million per biennium for fire suppression, forest research, and the Oregon Forest Resources Institute. The unit's activities relating to these tax programs include processing and auditing tax returns, educating the public and taxpayers, collecting and distributing timber tax revenues, maintaining tax database, and advising the counties regarding laws and processes relating to forestland special assessments.

This unit also assists counties with the administration of the following special assessment programs: exclusive farm use, home-site special assessment, open space, wildlife habitat, conservation easement, and riparian.

2018 Beneficiaries of Harvest Tax Distribution Detail



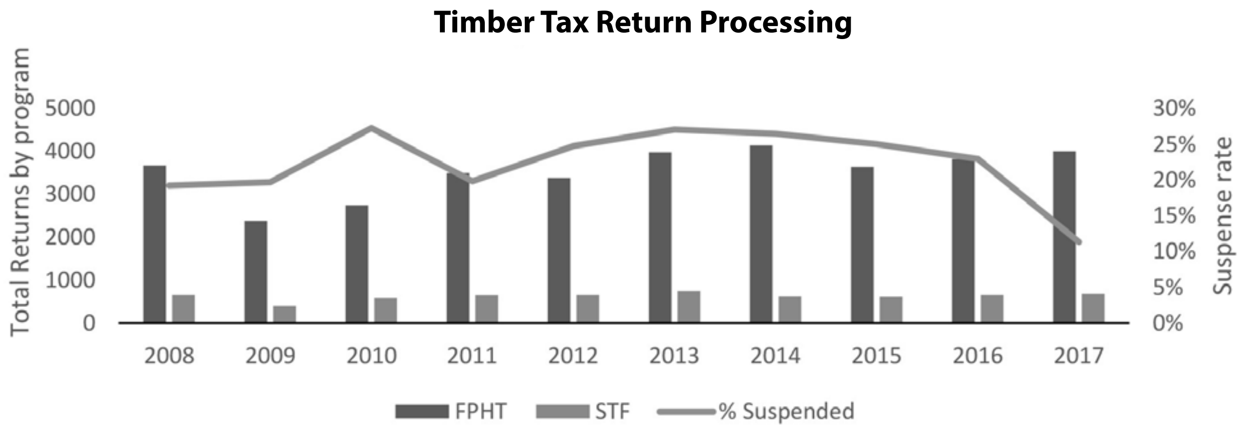
2018 STF Distribution



Program performance

The graphs below provide information about return processing for the unit's tax programs. By taking advantage of technology, the unit has been able to lower the suspense rate and decrease manual return processing.

This graph shows the number of returns for both the Forest Products Harvest Tax and Small Tract Forestland Severance Tax and each year's suspense rate. Returns suspend when the information provided by the taxpayer doesn't match what is anticipated. Resolution requires manual intervention. the new system has enhanced the ability to provide electronic solutions to suspended returns as reflected by the decrease in 2017.



Non-profit Homes for the Elderly

The Non-profit Homes for the Elderly (NPH) program was enacted in 1977 to assist private, non-profit corporations in providing permanent housing to elderly persons.

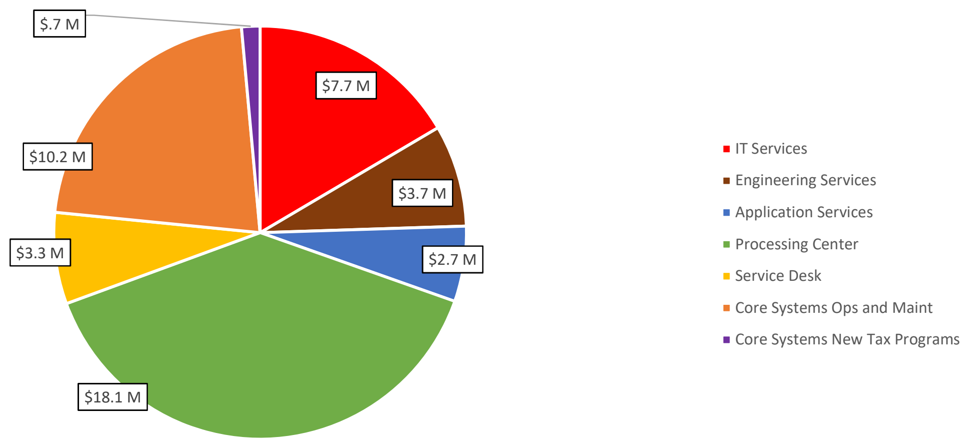
In order to qualify for this program, the non-profit corporation must be organized and operated only for the purpose of furnishing permanent residential, recreational, and social facilities for elderly persons (62 years of age and older). The residents' payments for living, medical, and recreational expenses and for social services and facilities must make up at least 95 percent of the corporation's operating gross income. The non-profit must receive federal or state financial aid under federal and state laws designed to aid low-income individuals. The corporation may not charge more than one month of rent as a move-in fee or deposit, and the rent amount must reflect the property tax savings.

The corporation applies with the county assessor of the county in which the property is located. The assessor approves or denies the exemption. If approved, the assessor computes the tax and notifies the Department of Revenue of the amount of the exemption. The agency pays an amount equal to what the tax would have been, less the 3-percent timely payment deduction, to the county treasurer by November 15th of each year.

The statutorily stated purpose of the program is to "assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons" (ORS 307.241). The effect of the state funded tax relief is to reduce housing operating expenses, thereby reducing the rents to occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about $40 per unit. For seniors on fixed incomes, any rent reduction can be significant. This program takes minimal resources to administer with a high benefit to program participants.

Information Technology Services Division

2019–21 Governor's Budget (GB)
Information Technology Services Division Total Funds by Program
$46,450,787



Division	Actual / LAB	2013–15	2015–17	2017–19	2019–21 GB	2021–23	2023–25
IT	LAB	$28,274,958	$31,092,069	$50,140,866	$46,450,787	$48,646,986	$50,978,648
	Actuals	$35,669,980	$40,538,882	$42,371,872			

	GF	OF	TF	POS	FTE
2017–2019 LAB	$42,266,535	$7,874,331	$50,140,866	270	192.62
2019–2021 CSL	$36,051,227	$5,138,808	$41,190,035	227	178.62
2019–2021 GRB	$39,641,931	$6,808,856	$46,450,787	233	185.75
CSL–GRB Change	$3,590,704	$1,670,048	$5,260,752	6	7.13

The Information Technology Services Division (ITSD) is the centralized information technology provider for the Department of Revenue. ITSD provides technology and telephone services for more than 1,000 agency staff seven locations throughout Oregon. ITSD has five distinct functions:

Engineering Services—Provides expertise in network, middleware, database, and systems/server administration. Responsibilities include: network infrastructure maintenance—including wired and wireless networks—for all agency locations; database tuning, optimization, backup, and configuration; and managing backups, performance tuning, configuration, file and print servers, and the agency's multiple web-application environments.

Service Desk—Provides end-user support for more than 1,000 employees. Responsibilities include: configuration, deployment, and support for desktops and laptops; mobile phone and mobile device (iPad) configuration and support; user account creation and management; and general support for productivity applications.

GenTax Support—Provides support for the agency's core system, GenTax. Responsibilities include: break/fix support; enhancements to features and functionality; reporting, discovery, and fraud functionality support; tax-program creation; and general system configuration.

Application Services—Provides expertise in custom application development and support of in-house-developed applications. Responsibilities include: modernization of older custom applications to increase functionality and usability and mitigate the risk of failure; assistance with customization and implementation of some commercial-off-the-shelf applications; and enabling seamless integration between applications, when necessary.

Processing Center—Assists the agency by processing all incoming mail, including correspondence, payments, and tax returns in a timely manner. Responsibilities include, annually: deposits more than $10 billion in tax payments; processes more than 2.4 million pieces of mail, including all Oregon tax returns filed on paper; provides the essential functions for return and payment processing for most of the agency's programs.

ITS provides technology and support at different levels. Each level is critical to the agency's business functions and necessary to fulfilling its mission. Critical technology and services include:

- Operations and maintenance for the agency's core computer system, through which most the state's General Fund revenues are processed.
- Operations and maintenance for all agency computing and communication systems.
- Strategic technology planning.
- Continuity of operations and disaster recovery planning and coordination, which helps ensure that, in an emergency, agency can continue to process and bank funds that support important public services.
- Perpetual modernization efforts for agency computing systems to make the agency's operations more efficient and effective.

Accomplishments and major changes

- Completed the four-year Core Systems Replacement (CSR) project, which replaced most the agency's tax administration systems.
- Since 2015, IT resources have been instrumental in the implementation of six new tax programs: recreational marijuana, vehicle privilege, vehicle use, bicycle excise, statewide transit, and heavy equipment rental.
- IT system developers were also involved in the implementation of three legislative initiative: Financial Institution Data Match, state lodging tax data sharing, and centralized collections (SB 1067).
- Navigated and implemented over 130 complex changes resulting from major federal tax reform for multiple tax programs (such as corporate repatriation) in GenTax.
- Supported and participated in nine external audits.
- Assisted with the successful implementation of Phase 1 of the Processing Center Modernization (PCM) project.

Engineering Services

Information Technology Services' Engineering Services unit provides expertise in the key areas of network, middleware, database, and systems/server administration. Network responsibilities include maintaining the overall network infrastructure and monitoring performance and optimizing throughput for the agency's wired and wireless networks in all locations, including the field offices. Database administration responsibilities include database tuning and optimization, database backups, and complex configurations for agency applications. Middleware and server administration responsibilities include managing backups, performance tuning, server configuration, managing file and print servers, and managing the agency's multiple web-application environments. All the units are also responsible for keeping server operating systems and applications patched and current.

For the agency to demonstrate excellence in state government in the 21st century and fulfill its mission, its staff and operations rely heavily on the use and availability of multiple technologies to fulfill their mission. These technologies make every dollar billed, collected, and banked by the agency possible. In addition, these technologies directly increase the efficiency of the agency's operations.

The Engineering Services unit provides the agency with technology expertise that is aligned with the locations, systems, and people working in the agency. This unit is responsible for providing the agency with high-availability of its mission-critical systems. Daily, this unit is responsible for the wired network in all agency offices, from the switches up to the network end-points (phones, computers, security cameras, etc.).

In addition to managing and monitoring the physical network for the agency, this unit is also responsible for the physical and virtual server environments that provide the infrastructure necessary to run the agency's myriad of mission-critical and other business systems.

Last, this unit is also responsible for managing and supporting the various middleware required for the agency to conduct its business. This can include database management systems, web and application server software, integration systems, and file and print servers. This unit is also essential for performing eDiscovery work for various legal cases.

Program performance

Because the technology managed by this unit is ever changing, monitoring trends versus baseline data isn't germane. One way to illustrate this is by looking at the agency's new core system, GenTax. The legacy system that GenTax is replacing required only a few servers for its more monolithic architecture; whereas the new GenTax system has several tiers and server clusters performing different functions. The disparity between the systems' architecture makes any comparison of the maintenance and support needs irrelevant. The agency currently operates approximately 170x86 servers in the State Data Center, and that number is expected to continue to rise due to constant changes in system architecture.

One performance indicator for Engineering Services is the number of staff versus the number of servers managed. Due to the aforementioned change in architecture, the number of servers has increased dramatically. However, the number of staff used to manage the infrastructure isn't increasing.

As part of keeping the environment current, Engineering Services has completed the upgrade to the latest version of the Windows operating system, Windows Server 2016 for all GenTax servers and many others where legacy software doesn't prohibit the upgrade.

Because the number of service units has increased, the measurable cost per service unit has naturally decreased. The agency will need to re-baseline the cost per service unit after the environment has been in production and stable for at least one additional year.

Service Desk

The Service Desk and Support Services Unit provide end-user support for more than 1,000 department employees. Support responsibilities include: desktop/laptop configuration, deployment, and support; VoIP phone, mobile phone and mobile device (iPad) configuration and support; user account creation and management; and general support for productivity applications.

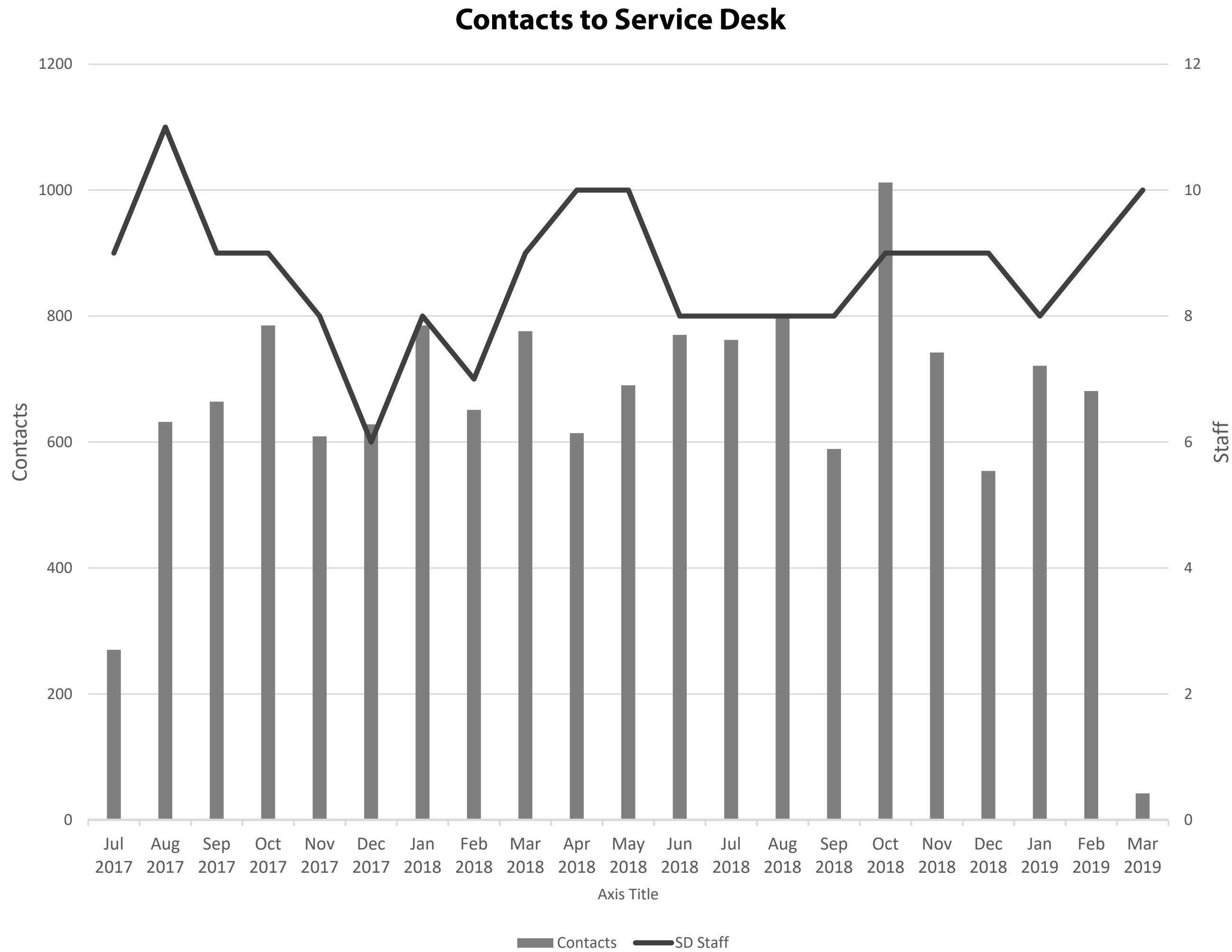
In order for the department to demonstrate excellence in state government in the 21st century and fulfill its mission, its staff and operations rely heavily on the use and availability of multiple technologies. These technologies make every dollar billed, collected, and banked by the agency possible. In addition, these technologies directly increase the efficiency of the department's operations.

The Service Desk and Support Services Unit are the first line of support for any type of technology concern, impediment, or request for additional service. The unit is responsible for triaging incoming contacts from users in the agency and either resolving the issue or request themselves or routing the work to the appropriate unit within IT.

The business of the agency is reliant on technology, but technology itself is imperfect and evolving. Thus, it requires support from the Service Desk and Support Services Unit to keep it as functional as possible for the people performing and supporting the agency's mission-critical work.

Program performance

The Service Desk and Support Services Unit currently has just under two years of performance data. The system that the unit is using to track “incidents,” “service requests,” and “contacts” (the sum of incidents and service requests) has only been in use since August 2016. Prior comparable data isn’t available.



There are four metrics that are meaningful to the unit’s work and will be tracked and reported in the future. However, because the data is not thorough, the new tracking system is not fully adopted agency-wide, and the four metrics have only recently been adopted, the unit’s performance is not at the target level. The expectation is that the unit’s performance will improve as the data becomes complete and the unit—and ITS overall—makes better use of the tracking system.

The four key metrics are:

- Number of contacts per supported user.
- Cost per contact.
- Time to resolve a contact.
- Percentage of contacts that are resolved by the Service Desk and Support Services Unit on first contact.

The baseline measurements are:

Number of contacts per supported user: Approximately 12.2 during the 2017 calendar year. Ideally, this number will remain consistent.

Cost per contact: Approximately $58.

The computation assumes that the percentage of the budget expended towards the Service Desk is proportional to the number of unit staff dedicated to Service Desk functions over the total unit size. Generally, the goal would be for this metric to decrease over time, but that's dependent upon whether IT-related projects, upgrades, or enhancements are occurring during a particular time period. If the agency is implementing a particularly large project, that number could increase as a result because of an increase in the complexity of and resource investment in resolving conflicts related to that implementation. According to Gartner Research, the cost-per-contact average is $15–$20. As mentioned previously, due to the system being new and not fully adopted by the agency, there are still many contacts that are not being tracked in the system. ITS estimates that only 50–60 percent of total contacts are being recorded in the tracking system.

Time to resolve: Approximately 194 hours for service requests and 89 hours for incidents.

This is due to the complex nature of many of the service requests and dependencies on other providers to reach a resolution. In addition, many of the incidents that skewed the data are related to the new phone system. ITS intentionally left a set of 500–600 tickets open until the phone project was complete and the vendor had fixed issues that were their responsibility. The unit expects that this number should drop to roughly 36 hours for all incidents. Special attention will be made to monitor and manage ticket closure to avoid the numbers being skewed by premature resolutions.

Percentage resolved on first contact: Approximately 36 percent. The goal is 75 percent.

GenTax Support

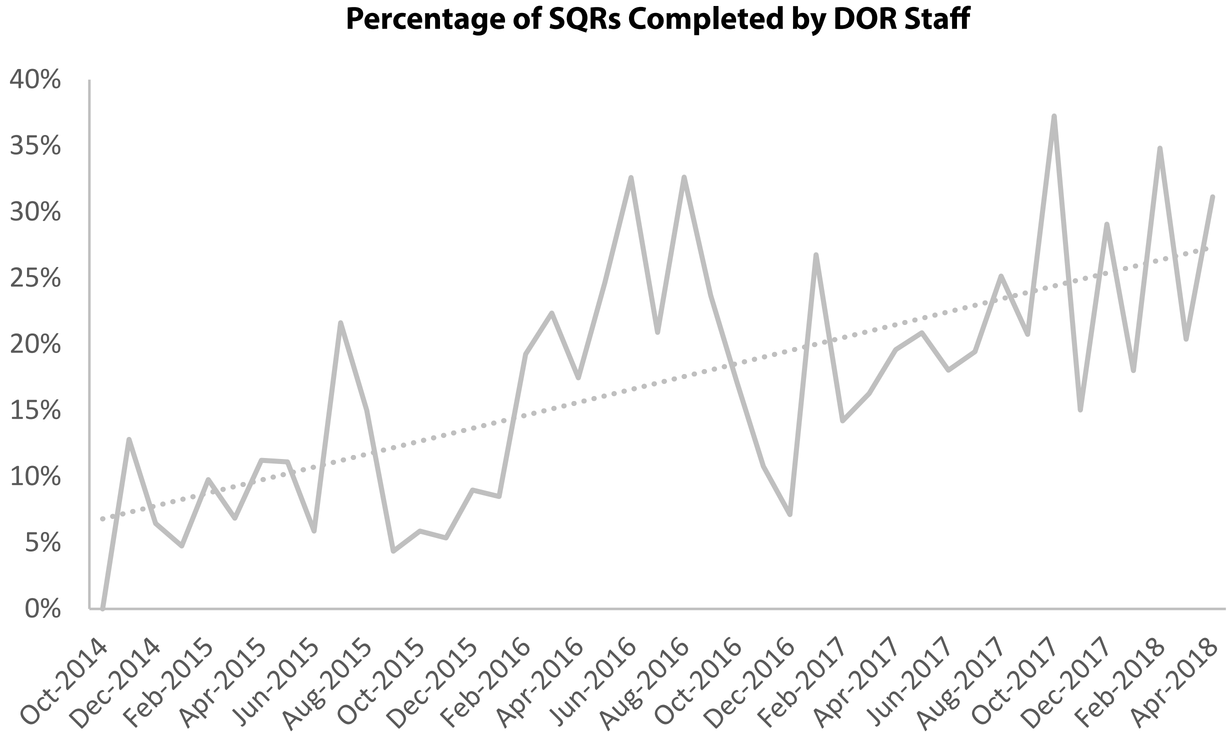
The purpose of this unit is to analyze, plan, develop, and coordinate work and activities that support operations, maintenance, installation, and construction of information systems and working with multiple vendors and multiple state agencies.

This unit is responsible for the maintenance, support, development, and configuration of GenTax, the department's core IT system. This includes return processing, payment processing, collections, audit, interfaces, revenue accounting and distribution. This system supports the agency's business areas in the administration of over 30 programs, including personal and business income taxes, property tax, tobacco taxes, and a variety of other tax programs. These programs fund both state and local government services.

The department's mission is to make revenue systems work to fund the public services that preserve and enhance the quality of life for all citizens. This unit provides technical support for our tax programs and employees by providing maintenance, support, development, and configuration of GenTax, which is the repository of taxpayer account information for the state of Oregon.

This unit functions symbiotically with the agency program areas to make the modifications to GenTax that are necessary to adapt to future changes to tax laws and programs. GenTax is a sophisticated system that can accommodate these changes; however, it requires a considerable amount of expertise and proficiency in both the understanding of tax and revenue programs, as well as the technical tools and approaches required to modify the system.

Program performance



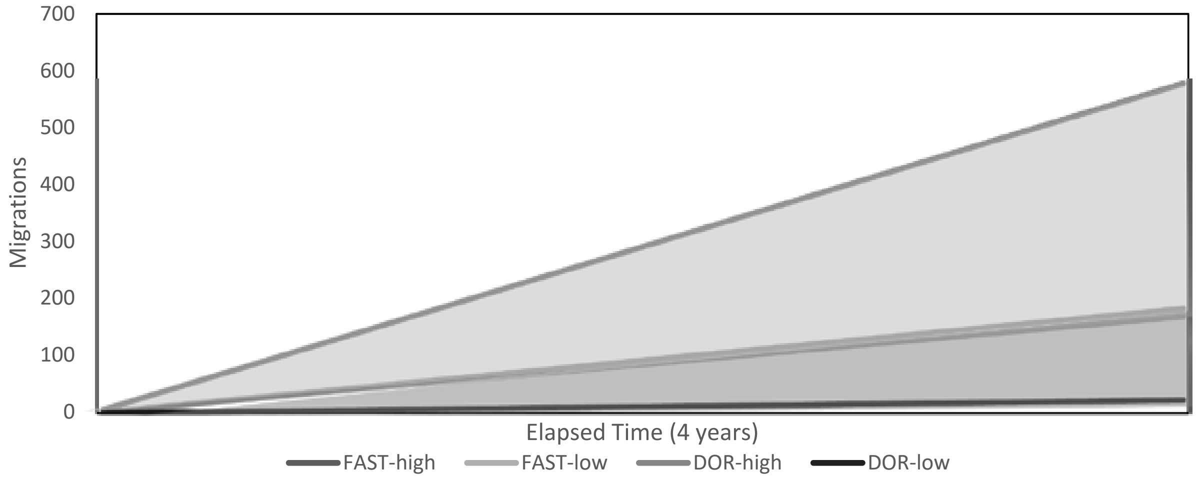
This graph illustrates the increases in productivity being made by the department's developers for the break/fix and enhancement workload. The significant dips correspond with the periods in time where major software changes were made.

The GenTax Support Services unit has been increasing their capability in configuring, enhancing, and developing new functionality for GenTax since the beginning of the CSR project. The unit is currently closing GenTax service requests at four times the rate that they were at the beginning of the project.

When measuring the productivity of the unit, there is another metric that is used to measure the output of development staff. The department has begun using the same metric as the GenTax vendor, Fast Enterprises, LLC, to measure the number of migrations that each developer moves forward. A migration is any unit of work that has been completed and submitted for testing or release into production. Some migrations take more effort and some take less; however, Fast Enterprises claims that, over time, normalization occurs.

Currently, department developers are not producing migrations at the same rate as the vendor employees. However, the department's most productive developers are producing at a higher rate than the vendor's lower producing developers.

Productivity—FAST vs. DOR



This graph illustrates a projection of the current rates at which both the department's and the vendor's developers are producing by measuring the number of migrations made. There is some overlap between the department's higher producing developers and the vendor's lower producing developers.

The goal is for department development staff to increase their productivity to the same rate as the lower half of the vendor's development staff. Unit management feel that, with time, this goal is attainable.

Looking at cost per service unit (migrations), the department's development staff is performing well. The current cost per migration for an average Fast Enterprises employee is $745.61. The current cost per migration for a benefited department developer is $631.44. This calculation is based on both the vendor employee and the department employee performing an average number of migrations.

Application Services

The Information Technology Services' Application Services unit works to continually improve the agency's portfolio of non-core-system applications. The unit is working to modernize those applications by moving them into current and supported technologies, while also improving them in ways that enhance security and increase the efficiency of the agency. At this time, there are still 60 applications that need to be modernized.

The link between this unit's and excellence in state government is best illustrated by examining the diverse portfolio of applications and understanding the risks associated with not keeping this portfolio as current as possible.

First, the agency currently has custom applications developed in 23 different technologies, many which are aging or deprecated. The unit is working to centralize the applications into a handful of intentionally chosen technologies to make the agency's tax administration efforts more effective and efficient. Additionally, the aging technologies introduce several security vulnerabilities, as the vendors who originally supplied the platforms that they were built upon no longer support or supply security updates for them.

It's also becoming increasingly difficult to find talent within the workforce to support these aging technologies. Moreover, the available talent with the skills for these older technologies is generally more experienced and costlier. In addition, working with these older technologies isn't attractive to the 2010+ workforce, resulting in a difficulty retaining talent in the public sector. The disparate nature of the inventory has also led to an overall need for individual specialization of staff members. This specialization has made it difficult to successfully transition support of an application or system from one person to another. The staff are also struggling to switch from supporting an application built in one technology to another.

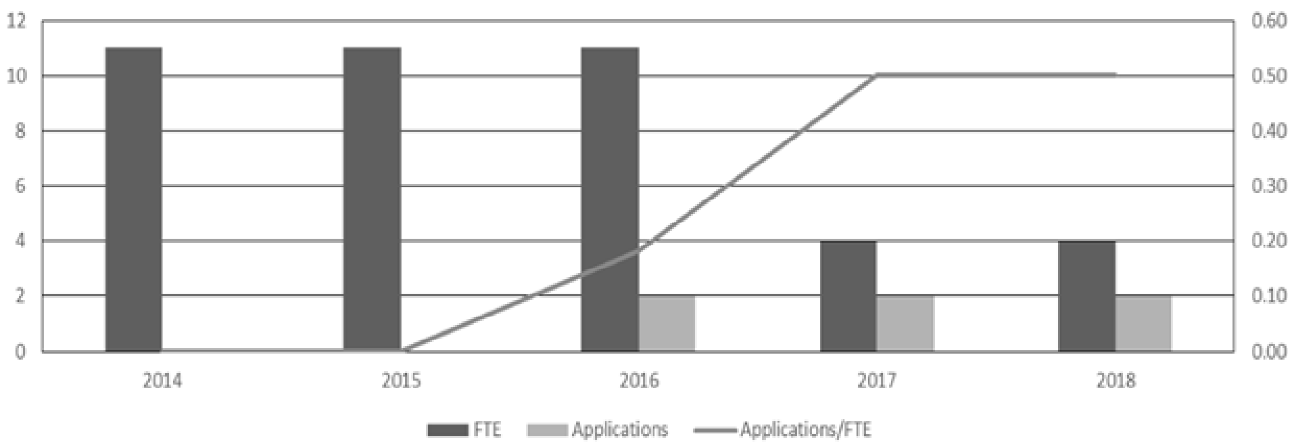
The Legacy Migration Effort is designed to address the security, recruitment and retention and specialization concerns. The strategy for addressing these needs has been to select a common platform of technologies that is consistent across the portfolio and also consistent with the technologies used to deliver GenTax. Microsoft's .Net "ecosystem" was chosen for its ubiquity and its use in the GenTax system. One key activity that is being incorporated into the unit's effort is a rationalization exercise geared at first determining if the application is necessary, followed by looking for commercially available options and choosing in-house development as a last resort.

Overall, this unit is working to mitigate risks to the agency's success by emphasizing a forward-thinking approach that prioritizes security and sustainability. Embracing these values, the unit is eliminating vulnerabilities and improving the agency's risk profile. In addition, the unit is also working closely with the agency's program areas to leverage automation in ways that increase capabilities and efficiencies.

Program performance

This chart shows the number of applications produced versus the unit's size in FTE. The secondary axis illustrates the rate at which the applications are being developed as a function of applications over FTE. Due to the nature of applications not all being of the same size or complexity, and without the ability to normalize them, this graph is mostly qualitative in nature.

FTE vs. Applications Produced



The work produced by this unit varies in size, scope, number of users served, etc. During fiscal year 2016, this unit wasn't producing substantial amounts of work. As a result, ITS made the decision to reallocate some staff to the GenTax support unit, reducing the size of this team to four (two Information System Specialist 6s, an Information System Specialist 7, and an Information System Specialist 8). The expected outcome was that a smaller, nimbler team would be more productive. The results seen in fiscal year 2017 met those expectations. The unit has produced three applications for the agency in a 12-month period; whereas the larger team produced two applications over a three-year period.

The applications were not all the same size or scope; however, the development velocity has increased, and the qualitative feedback has been positive. The original team size before reorganization was 10 FTE plus one Principal Executive/Manager D, and the current size is 4 FTE with no unit manager. Thus, the cost per unit produced has also decreased dramatically.

Processing Center

The Processing Center's activities are carried out in a high-volume environment that is evolving from mechanical production to one that relies heavily on technology and automation. In August 2018, the successful implementation of the first phase of the Processing Center Modernization project (PCM) marked the first big step in a direction of more automation. The Processing Center deposits more than $10 billion in tax payments each year. For calendar year 2017, the Processing Center banked approximately $12.82 billion from 5,216,936 transactions. Of those amounts, 74 percent of the total dollars and 67 percent of the transactions were received electronically. Payments by check, money order, and cash made up the remaining 26 percent of the dollars and 33 percent of the transactions. Annually, the Processing Center processes more than 2.4 million pieces of mail, including all Oregon tax returns filed on paper. The Processing Center provides the essential functions for return and payment processing for most of the agency's programs. The following functional units help achieve the Processing Center's objectives.

The Mail Processing Unit is responsible for opening, sorting, and routing all incoming mail. They also prepare returns for processing and image items as needed. They use mail extracting equipment and high-speed scanners in addition to hand processing to perform these functions. The work in this unit is highly seasonal especially from January to May, so seasonal workers are used to augment the permanent staff in this unit. To take advantage of the new system procured as part of the PCM project, these processes are being streamlined for increased efficiency by promoting electronic processes and imaging more paper items, reducing the paper that flows through the department.

The Imaging and Review Unit scans incoming tax returns and payments for processing. They are responsible for imaging all returns and documents needed by other parts of the agency, such as Audit or Suspense. The Review team researches missing or invalid information that is needed to complete processing and data entry for payments and returns.

The Payment Processing unit researches and creates virtual payment vouchers for all check payments where a proper voucher was not provided. They use our new front-end system, procured as a part of the PCM project, to input the necessary information to post payments in GenTax. This unit's work has transformed from a process reliant on creating paper payment vouchers to one that is completely electronic.

The Payment Center is responsible for accepting and processing payments from walk-in customers. In addition to walk-in payments, they also are responsible for setting up appointments and processing payments for the marijuana tax program, which are primarily cash. The average monthly cash received for all cash payments is approximately $3.55 million.

The Information Transcription Unit is responsible for capturing data from tax returns and payments. This data is captured by scanning 2D barcodes and by keying it either from the physical paper documents or from an electronic image that is displayed on their screen. The work in this unit is highly seasonal especially from January to May so seasonal workers are used in this unit during this time. The process of capturing data is being streamlined by using more automated systems such as 2D barcodes, optical and image character recognition (OCR/ICR) and moving away from manual data entry where possible.

The Taxpayer Identification Unit is responsible for resolving posting errors for payments and returns whether they are submitted electronically or by paper. These errors occur when the taxpayer has missing or erroneous name, address and identification numbers. The work in this unit has a slight seasonal impact at the peak of the tax processing season.

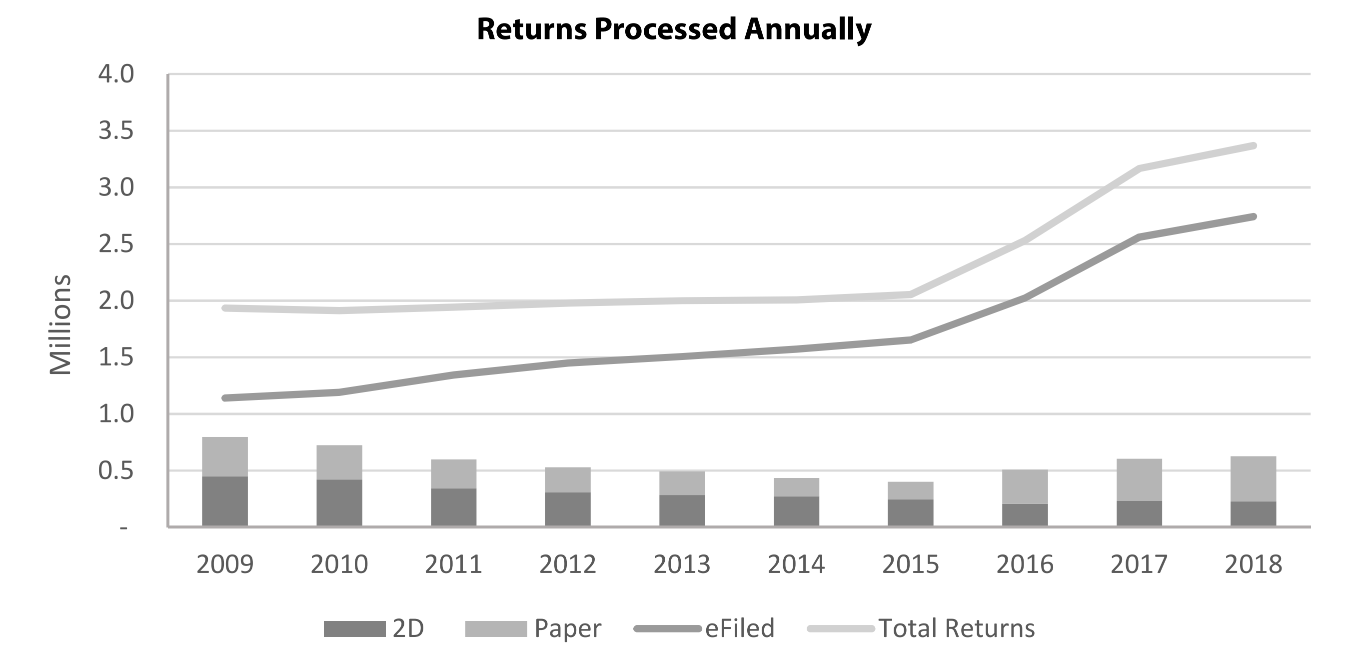
The Files Unit is responsible for storing, retrieving, and destroying the physical paper returns. When these items are requested or needed in other parts of the department, they are imaged and attached in GenTax rather than routing the paper around the building. The work in this unit has a slight seasonal impact during the peak of the tax processing season. These processes are being streamlined for increased efficiency by promoting electronic processes and by imaging paper items as soon as possible.

The Processing Center Operations Unit is responsible for developing business rules, creating test materials, and testing front-end tax return and payment processing systems as a part of the agency's annual tax season preparations. This work is critical to the agency's readiness for the major tax processing season. Additionally, the unit is responsible for researching and resolving issues during the day-to-day operations throughout the Processing Center including monitoring daily bank deposits. This unit evaluates policies, procedures, forms, workflows, and systems for efficiencies and implementing changes that take advantage of these efficiencies. They work with program areas across the agency as well as other state agencies. They also work with industry leaders including other states, software vendors, and national organizations.

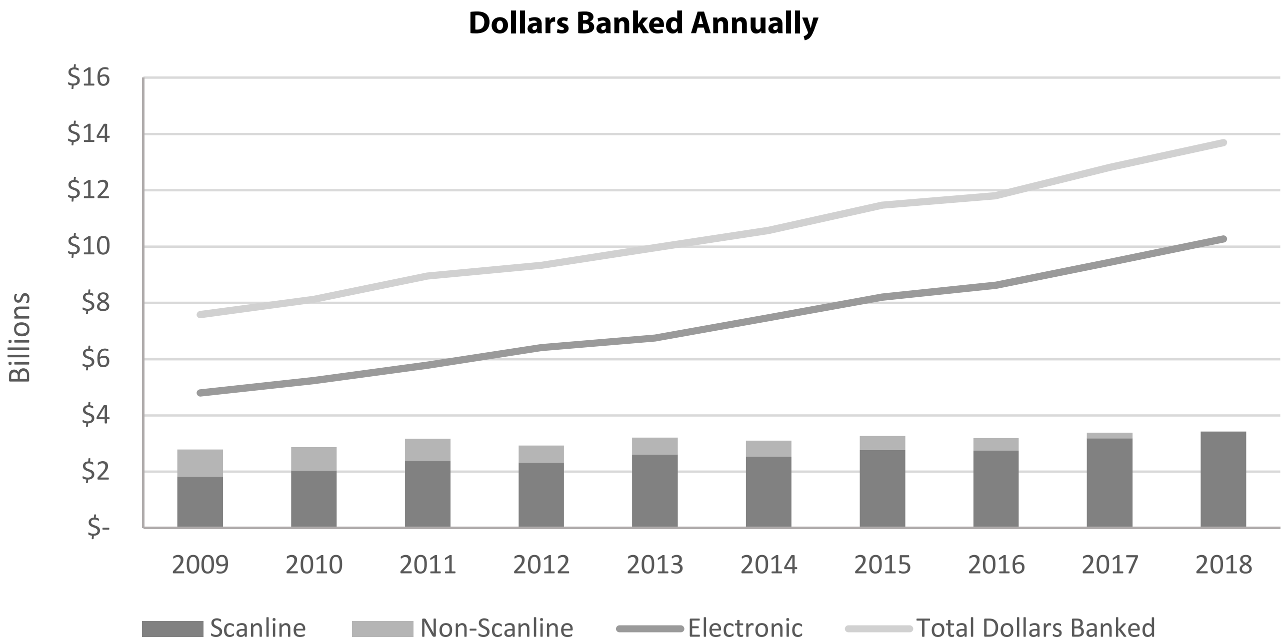
Program performance

This chart displays the total pieces of mail that were received by and processed through Mail Processing over the past 10 years. This volume is expected to remain constant over the next five years with a slight increase in overall volume to about 2.5 million pieces of mail annually.

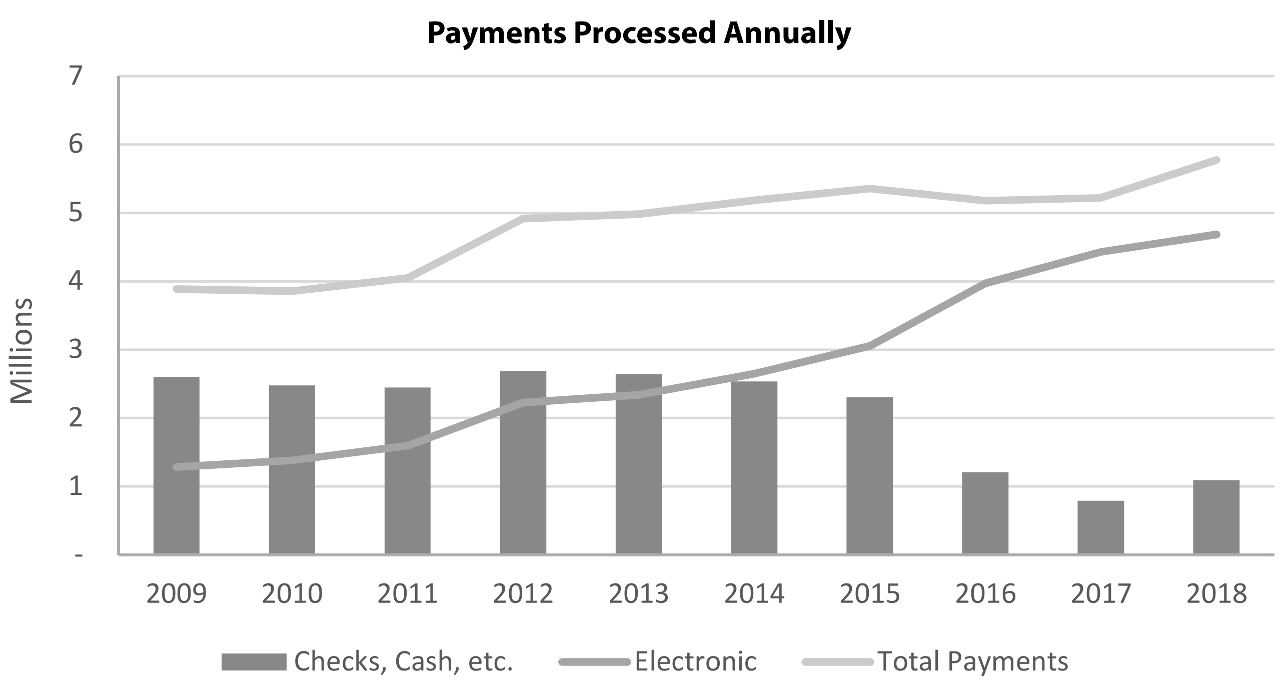
This chart displays the total volume of returns and electronic volume as lines and the total paper returns, which includes 2D and traditional paper, as stacked bars. The stacked bars correspond to the volume of returns processed in the Information Transcription Unit. This volume drastically increased due to having a new paper return to process in 2016 and 2017. This paper volume is expected to increase again in 2018 and 2019 by about 60,000 and 240,000, respectively, due to the new statewide transit tax. Beginning in 2020, the volume of paper returns should gradually decrease as e-filing increases.



The next chart displays the total dollars and the dollars that are banked electronically as lines. The stacked bars display the dollars received and banked using a paper method, such as a check, money order, or cash. The stacked bars correspond to the work items processed in the Banking and Cash Transaction units. The dollars banked using a paper transaction is expected to remain constant while the dollars banked electronically will continue to increase.



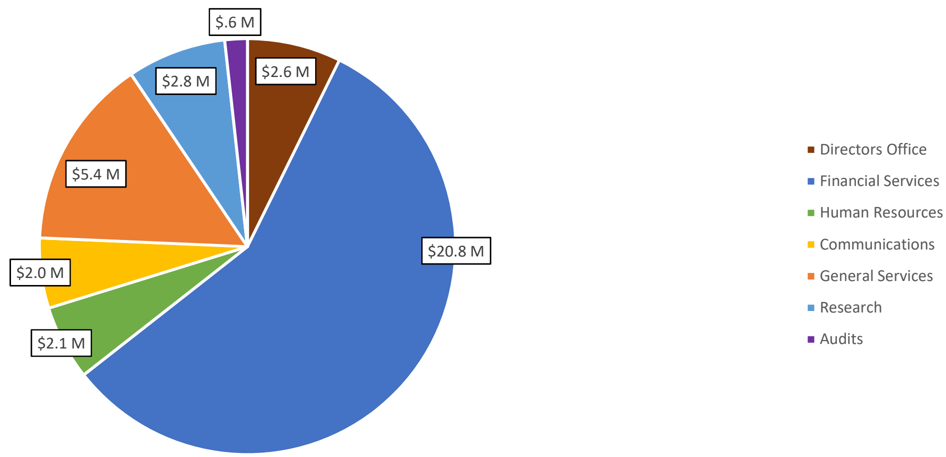
This chart displays the total number of payments and number of payments that are made electronically as lines. The stacked bars display the payments made using a paper method that were received and processed. The stacked bars correspond to the work items processed in the Banking and Cash Transaction units. The paper payment count has experienced a drastic decline due to the increased adoption of electronic methods. The paper volume is expected to stay consistent at just under 1 million paper payments per year over the next five years.



OREGON DEPARTMENT OF REVENUE

Administration

2019–21 Governor's Budget (GB)
Administrative Services Division Total Funds by Program $36,333,473



Division	Actual / LAB	2013–15	2015–17	2017–19	2019–21 GB	2021–23	2023–25
Admin.	LAB	$44,456,245	$49,275,805	$31,860,211	$36,333,473	$37,996,777	$39,752,437
	Actuals	$33,241,594	$37,849,464	$39,529,150			

	GF	OF	TF	POS	FTE
2017–2019 LAB	$24,331,873	$7,528,338	$31,860,211	67	62.37
2019–2021 CSL	$29,902,812	$8,064,389	$37,967,201	72	72.00
2019–2021 GRB	$28,588,792	$7,744,681	$36,333,473	72	72.00
CSL–GRB Change	$(1,314,020)	$(319,708	$(1,633,728)	-	0.00

The Administration Program includes the Director's Office, Financial Services Division, Communications, Human Resources, General Services, Internal Audit, and Research. Other functions include agency leadership, central agency administration, legislative coordination, research, and performance management functions. Effective management of this program supports the agency's program staff in providing excellence in core business program delivery and customer assistance.

Program summaries

Director's Office

The Director's Office provides top-level leadership and direction for the agency's programs and divisions. The director, deputy, executive support staff, legislative policy and processes, rulemaking, and performance management reside in the Director's Office.

Agency leadership: The director and deputy work together to create the structures, processes, activities and environment necessary to support achieving the agency's mission and vision. This involves working strategically and collaboratively with executive and legislative branch leadership, agency stakeholders, and customers. The director and deputy also work collaboratively with the agency through the senior leadership team to define strategic priorities and manage day-to-day challenges that have agency-wide impacts.

Legislative policy and rulemaking: These functions ensure that the agency is responsive to legislative policy needs and that the agency's policy agenda is aligned to key strategic outcomes. As new bills are enacted, this function ensures that legislation is effectively implemented through development and adoption of appropriate administrative rules.

Performance management: This function leads efforts across the agency to define strategic outcomes that cascade within the organization, metrics, and other performance management processes and tools that help the agency monitor performance progress and outcomes. The agency recently completed an assessment of outcome-based management (OBM) practices within the agency. The agency has requested permanent funding for this work to ensure successful implementation and ongoing maintenance of an OBM system.

Financial Services Division (FSD)

Financial Services provides advice, leadership, and direction on financial, budget, and procurement matters to all internal partners and stakeholders. This includes ensuring that practices comply with all applicable laws, rules, and professional standards and ensures transparency and accountability. During the 2017–19 biennium, this division completed several budget notes and audits targeted at improving financial integrity and controls within the agency. Most recommendations have been completed. However, a few longer-term actions will continue to be executed into the 2019–21 biennium.

The FSD is comprised of three units: Finance, Budget and Payroll, and Procurement.

Finance Unit: This unit provides accounting services, prepares financial reports, transfers and reconciles funds, and collects funds owed to DOR. This unit works closely with the DAS State Controller's Division, the Oregon State Treasury, other state agencies, and the federal government.

During the 2017–19 biennium, the unit worked toward staffing all vacant accountant and management positions, improving staff proficiency through training on key statewide financial management systems, and improving management quality controls for numbers provided by the unit and system accesses.

During the 2019–21 biennium, work will continue related to building desk manuals that are living documents, implementing recommendations received through various audits, and examining best practices to strengthen financial recording and revenue management. This unit will also continue to partner with the Budget team to create a crosswalk between RSTARS and ORBITS as the agency restructures. Finally, the unit will continue to find opportunities to better assist the agency and work strategically and collaboratively with leadership, agency stakeholders, and customers.

Budget and Payroll Units: This unit leads the biennial budget process and provides guidance and direction to program and administrative staff. The Budget unit is responsible for initiating and coordinating processes for budget planning, financial analysis, and overall technical budget support for the agency. The Payroll unit processes agency payroll data and ensures that each employee of the agency receives proper compensation in pay and benefits for work done. During the 2017–19 biennium improvement actions included:

- Fully staffing payroll: Filling the additional payroll tech position which helps ensure the agency's approximately 1,000 employees are appropriately supported.
- Train the fiscal analysts: A person with over 20 years of budget experience was brought in to assist with improvements.
- Budget restructure: Organized to enable a more efficient and transparent budget reporting for the 2019–21 biennium and beyond.

During the 2019–21 biennium, work will continue to improve communication with internal and external customers, train financial and budget staff, provide payroll training for new hires during new employee orientation, improve the fiscal impact and financial forecasting processes, create consistent and uniform monthly financial reports, and develop desk manuals for both budget and payroll.

Contracts and Procurement Unit: This unit is responsible for managing all contracting and procurement activities on behalf of the agency by conducting market research; determining efficient, ethical and fiscally responsible strategic sourcing strategies; helping internal customers translate business needs into procurement language; developing and managing all phases of procurements; and preparing, negotiating, processing, and administering contracts. This unit partners with other government agencies, businesses, and service providers for all small, intermediate, and large contracts, and intergovernmental agreements. This unit ensures the agency is compliant with Oregon procurement rules, guidelines, processes, and provides related procurement training that ensures accountability to these rules. While this unit was not subject to an agency directed budget note, the section participated in a statewide Secretary of State Audit of Procurement. As a result, the agency has taken a proactive approach towards analyzing the agency's current procurement related policies, procedures, and systems. The goal is to ensure policy and rule compliance, ensure the use of best procurement work processes and practices, and that the agency's contracting and procurement needs are effectively and efficiently supported.

Communications

The Communications Section provides guidance and expertise to business areas to help them educate and communicate with taxpayers, stakeholders, and external partners. The section's services fall into three main programs: public affairs, publishing, and web.

Public Affairs: This section ensures accurate information is provided to the public, media, public officials, employees, and other interested parties in a timely manner. Specific activities include responding to more than 500 media inquiries and public records requests each year; strategically planning communications activities for agency initiatives; managing the agency's high-level internal communications efforts; and editing agency correspondence, outreach materials, presentations, reports, and other products to ensure consistency, accuracy, readability, and adherence to agency standards.

Publishing: This section is responsible for analyzing, designing, editing, producing, and procuring the agency's approximately 750 forms and publications. Filling out forms and reading publications are the primary way most taxpayers interact with the department; therefore, these documents must be easy to use and understand. The section's publishers also maintain the agency's technical standards for forms, which helps ensure the forms can be effectively reproduced and processed.

Web: The web program provides project management and support for the development, implementation, and ongoing governance related to the agency's external website and agency intranet. The external website, which has more than four million unique visitors each year, is critical to the agency's ability to respond to the changing needs of taxpayers, achieve the highest level of compliance, and maximize service delivery. A key part of the web program is continuous data collection, analysis, and evaluation that guides recommendations for improvements to the site's accessibility and usability.

Human Resources

Human Resources (HR) provides guidance to ensure the agency follows policies and pursues best practices to create a work environment that attracts, develops, and retains the best and brightest employees. Specifically, HR provides:

- Education and leadership on policies and best practices for recruiting and retaining a diverse and competent workforce that is aligned with the agency's equal employment and affirmative action goals.
- Advice and counsel to agency managers on employee performance management, policy and contract interpretation, leave of absence management, and American with Disabilities Act (ADA) requirements related to employee accommodation requests.
- Coordination of training and staff development; administration of worker's compensation and unemployment insurance matters; oversight of job classifications, compensation, position control, and position management; and, maintenance of employee personnel and benefits records.

During the 2017–19 biennium, HR completed an in-depth review of several agency policies and position management practices prompted by a legislative budget note. Findings resulted in abolishing unnecessary policies, aligning remaining policies with DAS's policies and guidelines, enhanced recruitment and classification processes, and improved documentation and internal controls. Additionally, HR now provides quarterly reports to the agency's leadership team on position management to ensure ongoing effective oversight of position authority.

General Services

General Services is comprised of the, Facilities, Special Services, and the Disclosure Office.

Facilities: The unit engages in space planning, cubicle configuration, oversight of building maintenance needs, and public accessibility. Additionally, they perform keycard access functions, oversight of office supplies and the initial phase of the Request for Computer Access (RCA's) process. This unit holds a critical role in the oversight of the agency's physical building safety and security controls.

Special Services: This unit coordinates critical services such as quick copy services, fleet management, mail retrieval and distribution, and forms distribution and inventory. The unit delivers to staff all office supplies and packages from courier services.

Disclosure Office: This office is charged with oversight of the agency's access and use of confidential computer systems and legislatively authorized disclosure of confidential information. Additionally, the Disclosure Office acts as the IRS liaison and ensures the department meets all agreed upon criteria in the handling of federal tax information as required by the IRS.

Internal Audit

ORS 184.360 and OAR 125-700 requires the agency to have an established, maintained, and supported internal audit (IA) function. IA, previously located within the Directors Office, provides independent, objective assurance and consulting activities designed to add value and improve the agency's operations. IA does this with the agency's overarching objectives in mind. Activities include risk-based audits, consultations at the request of management, facilitation of the agency's annual risk assessment process, participation in agency committees, and engagement within the statewide audit community.

Internal auditing is a cornerstone of good public sector governance. By providing independent, objective assessments of whether public programs, policies, and operations are effectively managed helps public entities achieve accountability, integrity, and efficient operations. During the 2017–19 biennium, key contributions of this function included: audit and consultation work that benefited the agency's performance governance structure, financial management, physical and operational controls, process efficiencies, and the overall risk environment. Significant contributions were also made to the statewide internal audit function through filling key leadership roles with the Institute for Internal Auditors' Salem Chapter (Board of Director, Membership Chair) and the Chief Audit Executive Council (Vice-Chair and Chair).

Research

The agency's Research Section, previously located within the Program Management Office (PMO), is comprised of economists and research analysts who produce descriptive information about the department's tax programs and conduct analysis relating to the revenue and distributional effects of actual or proposed law changes and the effects of the department's administrative activities. The section participates in state revenue forecasting and tax policy analysis, working closely with the Office of Economic Analysis and the Legislative Revenue Office. The section provides meaningful information to external stakeholders such as policymakers, lobbyists, academics, media, and citizens and produces annual publications describing Oregon's personal income tax, corporation excise tax, property tax, lodging tax, and marijuana tax programs. It also coordinates and develops much of the material for the biennial Tax Expenditure Report which is a companion document to the Governor's Recommended Budget.

Budget drivers, risks, and environmental factors

Because Administration predominately supports core business services, its budget drivers are typically the same as those in business areas. The four most noteworthy are:

- **New tax programs.** Each new program needs budget tracking and reporting, project management, new staff, and external communications support.
- **Audits and budget notes.** The agency completed nine budget notes and nine audits. The majority of the audits were focused on administration and information technology functions.
- **Structure changes.** The agency's collections feasibility study, which resulted from a budget note, supports structural changes to the agency's collections function. This change would require significant Director's Office, finance, human resources, and communications support.
- **Cross-agency resourcing.** GenTax is an integrated computing environment. Maximizing this tool will involve enhanced cross-agency coordination, for which Administration is often looked to as a resource.

Accomplishments and major changes

Budget notes and audits have led to improvements in:

- **Position management practices**, resulting in the correction of several misaligned positions.
- **Human resources policies and procedures**. Statewide policies were adopted and managers were re-trained to ensure appropriate position management practices were followed
- **Financial management processes and controls.** Reviews identified deficiencies that were remedied, staff training was provided, and desk manuals were created to ensure process standardization.
- **Budget structure and alignment.** During the budget build for the 2019-21 biennium, the agency requested several structural changes to bring budget and operations into closer alignment.

- **Performance management.** An outcome-based management assessment was completed. It identified opportunities for the agency to improve strategic planning processes, metric alignment, and governance. During and after the assessment, the agency took steps, such as establishing its strategic priorities and piloting new executive reporting tools, in preparation for future outcome-based management activities.
- **Internal communications.** Town hall meetings continue, all-managers meetings were reconvened, competency in cascading communications is being strengthened throughout agency management, and a new monthly internal newsletter was launched.

Future efficiencies and improvements are planned for the 2019-21 biennium, which include:

- **Financial cost allocation.** A new costing model will be launched at the start of the biennium.
- **Interagency fund transfers.** There will be a focus on developing additional and improved reporting and controls.
- **Strategic planning, metrics and performance reporting.** The agency will dive deeper into strategic planning during the next biennium, with the goal of creating a plan under which more comprehensive performance management will be possible agency-wide.
- **Management and leadership development.** Another area of emphasis will be ensuring managers have the training they need to function more effectively and appropriately support staff engagement and development.

Appendices

Detail of Reductions to 2019-21 Governor's Budget

1	2	3	4	5		6	8	12	13	14	16	16
Priority (ranked most to least preferred)		**Package**	**SCR or Activity Initials**	**Program Unit/Activity Description**	**PS/S&S/SP/CO**	**GF**	**OF**	**TOTAL FUNDS**	**Pos.**	**FTE**	**Description of Reduction**	**Positons Vacancy Date and Impact**
Dept	**Prgm/ Div**											
1	1	090	019-00-00-00000	Non-Profit Housing for Elderly Persons	SP	(3,348,966)		$ (3,348,966)	0	0.00	Reductions in the NPH funds would result in less funds being distributed to the counties to backfill for the NPH exemptions they have granted. We would prorate the distributions.	Impact - Program is discontinued.
10	4	070	004-00-00-00000	Property Tax Division	PS		(777,898)	$ (777,898)	(1)	(3.78)	Eliminates 1 Position and the OF on 9 positions (3.78 FTE) (4196, 4214, 4223, 4245, 4286, 4138, 4200, 4262, 4212, 4240). This accounts for the $969,223 revenue shortfall, ORMAP dedicated ending balance, that was erroneously used to calculate CSL. GF for positions remains and positions are not eliminated.	**Position no. 4286 - OPA2- vacant 11/30/17**, remainder of positon (0.75 FTE) is in Senior Property Tax Deferral. Impact - Resource to the Valuation Section intended to help with policy and research work. Will need to rely on appraisers in the Section to do this work and they are not trained to do policy related work **Position no. 4196 - AA3- vacant 6/30/18, Position no. 4214-AA2-vacant 9/9/18, Position no. 4223-AA2-vacant 9/9/18, Position no. 4245-AA3-vacant 2/28/18, Position no. 4138-AA4-not vacant, Position no. 4200-AA4-not vacant, Position no, 4262-AA4-not vacant, Position no. 4212-AA4-not vacant, Position no. 4240-AA4-vacant 7/31/17.** Impact - These reductions are tied to actions in package 090 and package (POP) 107. Without the actions in package 090 and package 107, five of these positions will be underfunded, with the exception of Positions 4196, 4214, 4223 and 4245 which are eliminated in package 070.
4	2	070	004-00-00-00000	Property Tax Division	S&S		(175,348)	$ (175,348)	0	0.00	Eliminates S&S.	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
3	1	070	004-00-00-00000	Property Tax Division	CO		(15,977)	$ (15,977)	0	0.00	Eliminates CO.	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
11	5	090	004-00-00-00000	Property Tax Division	PS	(755,812)		$ (755,812)	(4)	(2.38)	Eliminates GF on 4 positions (2.38 FTE) (4196, 4214, 4223, 4245) on the Long term vacancy list $441,388 GF; inflation $36,849 GF; and increasing vacancy savings $314,424 GF. OF for these positions is taken in 070.	**Position no. 4196 - AA3- vacant 6/30/18, Position no. 4214-AA2-vacant 9/9/18, Position no. 4223-AA2-vacant 9/9/18, Position no. 4245-AA3-vacant 2/28/18.** Impact - These positions provide critical services within the Valuation program and are a critical component of the assessment and valuation process. Leaving positions vacant will reduce the accuracy of values placed on the tax roll and reduce the percentage of sites we appraise and visit. If we continue with the status quo, we will most likely appraise less than 42 percent of each site in an eight-year cycle or need to increase the cycle to more than eight years.
5	3	090	004-00-00-00000	Property Tax Division	S&S	(36,849)		$ (36,849)	0	0.00	Eliminates Inflation $26,849 GF	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
14	2	090	003-00-00-00000	Administration	PS	(468,536)	(17,322)	$ (485,858)	(1)	(1.00)	Eliminates 1 Position (1 FTE) on the longer vacancy list $199,199 GF; $17,322 OF. Increases vacancy savings $269,337.	**Position no. 3604 – ISS8 from PMO – Vacant 7/24/17**. This position was on the Long-Term Vacancy list. This position was left vacant and the funding was being used to pay for unbudgeted positions in the Project Management Office (PMO). The Deloitte report stated that DOR would need a DATA Management Administrator (following a model like what is done at OHA), in the 2019-2021 biennium the position could fill the position needed as a within ITSD.
9	1	090	003-00-00-00000	Administration	S&S	(202,235)		$ (202,235)	0	0.00	Eliminates Inflation $202,235 GF	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
12	2	090	005-00-00-00000	Personal Tax and Compliance	PS	(2,555,779)	(28,183)	$ (2,583,962)	(9)	(9.00)	Eliminates 3 Long Term Vacancy Positions (3 FTE) (6035, 6071, 6276) $402,670 GF; $8,218 OF, 6 Positions (6 FTE) of the Agency Reduction list (5028, 5019, 5511, 5429, 5030, 5015) $937,190 GF; $19,965 OF. Increased vacancy savings $1,215,919 GF.	3 Long term Vacancy Positions: **Position no. 6035 – AS1 – Vacant 2/28/18.** Impact - Less support work provided to the bankruptcy unit. **Position no. 6071 – RA3 – Vacant 7/22/18**. Impact – Less advanced collections. **Position no. 6276 – RA3 – Vacant 12/11/17**. Impact – Less advanced collections. 6 Master Reduction List Positions: **Position no. 5028-AS1, 5019-AS1, 5511-AS1, 5429-AS1, 5030-AS1, 5015-AS1-Vacant 1/31/19.** Impact - Less Tax support work accomplished for section. Higher classifications helping with Customer Service. This may result in layoffs.
6	1	090	005-00-00-00000	Personal Tax and Compliance	S&S	(128,344)		$ (128,344)	0	0.00	Eliminates inflation $128,344 GF.	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
13	2	090	006-00-00-00000	Business Division	PS	(641,406)	(349,174)	$ (990,580)	(4)	(2.60)	Eliminates 4 Positions (2.60 FTE) (6313, 6590, 6425, 6492) for Agency Reduction list $161,219 GF; $349,174 OF. Increased Vacancy Rate $480,187 GF.	4 Master Reduction List Positions: **Position no. 6313 (Vacant: 9/3/15), 6590 (Vacant: 12/31/18), 6425 (Vacant: 9/3/18), 6492 (Vacant: 9/3/18)– PSR4**. Impact – no impact for this reduction.
7	1	090	006-00-00-00000	Business Division	S&S	(55,115)		$ (55,115)	0	0.00	Eliminates inflation $37,760 GF and an additional S&S cut to balance of $17,355 GF	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
2	1	090	009-00-00-00000	Information Technology Services Division	S&S	(428,400)	(81,600)	$ (510,000)	0	0.00	Eliminates contracts that supported document scanner that agency no longer needs.	Impact - no impact for this reduction.

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Detail of Reductions to 2019-21 Governer's Budget

1	2	3	4	5		6	8	12	13	14	16	16
Priority (ranked most to least preferred)		**Package**	**SCR or Activity Initials**	**Program Unit/Activity Description**	**PS/S&S/SP/CO**	**GF**	**OF**	**TOTAL FUNDS**	**Pos.**	**FTE**	**Description of Reduction**	**Positons Vacancy Date and Impact**
Dept	**Prgm/ Div**											
15	3	090	009-00-00-00000	Information Technology Services Division	PS	(1,413,185)	(102,928)	$ (1,516,113)	(5)	(3.87)	Eliminates 5 postions (3.87 FTE) from Agency Reductions list (3541, 3501, 0003254, 3141, 3048). Increased vacancy rate $623,543 GF	5 Master Reduction List Positions: **Position no. 3541 – ISS8 – Portfolio Analyst – Vacant 7/13/18.** This position was on the Long-Term Vacancy list. This position was left vacant and the funding was being used to pay for an unbudgeted Security Analyst position in the Information Services Section that helped bridge the gap while ESO built their service capabilities in support of SB90. In the 2019-2021 biennium the position could fill the position needed in support of Outcome Based Management initiatives within ITSD. Impact - Department still has a significant need for Data Management, Analytics and Reporting, as this is not currently being provided at required levels. **Position no. 3501 – ISS7 – Engineering Services – Vacant 10/31/18.** This position was selected for reduction shortly after the employee announced his retirement, but prior to his departure. Impact – Department's pace to modernize legacy environment's will be slowed, imposing additional technical debt and business risk. **Position no. 0003254 – OA1 – Seasonal – Vacant 5/19/11.** Impact – A delay in processing paper returns could have some interest impact with refunds & payments. In general, this limits our efficiencies in this area. **Position no. 3141 – OA2 – PPT**. Impact – Our tax preparation companies like H&R Block, TurboTax and Tax Act may not receive the desired support for maintaining Oregon tax processing capabilities within their products. **Position no. 3048 – ISS1**. Impact – A delay in processing paper returns could have some interest impact with refunds & payments. In general, this limits our efficiencies in this area.
8	2	090	009-00-00-00000	Information Technology Services Division	S&S	(127,408)		$ (127,408)	0	0.00	Eliminates inflation $127,408 GF	Impact – Inflation is meant to mitigate the increase in goods and services used by the divisions, any reduction to S&S impacts the programs negatively in the performance of their mission.
								$ -				
								$ -				
								$ -				
								$ -				
						(10,162,035)	(1,548,430)	$ (11,710,465)	(24)	(22.63)		

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Detail of Reductions to 2019-21 Current Service Level Budget

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		**Agency**	**SCR or Activity Initials**	**Program Unit/Activity Description**	**GF**	**LF**	**OF**	**NL-OF**	**FF**	**NL-FF**	**TOTAL FUNDS**	**Pos.**	**FTE**	**Used in Gov. Budget Yes / No**	**Impact of Reduction on Services and Outcomes**
Dept	**Prgm/ Div**														
1	1	15000	019-00-00-00000	Non-Profit Housing for Elderly Persons	334,897						$ 334,897	0	0.00	Yes	Reductions in the NPH funds would result in less funds being distributed to the counties to backfill for the NPH exemptions they have granted. We would prorate the distributions.
2	1	15000	04-00-00-00000	Property Tax Division - Abolish Positions	1,022,985		266,247				$ 1,289,232	6	5.88	Yes	Abolish (3) Appraiser Analyst 3, (2) Appraiser Analyst 2, and (1) ISS 3. This will reduce the quality of our work in order to keep up with volume of properties we appraise-- which increases every year. Reduces our ability to value our properties at 100% of RMV as mandated by ORS 308.232 (Property to be valued at 100 percent real market value). We would not be able to maintain our goal of an 8-year appraisal cycle. We would do less site appraisals and have to limit which assets we focus on instead of reviewing all assets. This is not the best practice for appraisal of property and could result in property tax inequities and millions of dollars in property not appraised at 100% of real market value. In addition, some property not currently reported by the taxpayer may not be detected and therefore omitted from the value placed on the roll. Mandated overtime – in 2017, 215 hours of overtime (OT) was required to complete our core work. This consisted of 112 hours of OT for Industrial appraisers and 103 hours of OT for CA appraisers. The amount of overtime needed to determine values would increase with each reduction level. We would potentially miss out on opportunities that maintain our proficiency levels such as continuing education, gathering market data, cross-training appraisal staff, exploring process improvements, exploring technology improvements, and conducting market studies. A continued decline in staff morale tied to having more work with less resources. Less interaction with our county partners including the elimination of tech group meetings, which have historically been valuable yearly meetings with county appraisers to discuss, instruct, and collaborate on appraisal methodology and current/emerging appraisal issues. This could leave us in a constant state of reacting to issues instead of being proactive. This would eliminate our dedicated trainer position, one timber appraiser, and one cartographer in our mapping unit. Training provided to staff would decrease as a result. Responsiveness to timber related inquiries would be diminished. Turnaround time on mapping changes would be increased.

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Detail of Reductions to 2019-21 Current Service Level Budget

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		Agency	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Used in Gov. Budget Yes / No	Impact of Reduction on Services and Outcomes
Dept	Prgm/ Div														
3	1	15000	005-00-00-00000	Personal Tax and Compliance Division - Abolish Positions	3,985,453		84,691				$ 4,070,144	25	25.00	Yes	This reduction will abolish six Compliance AS1s, twelve ADP AS1s, one ADP PEM A, one Compliance TA1 and one Collections RA1. By implementing this reduction there will be an impact on the amount of returns that are reviewed during the return processing activity. The ADP AS1 positions have a direct impact on processing returns and a part of their work is to review returns for correctness and ensure the correct amount of refunds are being issued. By cutting these positions we will have to reduce the number of returns reviewed and refunds released may be issued incorrectly. Additionally, some review results in billings therefore, the impact would result in less revenue brought in by the Department of Revenue as a result of return processing activity. With less collectors it will have a direct impact on how many people we can assist with collections and slower response times to pick up incoming phone calls from debtors. The revenue stream will also be impacted by having fewer auditors examining tax returns and then less assessments being set up after the examinations are complete. There is also work that the AS1s do that is core work that will need to be done by auditors so that will also contribute to less audits being completed. The AS1s located in the district offices that are included in this reduction play a large role in taxpayer assistance and customer service, without them available, taxpayer assistance will both take longer and may be pushed upon the auditors further eating into their available audit time.
4	1	15000	006-00-00-00000	Business Division - Abolish Positions	1,198,338		646,664				$ 1,845,002	11	9.60	Yes	The reduction will abolish the following positions and have the corresponding impacts: (4) PSR4s from Special Programs, this work will be handled by other staff. (1) OS1 from Corp, will shift clerical duties to higher level staff which will impact return processing, customer service and enforcement activities. (1) TA2 from Corp, will reduce the number of large multi-state corporations who are audited, directly reducing General Fund revenues. (2) CS2, (2) RA2, (1) RA1 from Withholding, will reduce enforcement activities related to employes filing payroll adn will reduce collection activity related to all Business Division programs as well as other enforcement activities directly reducing General Fund and Other Funds revenues.
5	1	15000	007-00-00-00000	Collections Division - Abolish Positions			740,923				$ 740,923	5	5.00	No	The reduction will abolish the following positions and have the corresponding impacts: (4) RA1s, this will result in a decrease in direct collection activities for individual debts resulting in a loss of statewide revenue. (1) OS1 that will delay new account reaching collection agent work queues, which may result in delayed or loss of statewide revenue.
6	1	15000	009-04-00-00000	Information Technology Services Division / Processing Center - Abolish Positions and Reduce S&S	830,772		69,117				$ 899,889	9	3.32	Yes	This reduction will eliminate or replace licences, software and hardware that is being replaced by the Processing Center Modernization (PCM) project. There are (8) seasonal and part-time positions whose work is being eliminated because of PCM. There is (1) ISS1 whose duties were reduced with the implementation of GenTax and eliminated with PCM.

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Detail of Reductions to 2019-21 Current Service Level Budget

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		**Agency**	**SCR or Activity Initials**	**Program Unit/Activity Description**	**GF**	**LF**	**OF**	**NL-OF**	**FF**	**NL-FF**	**TOTAL FUNDS**	**Pos.**	**FTE**	**Used in Gov. Budget Yes / No**	**Impact of Reduction on Services and Outcomes**
Dept	**Prgm/ Div**														
7	2	15000	009-00-00-00000	Information Technology Services Division / Processing Center - Abolish Positions	1,157,025		178,274				$ 1,335,299	5	5.00	Yes	This reduction will abolish the following positions and have the cooresponding impacts: (1) ISS3, this will increase the timing for ticket logging and the response time to customers. (1) ISS4, will cause the RCA process to take longer causing support times to increase. (1) ISS7 & (1) ISS8, work will be given to other employees, increasing potential response time. (1) ISS8, Business Analyst position will impact ITS' ability to perform problem analysis an will hinder the alignment to the business's goals.
8	1	15000	003-00-00-00000	Administration - Abolish Positions and Reduce S&S	1,504,845		257,896				$ 1,762,741	6	7.90	No	These adminstrative reductions will hinder the divisions ability to provide service to the other divisions with the department. This reduction will remove funding for (2) FA2s in the budget unit; (1) PCS1 in procurement; (2) Accountant 2s in Finance; (1) position in General Services, that will shift all printing to the print plant or office printers, and removes partial funding for several other positions in the Directors Office, HR and Research. The reduction will take reductions to S&S wich will eliminate some travel, our participation in the Ascent program and OF limitation that will lower the ability to lien delinquent accounts.
9	1	15000	014-00-00-00000	Marijuana Program - Abolish Positions			296,269				$ 296,269	2	2.00	No	Elimination of the positions will increase wait times for taxpayers and jeopardize best practices for cash handling.
10	1	15000	025-00-00-00000	Senior Citizens Property Tax Deferral Program - Reduce Funds			1,693,837				$ 1,693,837	0	0.00	No	Assuming we could take the reduction from the SCD revolving account, we wouldn't feel any impacts in operations or distributions. It would simply reduce the balance in the revolving account.
				5%	10,034,315	0	4,233,918	0	0	0	$ 14,268,233	69	63.70		

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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		Agency	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Used in Gov. Budget Yes / No	Impact of Reduction on Services and Outcomes
Dept	Prgm/ Div														
11	2	15000	04-00-00-0000	Property Tax Division - Abolish Positions	462,577		361,788				$ 824,365	5	4.88	Yes	The reduction will abolish the following positions and have the corresponding impacts: (1) OPA2, (1) OS2, (1) AS2, (2) Appraiser Analyst 3. This will reduce the quality of our work in order to keep up with volume of properties we appraise-- which increases every year. Reduces our ability to value our properties at 100% of RMV as mandated by ORS 308.232 (Property to be valued at 100 percent real market value). We would not be able to maintain our goal of an 8-year appraisal cycle. We would do less site appraisals and have to limit which assets we focus on instead of reviewing all assets. This is not the best practice for appraisal of property and could result in property tax inequities and millions of dollars in property not appraised at 100% of real market value. In addition, some property not currently reported by the taxpayer may not be detected and therefore omitted from the value placed on the roll. Mandated overtime – in 2017, 215 hours of overtime (OT) was required to complete our core work. This consisted of 112 hours of OT for Industrial appraisers and 103 hours of OT for CA appraisers. The amount of overtime needed to determine values would increase with each reduction level. We would potentially miss out on opportunities that maintain our proficiency levels such as continuing education, gathering market data, cross-training appraisal staff, exploring process improvements, exploring technology improvements, and conducting market studies. A continued decline in staff morale tied to having more work with less resources. Less interaction with our county partners including the elimination of tech group meetings, which have historically been valuable yearly meetings with county appraisers to discuss, instruct, and collaborate on appraisal methodology and current/emerging appraisal issues. This could leave us in a constant state of reacting to issues instead of being proactive. This eliminates two administrative support positions shifting these duties to professional staff resulting in less time spent on appraisal tasks. Eliminates OPA position that provides performance analysis and makes recommendations for program changes.
12	2	15000	005-00-00-00000	Personal Tax and Compliance Division - Abolish Positions	4,175,345		87,378				$ 4,262,723	22	22.00	No	The reduction will abolish the following positions (15) RA3s and (1) PEM-C from Collections; (6) TA1s from Compliance. This will eliminate a full Collections unit. The RA3's positions are tax collecting field agents that perform duties from phone calls to onsite field visits and advanced collections actions such as till taps and license suspensions and potential property seizure. These positions are responsible to collect from our most difficult to collect cases. This is a revenue generating position.The PEM-C position manages and supervises a unit of debt collecting revenue agents, Field RA3s which do advanced collections. Due to the reduction of 15 RA3's the impact would be the loss of a full unit. This position supervises a large unit, so the impact without the RA3 positions would increase the oversight and supervision of the staff ratio and would result in a negative balance. There would additionally be an impact to the collection function also have a negative revenue impact. The effects of the Compliance section TA1s would result in less audits completed creating a further backlog.

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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		Agency	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Used in Gov. Budget Yes / No	Impact of Reduction on Services and Outcomes
Dept	Prgm/ Div														
13	2	15000	006-00-00-00000	Business Division - Abolish Positions	1,187,552		754,524				$ 1,942,076	9	9.00	No	The reduction will abolish the following positions and have the corresponding impacts: (3) TA2s from Corp that will reduce the number of multi-state corporations who are audited which directly reduces General Fund Revenues. (2) CS2s from Withholding which will reduce enforcement activities related to emplayers filing payroll taxes. (1) PEM-C from Withholding with will reduce program support activities as well as maintain appropriate staff to manager supervisory ratios. (1) RA1 from Withholding with will reduce collection activity related to all Business Division programs as well as other enforcement activities which will directly reduce Other Fund revenues. (1) OPA3 from SPA with will reduce the sections ability to do policy work and other work associated with the new HERT program. (1) OS2 in SPA which will reduce the adminstrative and customer support activities.
14	2	15000	007-00-00-00000	Collections Division - Abolish Positions			596,197				$ 596,197	4	4.00	No	The reduction will abolish the following positions and have the corresponding impacts: (4) RA1s, this will result in a decrease in direct collection activities for individual and business debts resulting in a loss of statewide revenue.
15	3	15000	009-04-00-00000	Information Technology Services Division / Processing Center - Abolish Positions and Reduce S&S	642,772		200,385				$ 843,157	9	6.16	No	The reduction will abolish the following positions and have the corresponding impacts: (5) DEO positions which will have a high impact. These staff maintain the agencies paper tax return files. While the need for paper file maintenance will be eliminated with PCM going forward, the files unit expects to carry out imaging projects for older files to reduce the footprint of paper storage. (4) OS2 seasonal positions which will have a medium impact. These positions correct taxpayer payment errors in GenTax during the major tax season. This work is expected to increase with implementation of the STT.
16	4	15000	009-00-00-00000	Information Technology Services Division / Processing Center - Abolish Positions	1,047,425		166,898				$ 1,214,323	5	5.00	No	The reduction will abolish the following positions and have the corresponding impacts: (1) ISS7 in GenTax Development Unit, high level development postion that would lower the departments ability to self support the GenTax applications and the overall impact would increase dependancy on FAST consulting for GenTax development. (1) ISS4 in Support Services will create backlog in customer support as times for service will increase and "first call resolution" will suffer. (3) Software Testers (ISS4, ISS5, ISS6), impact is that testing will be delayed indefinitely for in-house developed applications.

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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		**Agency**	**SCR or Activity Initials**	**Program Unit/Activity Description**	**GF**	**LF**	**OF**	**NL-OF**	**FF**	**NL-FF**	**TOTAL FUNDS**	**Pos.**	**FTE**	**Used in Gov. Budget Yes / No**	**Impact of Reduction on Services and Outcomes**
Dept	**Prgm/ Div**														
17	2	15000	003-00-00-00000	Administration - Abolish Positions and Reduce S&S	1,517,600		259,127				$ 1,776,727	8	7.60	No	These adminstrative reductions will hinder the divisions ability to provide service to the other divisions with the department. This reduction will remove funding for (2) FA3s in the budget unit; (1) PCS2 in procurement; (2) Accounting Tech 2s in Finance; (2) positions in Human Resources, (1) position in Communications, that will shift all printing to the print plant or office printers, and removes remaining funding for several other positions in the Directors Office and Research. The reduction will take reductions to S&S wich will eliminate some travel, our participation and OF limitation that will lower the ability to lien delinquent accounts. This reduction will further limit Finances ability to get work done in support of the department and the state; it will not allow for any analysts in the budget unit which will hamper budget execution and future development including fiscal analysis during legislative session and it will put procurement in a tight situation. The lost positions in Research will limit the agency's abiltity to analyze and understand GenTax data.
18	2	15000	014-00-00-00000	Marijuana Program - Abolish Positions			153,877				$ 153,877	1	1.00	No	Abolish (1) AS2 that Credits, refunds, and general account maintenance activities will be resolved less-timely which will lead to additional expenses for the Department such as interest paid, erroneous billings and garnishments and application of unrecoverable fees.
19	2	15000	025-00-00-00000	Senior Citizens Property Tax Deferral Program - Reduce Funds			1,693,837				$ 1,693,837	0	0.00	No	Assuming we could take the reduction from the SCD revolving account, we wouldn't feel any impacts in operations or distributions. It would simply reduce the balance in the revolving account.
20	2	15000	008-02-00-00000	Revenue Clearing House / CAFFA Clearinghouse - Reduce Funds			3,571,641				$ 3,571,641	0	0.00	No	This reduction will result in the less CAFFA money being transferred to counties.
					19,067,586	-	12,079,570	-	-	-	$ 31,147,156	132	123.34		

	$ 18,872,550	$ 12,238,815	Target	$ 31,210,865
	$ 195,036	$ (159,245)	Difference	$ (63,709)

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Detail of Reductions to 2019-21 Current Service Level Budget

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Priority (ranked most to least preferred)		Agency	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Used in Gov. Budget Yes / No	Impact of Reduction on Services and Outcomes
Dept	Prgm/ Div														

Secretary of State Audit Results and Responses

Cybersecurity Controls Audit

Key findings:

1. DOR has implemented a security management program, but associated plans and procedures have not been updated to reflect current staffing levels and reorganization of statewide security by the OSCIO.

2. DOR lacks specific policies and fully automated controls for many elements of the basic security controls identified by the Center for Internet Security. These basic controls should be implemented in every organization to reduce the risk that attackers could compromise systems and data.

Recommendations:

1. Improve security management by documenting the degree to which DOR has adopted the statewide information security plan and ensuring DOR and ESO roles and responsibilities for information security are clearly defined.

Management Response: Agreed. DOR submitted the DOR Gap Analysis of the Statewide Security Plan to ESO 10-26-2018. DOR will collaborate with ESO on a Plan of Action and Milestones (POAM) to address the security gaps over the next six months. DOR previously maintained a DOR specific Information Security Plan. Going forward, this plan will be retired and DOR will adopt the Statewide Information Security Plan maintained by the Enterprise Security Office.

2. Remedy weaknesses with CIS Control #1 – Hardware Inventory – by further developing written policies and procedures, automating asset discovery and inventory, and expanding hardware authentication.

Management Response: Agreed. DOR Management will collaborate with OSCIO to strengthen its hardware inventory controls to remedy its identified weaknesses with CIS #1. Most end-user devices are mobile and Wi-Fi enabled. A single device can have several IP addresses per day depending on location. DHCP and DNS record updates are automated but asset inventory is not due to the ephemeral nature of IP addresses in DOR's environment. DOR will continue to work with ETS and ESO to implement Layer 2 NAC. As a compensating control, DOR will implement certificate-based network authentication on all agency endpoints.

3. Remedy weaknesses with CIS Control #2 – Software Inventory – by further developing written policies and procedures, improving tracking and documentation of approved software and software versions, and implementing software whitelisting.

Management Response: Agreed. DOR Management will collaborate with OSCIO to strengthen its software inventory controls to remedy its identified weaknesses with CIS #2. Furthermore,DOR will evaluate the use of software whitelisting based on its risk to the agency. If after a risk analysis categorizes this as a high risk DOR will implement software whitelisting controls. Short term activities and process improvements will include: Evaluation of automated whitelist enforcement technologies. Work with ESO to establish a consistent approach to whitelisting technologies and strategy. Improve DOR tracking and documentation of approved software. Automate reporting on non-approved software. Create policy and process for removal of non-authorized software.

4. Remedy weaknesses with CIS Control #3 – Vulnerability Assessment – by formally tracking the status of identified vulnerabilities to ensure they are timely remediated.

Management Response: Agreed. DOR Management will evaluate the current tracking and remediation of vulnerabilities performed weekly to identify areas for improvement in its vulnerability management program by ensuring known vulnerabilities are tracked and remediated in accordance with the agency and statewide standards. DOR will create and manage service tickets for all critical vulnerabilities.

5. Remedy weaknesses with CIS Control #4 – Privileged Access – by updating policies and procedures to cover additional elements, implementing multifactor authentication and use of dedicated workstations for all administrative tasks, and implementing alerts associated with administrative account activities.

Management Response: Agreed. DOR will work to strengthen CIS #4 through administrative controls (i.e., policies, standards, and procedures.) and implement the use of dedicated workstations for all privileged user administrative tasks.

6. Remedy weaknesses with CIS Control #5 – Secure Configurations – through automated monitoring of configuration changes and by further developing written policies and procedures.

Management Response: Agreed. DOR will collaborate with OSCIO/ESO to leverage Tenable (Nessus Security Center) to strengthen its secure configuration controls to remedy its perceived weaknesses with CIS #5. DOR has implemented weekly CIS specific Tenable scans to baseline and track our server and workstation configurations. DOR has also implemented policy enforced security settings in accordance with the IRS Office of Safeguards Computer Security Evaluation Matrix. IRS security setting recommendations are in alignment with the CIS recommendations and are validated every three years by IRS auditors. DOR will develop policies and procedures to continuously detect, track, and remediate deficiencies to ensure consistent and compliant configurations.

7. Remedy weaknesses with CIS Control #6 – Audit Logs – by developing a central logging solution, implementing log analytic tools, and automating log review.

Management Response: Agreed. DOR currently consumes OSCIO enterprise logging services. DOR will continue to collaborate with OSCIO to meet the audit requirements by creating and implementing appropriate use cases for security event logging and monitoring. Currently, DOR forwards web logs to QRadar, ETS's central logging solution. DOR has initiated the formal onboarding process with ETS to extend log aggregation and analysis to DOR's Microsoft Advanced Threat Analytics system and critical core database and application servers.

GenTax System Controls Audit

Key findings:

1. GenTax controls ensure accurate input of tax return and payment information for personal income, withholding, and corporate income and excise tax programs. Additional processing and output controls provide further assurance that GenTax issues appropriate refunds and bills to taxpayers for taxes due.

2. Logical access controls are generally sufficient, but DOR needs to make improvements to ensure managers have enough information to request appropriate access. DOR should also ensure that access remains appropriate for users who change jobs and is removed for users who are terminated.

3. DOR monitors and tracks changes to GenTax to ensure system developers implement only approved program modifications, but better guidance is needed for testing procedures to ensure program modifications meet business needs.

4. DOR does not have sufficient assurance that it could timely restore GenTax in the event of a disaster or major disruption.

5. DOR has not obtained independent verification that the GenTax vendor has implemented appropriate controls over servers at an external data center to provide additional assurance that Oregon data is secure.

Recommendations:

To improve application controls, we recommend DOR management:

1. Consider notifying taxpayers claiming no withholding if withholding records are found; and

Management Response: Agree. As noted in the Secretary of State audit report, tax returns where the taxpayer claims no withholding, but where withholding has been reported by an employer, represent a small percentage of all Oregon Form 40 returns {0.2% of all processed Oregon Form 40 returns and 0.04% of all reported withholding). DOR will further evaluate the impact of notifying these taxpayers claiming no withholding if withholding records are found, and consider whether this compliance risk requires further action during the 2019 processing season.

2. Implement controls to track and analyze how interface file failures are resolved.

Management Response: Agree. GenTax produces a report that details the results of the interfaces process in the nightly run called "Daily File Activity." This report has been updated to include developer and business contacts for each file. A procedure is being written, staff are being trained and development staff will review the file activity report daily and resolve any exceptions and document in the notes section the resolution.

To strengthen logical access controls, we recommend DOR management:

3. Identify and document which GenTax roles should not be combined with others;

Management Response: Agree. A segregation of duties review was completed in October 2017 by a project Business Analyst. Based on this audit's recommendation we will revisit the October 2017 suggestions and develop documentation identifying incompatible roles in addition to updates to policies and procedures.

4. Fully document GenTax groups and functions and ensure managers have received instructions on how to request access;

Management Response: Agree. Although we currently have groups and functions identified, the understanding of how they work within GenTax and how access to one group could impact access to another group needs further development. We will ensure that all groups contain detail of the functions included in each group and that managers receive appropriate training and documentation.

5. Improve procedures to ensure user access is removed timely and completely when no longer needed;

Management Response: Agree. We will update our existing policies and procedures to specifically address access and temporary access due to special project assignments in our GenTax environment. Additionally, we have updated the GenTax security document so that in addition to adding a system access end date we will remove access to all GenTax groups that the employee previously had. If an employee is rehired, they will no longer automatically have access to prior authorities in GenTax.

6. Update policy to require periodic manager review of logical access granted to GenTax and develop a mechanism to enforce and document the review; and

Management Response: Agree. We will work with our Security Policy Committee to modify the roles and access policy and procedure to ensure there is periodic and systematic managerial review of logical access.

7. Implement monitoring of logs to identify inappropriate activity taken by server administrators.

Management Response: Agree. We recently installed a threat protection software, on all GenTax servers and it has now been configured to generate reports for monitoring. This will allow us to examine the server and files for access and integrate the log review into our existing process.

To strengthen change management procedures, we recommend management:

8. Develop more specific guidance for individuals testing system changes to ensure that all elements are appropriately considered.

Management Response: Agree. A "testing lead" will work with developers and business analysts to create testing plans and establish a framework.

To strengthen disaster recovery procedures, we recommend management:

9. Develop and maintain a written disaster recovery plan for GenTax; and

Management Response: Agree. This finding was discussed with DOR during a fall SOS briefing. The initiative was taken at that time to develop this plan. The current draft plan covers a strategy that is and must be shared with the agency's service provider, DAS-Enterprise Technology Services. The plan was shared with them for review in January. Certain details will need to be added or updated as the plan is tested. We are currently scheduled to validate the plan with ETS, via a table-top exercise, in the spring of 2018.

10. Periodically test backups stored off-site to ensure they can be used to restore GenTax fully in the event of a major disruption or outage.

Management Response: Agree. The first step for solidifying the GenTax environment for recovery from a major disaster was recently completed. The entire environment (application servers, database servers, etc.) have been migrated to ETS' more modern virtualized environment which improves availability and uptime. The disaster plan and strategy referenced in Recommendation #9 above discusses how DOR will leverage this new infrastructure to improve the feasibility for complete recovery. DOR is dependent on DAS-ETS.

To provide additional assurance that personal income tax data is protected, we recommend management:

11. Request an independent security review of controls over servers operated by FAST Data Services.

Management Response: Agree. During the procurement/contract signing phase, FAST Data Services-Information Security Office went through in detail the security and attestation process with DOR's Information Security Office. DOR Information Security Office was satisfied with the controls they have in place which aligns with industry best practices. Additionally, given that the data that the DOR sends to FAST Data Services is, as SOS has validated, highly encrypted both at rest and in transit, a risk of a data breach resulting in useful information is statistically improbable. This is likely why FAST's other U.S. state customers, which number more than half the country, also have not requested an independent security review. However, DOR will inquire with FAST to understand if a separate third-party entity has validated their controls. If we find this to be true, we will ask for documentation of this third-party validation. Future contract negotiations with FAST Data Services will create opportunities to readdress the third-party validation requirement.

Culture and Customer Service Audit

Key findings:

1. Opportunities exist to enhance DOR's operating culture and employee morale. Specifically, DOR management should develop a formal strategy and take action to better incorporate collaborative values within the agency. The strategy should include robust internal communications, an effective accountability framework, a collaborative feedback process, and improved workplace interactions.

2. The agency's customer satisfaction declined between 2013 and 2016. A portion of this decrease was due to implementation of a critical and complex system known as GenTax. DOR has already identified and addressed a number of customer service deficiencies; as a result, customer service ratings increased in 2017 and 2018. DOR should complete efforts underway to address these challenges.

Recommendations:

To begin to incorporate the values of a collaborative culture that employees, including management and staff, prefer, DOR leadership should:

1. Determine and implement an appropriate level of internal communications that provide employees with information they need to do their job and provides a sense of the agency's purpose and goals. For example, the agency's strategic plan should communicate DOR's goals and the specific actions required to achieve them.

<u>Management Response</u>: Agree. DOR management has taken several steps recently to enhance internal communications. The first DOR newsletter in almost ten years was released last week. A DOR strategic priorities document that communicates DOR's agency-wide priorities and related goals for achieving them will be released in the very near future. DOR leadership continues to hold periodic town hall meetings and is working with senior and mid-level managers to create more consistent cascading of information throughout the agency. Management is committed to continuing to pursue new and more effective methods of communicating with our staff.

2. Implement an effective accountability framework that at a minimum sets clear and measurable expectations and feedback to address employee performance. For example:

- Track employee position descriptions to ensure employees have updated and accurate descriptions of their work.
- Track employee performance evaluations to ensure employees receive timely feedback on their performance.
- Ensure position descriptions and performance evaluation standards are clear and consistently applied.
- Ensure that managers and supervisors have the requisite training and skills.
- Consult with the Department of Administrative Services' Human Resource Office, for assistance with supervisor training and development.

<u>Management Response</u>: Agree. In response to this recommendation, the DOR Human Resources (HR) Administrator will take responsibility for tracking employee position descriptions and helping

managers ensure they are updated and accurate. DOR management will begin tracking timeliness of performance evaluations to ensure that all employees receive periodic performance evaluations. Training has been a long-standing agency priority that is measured as a Key Performance Measure. Defining "requisite" training for managers and supervisors can be challenging, so, the agency may consult with Department of Administrative Services on this topic. Leadership continues to encourage managers and supervisors to be proactive about pursuing training that will help them be more effective in their role, particularly new managers and supervisors. Turnover in key positions within HR will mean that implementation of this recommendation will take longer than the expected 6 months.

3. Complete the current feedback system by including a mechanism to inform staff of the status and outcome of their submitted ideas. Refer to the Oregon Department of Human Services and the guidance for the federal agencies' examples cited in the report.

Management Response: Agree. DOR has some specific functioning feedback systems, however, effectiveness of these feedback systems has not been reviewed recently. Management plans to evaluate the current feedback system and, based on findings, identify possible improvements that ensure staff are informed of the status and outcome of their submitted ideas. Again, turnover in key positions within HR may delay implementation, so, a realistic target of December 31, 2019 has been established.

Furthermore, DOR leadership should:

4. Work with the Department of Administrative Services, Labor Relations unit to clarify the roles of the Joint Labor Management Committee members to strengthen the labor/management relationship throughout the agency.

Management Response: Agree. DOR management is committed to having effective relationships with the Joint Labor Management Committee members. The agency will seek the Department of Administrative Services, Labor Relations Unit's guidance on ways to strengthen the labor/management relationship at DOR.

5. Complete efforts underway to address customer service challenges and report the progress to stakeholders. Reporting should include information that clearly explains the factors that impact customer service and factors that impact the data used to report on customer satisfaction. The following are examples of pending efforts:

- Develop staffing plans for call centers that leverage resource sharing and seasonal staffing options to reduce call wait times.
- Add an agency customer service coordinator.
- Train and educate employees on customer service expectations.

Management Response: Agree. DOR management will continue to complete efforts currently underway to address customer service challenges. Many initiatives have already been completed. Customer service will remain an ongoing focus for the agency. DOR management will evaluate current staffing levels and work flow to find opportunities where we may be able to resource share among the agency's various call centers. Currently, DOR has a manager assigned to review information gathered from customer service surveys and implements appropriate changes as identified. The agency will continue to evaluate opportunities to seek and resource an agency customer service coordinator position through the budget process or other potential resource repurposing. DOR will continue to train and educate employees on customer service expectations and will develop training plans that embed this activity in our operations. Currently, some areas of DOR use quality assurance reviews to ensure service and information is accurate and provided timely. The agency will ensure all areas within the call centers develop quality assurance review plans.

CSR Expenditure/RFP/CAFFA Review

Key findings:

We concluded that the department performed due diligence in monitoring the contract, expenditures were appropriate and documented, and ongoing expenditures are reasonable and necessary for continued functionality of the new system.

1. Use of bond funds appropriate for purposes of the CSR.

2. Use of General Fund monies reasonable and appropriate for purposes of the CSR.

3. Expenditures within approved budgetary appropriations and limitations.

4. Future costs were anticipated for the system.

5. Staff positions eliminated and vacant prior to elimination.

6. Contract and amendments with FAST Enterprises, LLC met legal sufficiency.

7. Department received all deliverables as described in the contract and amendments with

FAST Enterprises, LLC.

8. Amendments to the contract with FAST Enterprises, LLC were necessary and reasonable.

We also found the revenues collected under the CAFFA program generally agree to the information independently confirmed by the counties. However, there is a risk that counties may not provide all of the applicable revenues if the number of recording fee transactions is not easily identified by the counties. In addition, we are unable to conclude about the appropriateness of the expenditures paid with CAFFA funds, but the external review of the cost allocation system may provide clarity on this issue.

1. Counties' calculations of revenues from interest on delinquent property taxes appear accurate.

2. Inflation has affected revenues collected by the counties.

3. Improvement needed to ensure accuracy of counties' calculations of filing fees.

4. Department made timely distributions to counties and housing.

5. Department contracted for an external review of its cost allocation system.

Recommendations:

1. We recommend that the department consider periodically performing procedures to verify the accuracy and completeness of the revenues provided by the counties.

Management Response: Agree. Per Secretary of State, no written response required.

2. We recommend the department consider the results of the external review and perform any necessary adjustments to the process to ensure uses of CAFFA funds are in accordance with statutory limitations.

Management Response: Agree. Per Secretary of State, no written response required.

Annual Financial Audit (CAFR) FY2018

Key findings:

During the course of our audit, we became aware of the following matters that are considered opportunities for strengthening internal controls. These matters do not require a written response from management.

- Incorrect transfers of cigarette tax revenue.
- Strengthen controls over financial reporting.

Recommendations:

1. Cigarette distribution tax updates in the allocation tables in the department's subsidiary accounting system, GenTax;

Management Response: Agree. Per Secretary of State, no written response required.

2. Detailed taxes receivable methodologies that document fundamental balances to be used for calculations, and any current year changes or decisions for future management needs; and

Management Response: Agree. Per Secretary of State, no written response required.

3. Review processes designed to help detect calculation errors.

Management Response: Agree. Per Secretary of State, no written response required.

Annual Financial Audit (CAFR) FY2017

Key findings:

1. Improve Year-end financial procedures to ensure inter-fund transactions are balanced.

2. Perform and review key cash reconciliations on a regular and timely basis.

3. Strengthen controls over system access.

Recommendations:

1. We recommend department management develop year-end accrual procedures to help ensure accurate and complete year-end financial reporting, which includes ensuring all inter-fund transactions are balanced.

Management Response: Agree. The department will pursue the following corrective actions: (a) update procedures to ensure that all year-end adjustments were accurate and complete; (b) create a checklist for any distribution activities as well as year-end activities. These checklists will contain specific instructions to confirm revenues are in the correct receipted fund and no funds remain with a negative balance; (c) add the checklist to the performance tracking spreadsheet for the accounting unit. The accounting manager or lead accountant will be responsible for verifying the task has been completed.

2. We recommend department management ensure all key cash reconciliations are completed consistently and timely and are separately reviewed and approved.

Management Response: Agree. The department will pursue the following corrective actions: (a) continued focus on reconciliation completion by the accounting manager through monthly reviews of a performance tracking spreadsheet. Clearly assign and identify preparers and reviewers for each reconciliation and hold team accountable; (b) partner with Revenue's internal auditors for review of compliance with authoritative guidance, efficiency and training opportunities, and best practices; (c) fill all vacant positions to reach necessary staffing levels to complete all work timely; (d) hire temporary employee to train accountants, provide support and act as a resource for questions or areas of deficiency.

3. We recommend department management ensure system access be thoroughly reviewed for employees changing positions within the department and system access rights be timely updated.

Management Response: Agree. The department will pursue the following corrective action: (a) finance managers to review and enforce use of separation checklist to ensure all access is appropriately and timely terminated; (b) retain copy of termination request in employee file; (c) institute quarterly review of all access involved with finance duties and update as necessary.

Information Technology Projects of $1 Million or More

Processing Center Modernization project

The purpose of the Processing Center Modernization project is to replace or upgrade the Oregon Department of Revenue's (DOR) aging, and in some cases unsupported, return and remittance processing systems. DOR administers more than 30 different types of taxes and fees for the state of Oregon. DOR's processing systems capture data from payments, returns, and correspondence that is then applied to individual and business accounts. Personal income taxes alone made up 87 percent of the state's General Fund for the 2015–17 biennium. Stated concisely, remittance and return processing are integral to DOR's business and the services we provide to the state of Oregon. The Processing Center handles more than 3 million paper returns and payments annually, which is approximately 39 percent of their total volume.

DOR has contracted with Fairfax Imaging, Inc. for the three-phase project implementation. The first phase went live successfully in August 2018. Phase 2 is scheduled to go live in August 2019, and Phase 3 in the fall of 2020. Total project cost is expected to be $1,844,491. Current project costs will be provided during the 2019 Legislative Session.

Key Legislation—2019 Session

House Bill 2104

This bill reduces the 3-percent discount for on-time payment of property taxes imposed on business property and redirects those dollars to provide a funding mechanism for administration of the property tax program.

Additional Information

The agency is also monitoring and participating in conversations about a variety of proposals including its concepts:

- Senate Bill 79—Clarifies quasi-state agencies and universities can use DOR for collection work; also expands to local jurisdictions for refund offset
- Senate Bill 80—Allows DOR to use methods other than traditional mail (electronic) to send property tax notices and statements.
- Senate Bill 81—Moves the due date for the Timber tax to April 15.
- House Bill 2101—Conforms Oregon statutes to the federal regime for audits of partnerships
- House Bill 2102—Amends disclosure statutes to allow DOR to share information with the national Security Summit group for detection of fraudulent tax returns.
- House Bill 2141—Provides uniformity around tax credits – requires certifying agencies to provide DOR with certain information and adds requirements for transfers of credits

Oregon Department of Revenue 2017–19 Integrated Budget Note Report
February 27, 2019

Context

The 2017 Legislature identified nine budget notes that targeted improvements within the agency. For purposes of this report, the budget notes are summarized as impacting customer service, operations, or core business service delivery. The table that follows summarizes the status of each budget note:

Budget Notes	Legislative Review
Improve Taxpayer Assistance - Improving Delivery of Taxpayer Assistance	Receipt Acknowledged, February 2018
Operational Improvements	
➢ State Accounting and Budget Review	Receipt Acknowledged, February 2018
➢ Comprehensive External Audit	Submitted February 19, 2019, Review Pending
➢ Processing Center Modernization Project	Receipt Acknowledged, February 2018
➢ Core System Replacement Reporting	Receipt Acknowledged, February 2018
➢ Review of Personnel Practices and Legislatively Authorized Positions	Receipt Acknowledged, February 2018
➢ Outcome Based Management Assessment	Submitted February 19, 2019, Review Pending
Business Service Delivery Enhancements	
➢ 2018 Tax Season Readiness Report	Receipt Acknowledged, November 2017
➢ Collections Structure Feasibility Study	Submitted February 19, 2019, Review Pending

The agency has submitted reports to the Legislature for all 2017 legislative budget notes. Six of the budget notes were reviewed by a prior legislative body that "acknowledged receipt of the report." This is typically the indication that a budget note is complete. Three budget notes will be reviewed by the 2019 Legislature.

The majority of the findings and actions taken in response to the above budget notes will be completed by the end of the 2017-19 biennium. Some activities have resulted in permanent ongoing improvements, and, in a few cases, some implementation activities will extend into future biennia. In The following table, Summary of 2019-21 Budget Note Impacts and Ongoing Work, provides a high-level recap of the impacts of each budget note on the agency.

The remainder of this report details the scope, findings, activities taken, next steps and costs, and benefits for each budget note.

Summary of 2019-21 Budget Note Impacts and Ongoing Work

Budget Note	Summary of Impacts	Ongoing Work
Improving Delivery of Taxpayer Assistance	Improved data collection and response to taxpayer feedback resulting in 84% improvement in customer service KPM and 23 percent increase in taxpayer assistance KPM results between 2016 and 2018.	Continuation of an internal cross-functional customer service review team and exploration of improvements to technology that allow taxpayers to access more personalized tax information via their phone will be ongoing work during 2019-21 biennium.
State Accounting and Budget Review	This preliminary review identified significant shortcomings with processes and practices in the Financial Services Division (FSD). A comprehensive integrated FSD Improvement Plan was developed that has supported efforts to transform FSD.	Maturing business processes, documentation and monitoring of improvements to cost allocation system will continue into the 2019-21 biennium.
Comprehensive External Audit	Audit affirmed prior findings, with some additional recognition of IT system constraints. Recommendations were integrated into the existing FSD Improvement Plan. Executing this Plan will reduce risk, strengthen controls and enhance financial performance efficiency and effectiveness.	Maturing business processes, documentation and monitoring of improvements to cost allocation system will continue into the 2019-21 biennium.
Processing Center Modernization Project	This project replaces DOR's aging and, in some cases unsupported, paper return and payment processing systems with a supportable modern system that automates several manual, paper processes. Automation will create some efficiencies, allow possibilities for continuous improvement of processing center activities, enhance security, and minimize the agency's filing and storage footprint.	DOR continues to work with the Office of the State Chief Information Officer (OSCIO) and complied with Stage Gate requirements. The project has successfully moved through the first of three phases of implementation. A second and third phase are expected to be completed during the 2019-21 biennium.
Core Systems Replacement Reporting	The agency's project to install new technology was completed during the 2017-19 biennium. The new system is effectively being used for complete tax administration – processing returns and payments, auditing and collecting, providing online services, and corresponding with customers. In time and with sufficient support and maintenance resources, the agency anticipates leveraging additional features associated with the new system to improve core business processes and agency outcomes.	Operationalization and stabilization of DOR's business processes to support and use the new system will continue into the next couple of biennia. A high-level plan for navigating through stabilization to normalization of processes is being developed within the agency leadership.
Review of Personnel Practices and Legislatively Authorized Positions	An internal review of position management practices identified position funding, classification, double-fills and other position usage errors. Approximately 12% of the agency's positions were identified as needing corrective action. The 2018 Legislature approved a plan to remedied most of the errors.	All the discrete actions identified during reviews under this budget note are complete. Continued work operationalizing and stabilizing processes post CSR may lead to the need for further adjustments, which will follow new processes and practices identified during the reviews.

Budget Note	Summary of Impacts	Ongoing Work
Outcome Based Management Assessment	Deloitte's readiness assessment indicated that overall organizational performance management process maturity falls between "limited" and "developing," which means processes need to further mature before reaching the higher level of "performing." Continued investment will enable the agency to mature processes that enable more integrated agency performance management.	During the 2019-21 biennium the agency would like to conduct a deeper dive into strategic planning followed by developing or refreshing business operational plans; improve metric alignment and reporting tools and ensure effective aligned between this work and ongoing post CSR process stabilization efforts.
2018 Tax Season Readiness Report	As a follow-up to the legislative reports, the agency piloted centralized project management for the 2019 processing season. The goal of the work was to improve communications, cross-functional issue resolution, and timeliness of preparation for each unique tax season.	The initial pilot suggests that this approach is something to operationalize within the agency's shared project management area. A developmental project manager was just reassigned to lead coordination of the 2020 tax season processing.
Collections Structure Feasibility Study	The goal for this report is to evaluate the agency's plan for organizing the collections function to achieve benefits that align with DOR's strategic priorities. The report concludes that centralizing the collections function most closely aligns with our strategic priorities.	DOR plans on centralizing the collections function in phases over the next two biennia. The preliminary timeline has the agency transitioning to an interim structure for accountability and leadership in the near future, with a focus on planning for the reorganization, likely during the 2021–23 biennium.

Improve Taxpayer Assistance

The impetus behind this budget note was concern for the agency's declining performance on the Customer Service and Taxpayer Assistance Key Performance Measures (KPMs #4 and #5) and increases in complaints. The agency's Core Systems Replacement (CSR) project and other factors have created new challenges for effective management of customer experiences. The agency is committed to delivering effective customer service as it is a key driver of voluntary compliance, an important business outcome. The agency remains committed to improving taxpayer assistance and going forward will pursue several actions to achieve a strategic priority to Enhance Taxpayer Assistance.

Improving Delivery of Taxpayer Assistance Budget Note

<table>
<tr><td colspan="3">Budget Note: The Department of Revenue is to identify deficiencies in the current delivery of effective taxpayer assistance and develop a plan for addressing deficiencies and increasing agency performance under Key Performance Measure #5—Effective Taxpayer Assistance. The department is to report its findings to the Joint Committee on Ways and Means during the Legislative session in 2018.</td></tr>
<tr><td rowspan="7">Findings: An agency internal review identified four day-to-day deficiencies that contribute to taxpayer satisfaction: time to issue refunds, Revenue Online navigation, wait times, and clarity of notices. The agency identified 14 discrete improvement actions to address issues identified. Examples include:
• Adding Fossil Call Center, October 2018
• Audits and improvement of phone trees and staffing strategies within call centers
• Increased monitoring and staffing of refund processing to ensure bottlenecks are addressed in a timely manner.
• Improved Revenue Online features for tax preparers and Where's My Refund users.

A few of the identified recommendations have become ongoing activities that are integrated into business practices. Plans for a more comprehensive review of technology options for improving taxpayer access to personal tax information via their phones was delayed because the current Integrated Voice Response (IVR) supplier contract expires in November 2019.</td><td>Actions Completed</td><td>Date</td></tr>
<tr><td>Hired external consultant to assess customer service KPM data collection, use, and reporting for areas to improve.</td><td>May 2018</td></tr>
<tr><td>Identified and implemented a list of actions that target continued improvements to taxpayer assistance.</td><td>Dec. 2017</td></tr>
<tr><td>Reported findings and recommendations to 2018 Legislature, report was accepted.</td><td>Feb. 2018</td></tr>
<tr><td>Established tracking tool for recommendations and reported monthly progress to Revenue Leadership Team (RLT).</td><td>July 2018</td></tr>
<tr><td>2019-21 Activities</td><td>Target</td></tr>
<tr><td>• Taxpayer correspondence reviews for continuous improvement.
• Continuation of cross-functional customer service review team and related reporting practices.
• Additional enhancements to Revenue Online.
• Resume work exploring technology options for improving taxpayer access to personalized tax information via their phones.</td><td>Ongoing

Ongoing
Ongoing
Dec. 2020</td></tr>
<tr><td colspan="3">Description of Costs and Benefits: 2018 Legislature approved $535,642 Total Funds, 7 Pos/2.92 FTE to staff a remote customer service call center in Fossil, OR. Improved data collection as well as execution of several improvement recommendations has led to significant performance improvements for KPM #4 and KPM #5; 84 percent and 23 percent respectively for reporting years 2016 to 2018.</td></tr>
</table>

Operational Improvements

Six budget notes target operational improvements: two direct evaluations of agency finance management processes, two are focused on information technology, one on human resource management and one on outcome-based management. These budget notes all support important infrastructure improvements and contribute towards Operational Excellence; a DOR strategic priority for the 2017-21 biennia.

State Accounting and Budget Review Budget Note

Budget Note: *The Department of Revenue, under the direction of the Department of Administrative (DAS) Services Chief Financial Officer, is directed to undertake a comprehensive review of the department's accounting practices and Statewide Financial Management Application structure and its alignment with ORBITS. The review is to include the agency's cost allocation system. The agency and DAS are to jointly report their findings to the Joint Committee of Ways and Means during the Legislative session in 2018.*

Findings: Agency worked with DAS to complete the review. Findings identified improvements related to staffing, cost allocation, systems, accounting and budget structure, policies, and best practices. There were over 15 discrete actions identified for follow-up. The Legislature provided additional positions to address staffing deficiencies. Recommendations from this budget note and various financial management audits were integrated into a Financial Services Division (FSD) Improvement Plan. Approximately 82% of the plan will be completed by the end of the 2017-19 biennium. Key milestones include full staffing, adjustments to budget structure to create more consistency and transparency, improvements to Agency Request Budget development tools and processes, changes in management of fiscal impact coordination to ensure more accuracy, and staff training in state accounting and budget systems and tools.

Actions Completed or Planned	Date
DAS CFO review and report complete	Nov. 2017
Reported findings and recommendations to 2018 Legislature, report was accepted.	Feb. 2018
Developed integrated FSD Improvement Plan that is reviewed and updated monthly.	May 2018
Received SOS CAFR audit with no additional findings.	January 2019
Hire a senior budget analyst for continuity and to help train junior analysts.	March 2019
Realign budget structure with accounting structure.	June 2019
Restructure agency's cost allocation system launches.	June 2019
Develop and implement at training plan for budget analysts.	June 2019

2019-21 Activities	Completion Targets
• Continue efforts to document improvements to processes, roles and responsibilities, and procedures (desk manuals) for FSD.	Ongoing
• Continue staff training and team development functions to ensure programs are provided improved levels of financial support services.	Ongoing
• Review and make adjustments to restructured cost allocation system as needed to improve cost sharing for central services (indirect).	July to December 2019
• Establish a suite of operating measures to better manage ongoing performance.	December 2019

Description of Costs and Benefits: The 2018 Legislature provided three limited duration positions (2 ACT4, 1 FA3) to support this work (cost $436,955). Navigating change management dynamics and a lack of dedicated information technology support resources has impacted the timelines. Ultimately, executing activities on the FSD Improvement Plan will reduce risk, strengthen controls and enhance financial performance efficiency and effectiveness.

Comprehensive External Audit Budget Note

Budget Note: *The Department of Revenue, under the guidance of the Secretary of State's Audits Division, and based upon the direction of the Joint Legislative Audit Committee (JLAC), is directed to contract for a comprehensive external audit of the agency. The department is to submit the audit, and agency response, to JLAC no later than May 2018.*

Findings: The agency hired Moss Adams to complete an independent review of the agency's financial management practices to identify key areas for improvement. The audit produced 10 improvement recommendations related to:

- Policies and procedures
- Improved IT applications
- Staff training and development
- Recruitment and Retention
- Reconciliations practices
- Cross-functional coordination
- Year-end accounting
- Chart of accounts
- Indirect costing practices
- Cost allocation processes

Work was already underway to resolve several of the findings identified given the financial review conducted previously and the existence of a FSD Improvement Plan.

A Secretary of State culture audit and the outcome-based management assessment results also provide insights on overall agency effectiveness and areas for potential improvement.

Actions Completed or Planned	Date
Recruitment of Financial Auditor – Moss Adams.	May 2018
Submitted letter to JLAC, meeting was cancelled.	May 2018
Submitted letter and reported to JLAC.	Sept. 2018
Moss Adams audit complete.	Nov. 2018
Recommendations from audit integrated into comprehensive FSD Improvement Plan.	Dec. 2018
Report to 2019 Legislature.	Feb. 2019
Review and refine chart of accounts.	June 2019
Restructure agency's cost allocation system launches.	June 2019
Develop and implement at training plan for budget analysts.	June 2019

2019-21 Activities	Target
• Continue efforts to document improvements to processes, roles and responsibilities, and procedures (desk manuals) for FSD.	Ongoing
• Continue staff training and team development functions to ensure programs are provided improved levels of financial support services.	Ongoing
• Review and make adjustments to restructured cost allocation system as needed to improve cost sharing for central services (indirect).	July to December 2019
• Ensure all accountants have completed or are currently enrolled in SFMA training; continue to identify opportunities to leverage GenTax to reduce manual work.	Ongoing
• Prepare and review reconciliations in a timely manner.	Ongoing
• Create a more cohesive link between IT developers and meeting the needs of the accounting section.	

Description of Costs and Benefits: The 2017 Legislature approved $150,000 Total Funds for this audit. The agency paid $68,000 to Moss Adams for the financial audit. Benefits were validating that prior review findings were relevant and that actions underway will address issues identified. Executing activities on the FSD Improvement Plan will reduce risk, strengthen controls and enhance financial performance efficiency and effectiveness.

Processing Center Modernization Project Budget Note

Budget Note: *The Department of Revenue, under direction of Department of Administrative Service—Office of the State Chief Information Officer (DAS OSCIO), is directed to re-initiate the Processing Center Modernization Project. The agency and DAS OSCIO are to jointly report the status of the project to the Joint Committee on Information Management and Technology (JCIMT) and the Joint Committee on Ways and Means (JCWM) during the Legislative Session in 2018.*

Findings: The budget note reported on the re-initiation of an important automation and efficiency project. The report provided information on project status and coordination with the Office of the State's Chief Information Officer's (OSCIO) Stage Gate process. While the report was not presented as a joint report, the agency has complied with Stage Gate requirements. A quality assurance (QA) vendor has been hired and continues to offer feedback on how to ensure ongoing effective management of this project.

The project has successfully moved through the first of three phases of implementation. A second and third phase are expected to be completed during the 2019-21 biennium. The project is currently on schedule and within the approved budget.

Actions Completed	Date
Agency report was submitted to the 2018 JCIMT and JCWM; report was accepted.	Feb. 2018
Quarterly reports OSCIO and LFO	Ongoing
2019-21 Activities	**Target**
The Governor's Budget includes a policy package (POP 111) that requests $847,833 to fund remaining elements of this project.	Completion, Spring of 2021

Description of Costs and Benefits: 2017 Legislature POP 112 approved $1.5 million in total funds for software. The 2018 Legislature decreased expenditures by $657,188 Total Funds. This project replaces DOR's aging, and in some cases unsupported, paper return and payment processing systems with a supportable modern system. Additionally, the new system automates several processes that have been largely manual and significantly reduces the agency's paper filing and storage needs. We expect automation will create some efficiencies, allow more possibilities for continuous improvement of processing center activities, enhance security, and minimize the agency's filing and storage footprint.

Core Systems Replacement Reporting Budget Note

Budget Note: *The Department of Revenue and Department of Administrative Services—Office of the State Chief Information Officer (DAS OSCIO) are to jointly report on the status of the Core Systems Replacement project and any related Secretary of State audits to both the Interim Joint Legislative Committee on Information Management and Technology (IJLCIMT) and the Interim Joint Committee on Ways and Means (IJCWM) during Legislative Days in September and November 2017, and to JLCIMT and JCWM during the Legislative session in 2018.*

Findings: The agency presented requested reports in September, November, and during the 2018 Session about the status of the project and related audits satisfying the requirements of the budget note.

Since completing the budget note reports, two related Secretary of State audits were completed:

- February 2018, Secretary of State (SOS) "DOR GenTax Accurately Processes tax Returns and Payments…" audit concluded, "GenTax controls ensure accurate input of tax return and payment information…additional processing and output controls assure that GenTax issues appropriate refunds and bills to taxpayers." The audit also looked a GenTax security and access and identified eleven recommended improvements which are currently being implemented.
- November 2018: SOS review of DOR Core System Replacement (CSR) project concluded, "the department performed due diligence in monitoring the contract, expenditures were appropriate and documented, and ongoing expenditures are reasonable and necessary for continued functionality of the new system." The review also stated that "operational services, maintenance, and support options selected by the department appear necessary and reasonable." There were no recommendations issued with this review.

The LFO analysis of the 2018 Session report asked that the agency clarify questions around completion, system configuration, integration of GenTax into operations, ongoing costs and anticipated benefits from the project. While the system installation has been completed, the agency anticipates that operationalization and stabilization of DOR's business processes to support and use the new system will continue into the next couple of biennia. A high-level plan for navigating through stabilization to normalization of processes will be discussed with the 2019 Legislature.

Actions Completed	Date
Report presented and received by JLCIMT—deferred from IJWM agenda.	Sept. 2017
Report presented and received by JLCIMT—deferred from IJWM agenda.	Nov. 2017
Agency report was submitted to the 2018 JCWM who acknowledged receipt of the report—deferred from IJCWM agenda.	Feb. 2018
2019-21 Activities	**Target**
CSR Project is complete. Operationalization and stabilization activities will continue into the next two biennia.	June 30, 2023

Description of Costs and Benefits:

The 2017 Legislature approved $5,433,625 Total Funds for post-CSR implementation. The 2018 Legislature approved self-funded position adjustments that moved funds between programs. The CSR project replaced the agency's primary computing platform mitigating risks related to business continuity were increasing with the former COBAL centered system. The new system is a commercial, off-the-shelf package, which means the agency has had to modify processes and train staff to work both in a new system and to follow different business processes. The new system is effectively being used for complete tax administration–processing returns and payments, auditing and collecting, providing online services, and corresponding with customers. In time and with sufficient support and maintenance resources, the agency anticipates leveraging additional features associated with the new system to make improvements to core business processes and agency outcomes.

Review of Personnel Practices and Legislatively Authorized Positions Budget Note

<table>
<tr><td colspan="3">Budget Note: The Department of Revenue, under direction of the state's Chief Human Resource Officer (DAS CHRO), is directed to undertake a comprehensive review of the department's personnel practices and legislatively authorized positions. This review is meant to achieve alignment between legislatively authorized positions and agency use of positions. The department is to take immediate steps to remedy any misalignment of positions identified by the review. The expectation is that the review will substantially reduce the number of vacant, double-filled, work out of class, and temporary work assignment positions within the agency. The department and state CHRO are to jointly report their finding and actions to the Joint Committee on Ways and Means during the Legislative session in 2018.</td></tr>
<tr><td rowspan="6">Findings: The impetus for the budget note was concern about inordinate levels of vacant positions, double-fills and work-out-of-class positions. A review by DAS CHRO identified deficiencies related to personnel management policies and practices. An internal review of positions from a budget perspective identified position funding, classification, double-fills and other position usage errors. Approximately 12% of the agency's positions were identified as needing corrective action. The agency submitted a proposal to remedy most of the identified errors at a cost of $1.8 million total funds and 43 Pos/11.31 FTE. Following the review, DOR developed a plan for administrative position adjustments and updating policies, procedures, and practices to align with CHRO standards that included training agency managers, so they are aware of standard state agency position management practices.

All the discrete actions identified during reviews under this budget note are complete. Continued work operationalizing and stabilizing processes post CSR may lead to the need for further adjustments, which will follow new processes and practices identified during the reviews.</td><td>Actions Completed</td><td>Date</td></tr>
<tr><td>CHRO and DOR reviews conducted.</td><td>Dec. 2017</td></tr>
<tr><td>Joint agency and CHRO review submitted to the 2018 Legislative Ways and Means Committee; report was accepted.</td><td>Feb. 2018</td></tr>
<tr><td>Agency revised policies to ensure they align with CHRO standards and educated managers.</td><td>Sept. 2018</td></tr>
<tr><td>Used 2019–21 budget development and administrative position adjustments to further enhance position alignment.</td><td>June, 2018</td></tr>
<tr><td>2019-21 Activities
Continued adherence to tighter controls over double-fills, work out of class and job rotation work assignments.
Continued monthly reporting on position management practices to identify opportunities for continued improvements.</td><td>Target
Ongoing

Ongoing</td></tr>
<tr><td colspan="3">Description of Costs and Benefits:
The 2019 Legislature provided $928,651 GF and $192,204 OF expenditure limitation and 7 pos / 4.51 FTE permanent and 27 FTE / 3.29 FTE seasonal staff to resolve alignment issues identified. This investment enabled DOR to correct position issues, resolve funding and classification gaps, and ensure proper alignment between the state's payroll and accounting systems.</td></tr>
</table>

Outcome-based Management Budget Note

Budget Note: *The Department of Revenue, under the direction of the Department of Administrative Services—Office of the Director, is directed to contract for an outcome based management (OBM) assessment of the agency by a private firm. The Department of Revenue, and the director of the Department of Administrative Services, are to jointly report on the status of the assessment to the Legislature in 2018 and the Emergency Board in May 2018. The assessment, upon completion, is to be submitted to either the Emergency Board during the interim or Interim Joint Committee on Ways and Means by no later than December 2019.*

Findings: DOR hired Deloitte via a competitive recruitment process to complete the assessment. Findings indicate:

- "While DOR has strategic priorities, the strategic planning processes are not well defined.
- When testing alignment of metrics to identified business outcomes, different business units gravitate to different outcomes.
- Key performance measures (KPM) are only partially aligned to business outcomes.
- The operational metrics captured today do not tell a division-level business story; nor is a cross-agency picture painted by which progress can be assessed."

Deloitte's readiness assessment indicated that overall organizational maturity falls between "limited" and "developing," which means processes need to further mature before reaching the higher level of "performing." In addition, concerns were noted about agency data management, potential alignment issues between business processes and system configuration, and a need for additional organizational change management post Core Systems Replacement project completion.

Actions Completed	**Date**
Update presented and received by Interim Committee on Ways and Means.	January 2018
Update letter submitted to the May Emergency Board—meeting cancelled.	May 2018
Update presented and accepted at September Emergency Board.	Sept. 2019
Policy Option Package on OBM included in Governor's Budget.	Nov. 2018
Report on assessment to 2019 Legislature.	Feb. 2019
Anticipate giving 2019 Legislature new information related to KPMs and OBM POP.	March 2019

2019-21 Activities	**Target**
The agency would like to pursue the following.	
• Conduct a deeper dive into strategic planning followed by development or refreshing operational plans that link program contributions to higher-level outcomes.	3/30/20
• Improve metric alignment by linking operational performance indicators to relevant higher-level outcomes. This activity also includes creating reporting tools and processes to support data-driven performance management and decision-making.	3/30/20
• While somewhat out of scope, the agency recognizes that there are cross-agency data management and business process stabilization issues that need to be addressed post CSR to bring about greater business stabilization and maturity. OBM system development needs to be aligned with this work and, in some cases, may support this effort.	7/1/21

Description of Costs and Benefits:
The 2017 Legislature provided $350,000 Total Funds for the execution of this budget note; $259,750 was expended for the assessment and work plan. The 2018 Legislature provided a limited duration OPA 4 (0.67 FTE) to support OBM activities and budget note tracking, total cost $188,063. Benefits include development of shared priorities, tools for monitoring progress on cross-agency priority work, and proposal for improving the Agency's KPMs. Continued investment will enable the agency to build critical tools and processes that enable more rigorous, ongoing performance management.

Business Service Delivery

Two of the budget notes focus on activities related to the agency’s business service delivery. One is focused on the agency’s tax season readiness planning and the other was a study of the feasibility of combining collections activities across the agency. A closer look at season-up activities provided the agency with the opportunity to look for improvements to make the process more efficient and effective in future years. Season up for 2019 was particularly challenging given federal tax reform impacts. Finally, the agency is committed to finding the optimal structure and processes to support tax collection activities, which is the underlying goal of the feasibility study.

2018 Tax Season Readiness Report Budget Note

<table>
<tr><td colspan="3">Budget Note: The Department of Revenue is to report the agency's readiness status for the tax processing season in 2018 to the Interim Joint Committee on Ways and Means (IJCWM) in September of 2017.</td></tr>
<tr><td rowspan="6">Findings: The agency reported in September 2017 and returned in November 2017 with a more comprehensive report and plan for agency readiness for the 2018 tax processing season.

Following these reports, the agency piloted centralized project management for the 2019 processing season. This was resourced by reassigning an existing project manager for eight months. The goal of the work was to improve communications, cross-functional issue resolution, and timeliness of preparation for each unique tax season.

The initial pilot suggests that this approach is something to operationalize within the agency’s shared project management area. A developmental project manager was just reassigned to lead coordination of the 2020 tax season processing.</td><td>Actions Completed</td><td>Date</td></tr>
<tr><td>Report presented to IJCWM.</td><td>Sept. 2017</td></tr>
<tr><td>Report presented and received by IJCWM.</td><td>Nov. 2017</td></tr>
<tr><td>Applied project management tools and approach to coordination of 2019 season readiness activities.</td><td>January 2019</td></tr>
<tr><td>2019-21 Activities</td><td>Target</td></tr>
<tr><td>The agency will continue to build on the standards created during the 2019 season readiness project. Work has already begun on preparing for the 2020 tax season.</td><td>Ongoing</td></tr>
<tr><td colspan="3">Description of Costs and Benefits:
The improved business process is resourced by temporarily redeploying resources to ensure effective cross-agency coordination of annual season-up efforts. The current process would involve having this annual activity be a rotating developmental opportunity for aspiring project managers, which is good for employee morale and agency performance management.</td></tr>
</table>

Collections Structure Feasibility Study Budget Note

Budget Note: *The Department of Revenue is to submit a feasibility study related to the establishment of a combined Collections Division. The feasibility study is to be submitted to the Interim Joint Committee on Ways and Means during Legislative Days in November 2017.*

Findings: Agency worked with Legislative Fiscal Office to extend the deadline until the 2019 Legislative Session.

The goal for this report is to share with the Legislature the agency's plan for organizing the collections function to achieve benefits that align with DOR's strategic priorities and efforts to stabilize agency operations. The agency's strategic priorities formulated in 2018 are: optimize collections efforts, enhance taxpayer assistance, and cultivate operational excellence.

Five organizational structures were evaluated for this report. DOR concludes that centralizing the collections function most closely aligns with our strategic priorities. DOR plans on centralizing the collections function in phases over the next two biennia. The preliminary timeline has the agency transitioning to an interim structure for accountability and leadership in the near future, with a focus on planning for the reorganization, likely during the 2021–23 biennium.

In addition to the feasibility study directed under the 2017 Legislative Budget Note, the 2018 Legislature requested reports on:

- What collection functions were consolidated under SB 1067 (2017), from which agencies, and identify which agencies were exempt from consolidation and why. The department is also to prepare a detailed revenue estimate, by agency and fund-type, for SB 1067 (2017) and those agency accounts subject to consolidation
- Agency's use of private collections firms and private collection firm's rates as compared to the agency's internal collection activities and rates

All reports have been submitted to the 2019 Legislature for their review.

DOR submitted the response on the agency's use of private collections firms and collection rates in January 2019.

Actions Completed	Date
Report on assessment to 2019 Legislature.	March 2019

Ongoing Work:	Date
DOR plans on centralizing the collections function in phases over the next two biennia.	2019-23 biennia

Description of Costs and Benefits:
The 2018 Legislature established a permanent Executive Manager G, 1 pos /0.5 FTE to serve as the agency's Collections Administrator and approved expenditure limitation of $184,140 OF for the 2017-19 biennium. The Collections Administrator was hired in October 2018. Initial activity includes oversight of the OAA section, finalizing collections-related budget note responses, and initial planning for the agency's collections function moving forward.

PROPOSED SUPERVISORY SPAN OF CONTROL REPORT

In accordance with the requirements of ORS 291.227, (_15000 – Department of Revenue______) presents this report to the Joint Ways and Means Committee regarding the agency's Proposed Maximum Supervisory Ratio for the 2019-2021 biennium.

Supervisory Ratio for the last quarter of 2017-2019 biennium

The agency actual supervisory ratio as of __12-01-17_______ is 1: _11___
(Date) (Enter ratio from last Published DAS CHRO Supervisory Ratio)

The Agency actual supervisory ratio is calculated using the following calculation;

______88_________ = ________81________________ + _______________8_____________- (____1_____)
(Total supervisors) (Employee in a supervisory role) (Vacancies that if filled would perform a supervisory role) (Agency head)

_________1003__________ = ____________768________________ + __________235_______________
(Total non-supervisors) (Employee in a non-supervisory role) (Vacancies that if filled would perform a non- supervisory role)

The agency has a current actual supervisory ratio of-
1:______11.39____________ = _______1003_______ / _____88_______
(Actual span of control) (Total non - Supervisors) (Total Supervisors)

When determining an agency maximum supervisory ratio all agencies shall begin of a baseline supervisory ratio of 1:11, and based upon some or all of the following factors may adjust the ratio up or down to fit the needs of the agency.

Narrow Span		Wide Span
High	**RISK TO PUBLIC/EMPLOYEE SAFETY**	Low
Dispersed	**GEOGRAPHIC LOCATION(s) OF SUBORDINATES**	Assembled
Complex	**COMPLEXITY OF DUTIES/MISSION**	Not complex
Low	**BEST PRACTICES/INDUSTRY STANDARDS**	High
Small	**AGENCY SIZE/HOURS OF OPERATION**	Large
Many	**NON AGENCY STAFF/TEMPORARY EMPLOYEES**	Few
High	**FINANCIAL RESPONSIBILITY**	Low
More Supervisors		Fewer Supervisors

Ratio Adjustment Factors

Is safety of the public or of State employees a factor to be considered in determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Is geographical location of the agency's employees a factor to be considered in determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Is the complexity of the agency's duties a factor to be considered in determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Are there industry best practices and standards that should be a factor when determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Is size and hours of operation of the agency a factor to be considered in determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Are there unique personnel needs of the agency, including the agency's use of volunteers or seasonal or temporary employees, or exercise of supervisory authority by agency supervisory employees over personnel who are not agency employees a factor to be considered in determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Is the financial scope and responsibility of the agency a factor to be considered in determining the agency maximum supervisory ratio? Y/N

Explain how and why this factor impacts the agency maximum supervisory ratio upwards or downward from 1:11- N/A – Will remain at the 1:11 ratio

Based upon the described factors above the agency proposes a Maximum Supervisory Ratio of 1: 11.

Unions Requiring Notification________ ______________________

Date unions notified__________________________________

Submitted by: _/s/ Kim Dettwyler ____________________________________ Date:__08/28/18___

Signature Line ____ Date ____________________

Signature Line ____ Date ____________________

Signature Line ____ Date ____________________

Signature Line ____ Date ____________________

UPDATED **OTHER FUNDS ENDING BALANCES FOR THE 2017-19 & 2019-21 BIENNIA**

Agency: **DOR**
Contact Person (Name & Phone #): **Jose Macias 503-947-2287**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
					2017-19 Ending Balance		**2019-21 Ending Balance**		
Other Fund Type	**Program Area (SCR)**	**Treasury Fund #/Name**	**Category/Description**	**Constitutional and/or Statutory reference**	**In LAB**	**Revised**	**In CSL**	**Revised**	**Comments**
Limited		Susp Acct 15091 / Multi-State Corporation *	Other - Special Revenue	ORS 305.655	*	*	*	*	* Any administrative expenses
Limited		Susp Acct 15091 / Other Tobacco Tax *	Other - Special Revenue	ORS 323.500	*	*	*	*	come out of the revenue stream
Limited		Susp Acct 15091 / Cigarette Tobacco Tax *	Other - Special Revenue	ORS 323.440	*	*	*	*	and the rest of the revenues are
Limited		Susp Acct 15091 / Amusement Device Tax *	Other - Special Revenue	ORS 320.011	*	*	*	*	distributed by statute.
Limited		Susp Acct 15091 / Charitable Checkoffs *	Other - Special Revenue	ORS 305.749	*	*	*	*	
Limited		Susp Acct 15091 / Forest Products Harvest Tax *	Other - Special Revenue	ORS 321.152	*	*	*	*	
Limited		Susp Acct 15091 / Petroleum Load Fee *	Other - Special Revenue	ORS 465.127	*	*	*	*	
Limited		Susp Acct 15091 / Haz Substance Fee *	Other - Special Revenue	ORS 453.412	*	*	*	*	
Limited		Susp Acct 15091 / Misc Receipts *	Other - Special Revenue	ORS 305.085	*	*	*	*	
Limited		Susp Acct 15025 / County Assessor Function Funding *	Other - Special Revenue	ORS 294.184	*	*	*	*	
Limited		Susp Acct 15091 / OrMap/OLIS	Other - Special Revenue	ORS 306.132	147,264	1,331,000			If grants are expended as expected this is the ending balance for 2017-19.
Limited		Susp Acct 15091 / Emergency Communication *	Other - Special Revenue	Oregon Laws 1981, Cha	*	*	*	*	
Limited		Susp Acct 15091 / Electric Coop *	Other - Special Revenue	ORS 308.805	*	*	*	*	
Limited		Susp Acct 15091 / Private Rail Car *	Other - Special Revenue	ORS 308.515	*	*	*	*	
Limited		Susp Acct 15091 / Gas & Oil Production *	Other - Special Revenue	ORS 324.120	*	*	*	*	
Limited		Susp Acct 15091 / Tri-Met Self Employ *	Other - Special Revenue	ORS 305.620	*	*	*	*	
Limited		Susp Acct 15091 / Tri-Met Payroll *	Other - Special Revenue	ORS 305.620	*	*	*	*	
Limited		Susp Acct 15091 / Lane Transit Self Employ *	Other - Special Revenue	ORS 305.620	*	*	*	*	
Limited		Susp Acct 15091 / Lane Transit Payroll *	Other - Special Revenue	ORS 305.620	*	*	*	*	
Limited		SFMS Cash Fund 24000 / Criminal Fines (CFAA) *	Other - Special Revenue	ORS 137.300	*	*	*	*	
Limited		Susp Acct 15091 / Transit Lodging *	Other - Special Revenue	ORS 320.305	*	*	*	*	
Limited		Susp Acct 15025 / Housing (County Assessment & Taxation Fund) *	Other - Special Revenue	ORS 294.187	*	*	*	*	
Limited		Susp Acct 15091 / Bicycle Excise *	Other - Special Revenue	ORS 320.415	*	*	*	*	
Limited		Susp Acct 15091 / Vehicle Privilege *	Other - Special Revenue	ORS 320.405	*	*	*	*	
Limited		Susp Acct 15091 / Vehicle Use *	Other - Special Revenue	ORS 320.410	*	*	*	*	
Limited		Susp Acct 15091 / Other Agency Fees Earned	Other - Special Revenue	ORS 293.250	1,384,010	1,904,936			No rebate anticipated
Non-Limited	15000-025-00-00-00000	Susp Acct 15005 / Senior Citizen Deferral	Other - Special Revenue	ORS 311.701	30,007,597	42,847,597		*	Revolving fund.

Objective: Provide updated Other Funds ending balance information for potential use in the development of the 2019-21 legislatively adopted budget.

<u>Instructions:</u>

Column (a): Select one of the following: Limited, Nonlimited, Capital Improvement, Capital Construction, Debt Service, or Debt Service Nonlimited.

Column (b): Select the appropriate Summary Cross Reference number and name from those included in the 2017-19 Legislatively Approved Budget. If this changed from previous structures, please note the change in Comments (Column (j)).

Column (c): Select the appropriate, statutorily established Treasury Fund name and account number where fund balance resides. If the official fund or account name is different than the commonly used reference, please include the working title of the fund or account in Column (j).

Column (d): Select one of the following: Operations, Trust Fund, Grant Fund, Investment Pool, Loan Program, or Other. If "Other", please specify. If "Operations", in Comments (Column (j)), specify the number of months the reserve covers, the methodology used to determine the reserv amount, and the minimum need for cash flow purposes.

Column (e): List the Constitutional, Federal, or Statutory references that establishes or limits the use of the funds.

Columns (f) and (h): Use the appropriate, audited amount from the 2017-19 Legislatively Approved Budget and the 2019-21 Current Service Level at the Agency Request Budget level.

Columns (g) and (i): Provide updated ending balances based on revised expenditure patterns or revenue trends. <u>Do not include</u> adjustments for reduction options that have been submitted unless the options have already been implemented as part of the 2017-19 General Fund approved budget or otherwise incorporated in the 2017-19 LAB. The revised column (i) can be used for the balances included in the Governor's budget if available at the time of submittal. Provide a description of revisions in Comments (Column (j)).

Column (j): **Please note any reasons for significant changes in balances previously reported during the 2017 session.**

Additional Materials: If the revised ending balances (Columns (g) or (i)) reflect a variance greater than 5% or $50,000 from the amounts included in the LAB (Columns (f) or (h)), attach supporting memo or spreadsheet to detail the revised forecast.

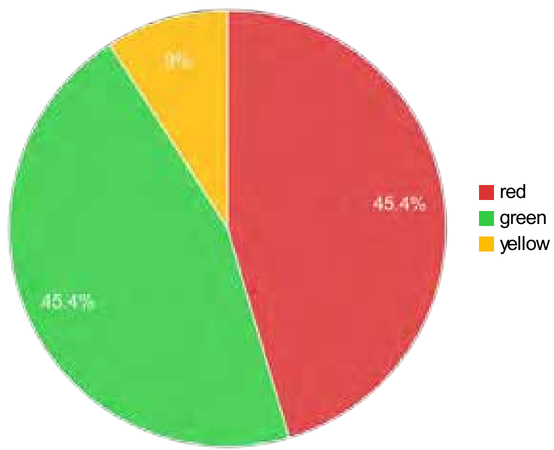
Revenue, Department of

Annual Performance Progress Report

Reporting Year 2018

Published: 9/27/2018 2:21:01 PM

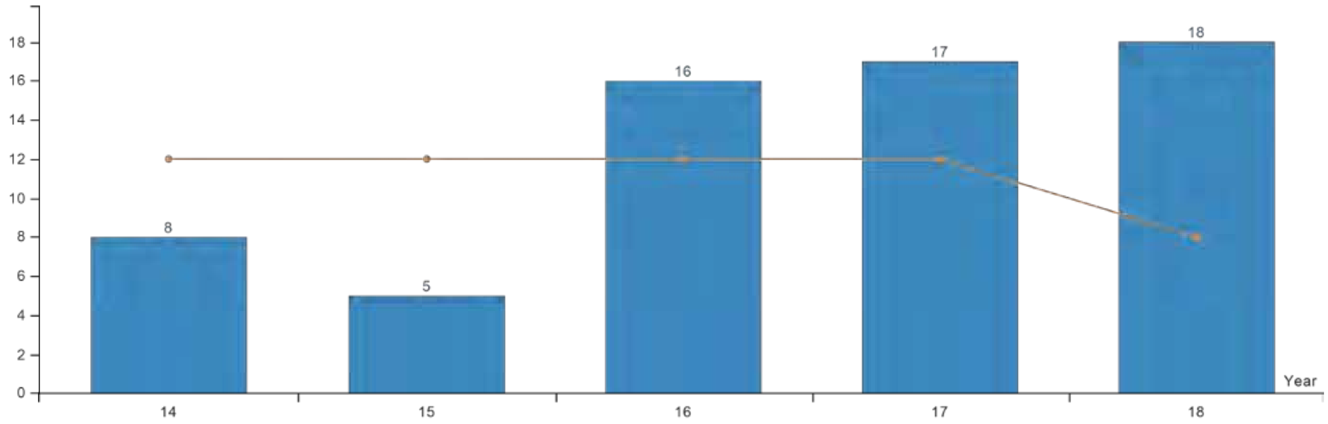
KPM #	Approved Key Performance Measures (KPMs)
1	Average Days to Process Personal Income Tax Refund. -
2	Percent of Personal Income Tax Returns Filed Electronically -
3	Employee Training Per Year (percent receiving 20 hours per year). -
4	Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good"; or "excellent" based on overall experience, timeliness, accuracy, helpfulness, expertise, and availability of information.
5	Effective Taxpayer Assistance - Provide effective taxpayer assistance through a combination of direct assistance and electronic self-help services.
6	Appraisal Program Equity and Uniformity - We will measure the degree to which county appraisal program equity and uniformity is achieved by determining the percentage of study areas statewide with real market values that are within accepted appraisal standards.
7	Appraisal Value Uniformity - We will demonstrate our ability to deliver high quality business results by measuring appraisal equity and uniformity for DOR industrial accounts.
8	Direct Enforcement Dollars Cost of Funds - We will demonstrate our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens by measuring the cost of funds (COF) for every direct enforcement dollar received by our agency.
9	Collection Dollars Cost of Funds - We will demonstrate our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens by measuring the cost of funds (COF) for every dollar collected by our agency.
10	Cost of Assessments - We will demonstrate our efficiency and effectiveness of our suspense, audit and filing enforcement functions by measuring the cost of every audit and filing enforcement dollar assessed.
11	Employee Engagement - Index of employees considered actively engaged by a standardized survey.



Performance Summary	Green	Yellow	Red
	= Target to -5%	= Target -5% to -15%	= Target > -15%
Summary Stats:	45.45%	9.09%	45.45%

KPM #1	Average Days to Process Personal Income Tax Refund. -
	Data Collection Period: Jan 01 - Dec 31

** Upward Trend = negative result*



Report Year	2014	2015	2016	2017	2018
Average Days to Process Personal Income Tax Refund					
Actual	8	5	16	17	18
Target	12	12	12	12	8

How Are We Doing

This measurement is the average amount of time it takes from when the agency receives a return until the refund is issued. The agency averaged 18 days to refund in 2018, ten days longer than the target.

For comparison, the IRS issues 90 percent (9 out of 10) of refunds within 21 days—if electronically filed. Oregon issued 72 percent of the refunds in 21 days. Though there are not readily available statistics from other states, information from their websites indicates that Oregon's turnaround time is in line with other revenue agency's projected times.

Average Number of Days

2018	All	Non-suspended	Suspended
All	18.4	14.3	49.3
e-file	17.4	13.9	48.7
2-D	22.6	16.3	50.3
Paper	34.3	23.3	51.4

How quickly the agency issues refunds is one of the most visible signs of efficiency and a key driver of customer satisfaction. Taxpayers expect a quick turnaround after filing their tax return.

The biggest impact on timeliness of refunds is how many returns get stopped for fraud review and other edits designed to ensure the return is accurate. Because fraudulent refunds have become an issue, the agency has intentionally slowed down processing to effectively balance taxpayer expectation and fraud control measures. The agency believes a 16 day turnaround is a realistic target for the 2019–21 biennium.

Factors Affecting Results

There are many factors that impact on return processing, some are internal and others are external. Internally the agency controls:

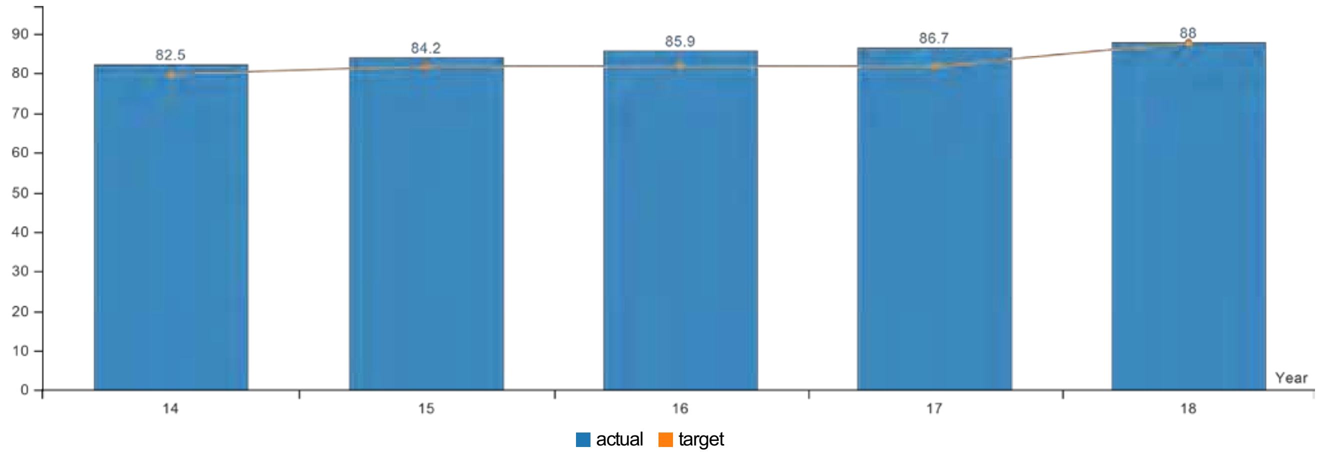
- Business edits/rules on processing returns. The agency has over 200 rules that incorporate statutory limits, correct math errors, match third-party information, and allow the agency to request additional documentation. Some rules are system processed (math errors), while others require a manual review. Annually, business rules are improved with the goal being to close known gaps and stop fewer legitimate returns.
- The fraud module in the agency's tax processing system uses analytics to identify potentially fraudulent refunds.The attributes for fraud returns have become so similar to a real returnd that it is difficult to differentiate in many cases. Each year, the agency reviews fraud triggers to address known gaps and to make improvements. There will always be a need for manual review in fraud, but we are working to better identify those that the system can sort through.
- Early season refund hold—the agency does not issue any refunds prior to February 15. This allows the agency time to load employer information (due January 31) and use it to match to the information reported on the tax return.

Factors outside agency control:

- The 'kicker' negatively affects the average. It's a credit on the tax return based on the prior year tax. For those individuals who had a filing status change from 2016 (i.e. went from married to single) the credit must be manually calculated. This caused an additional 20,000 returns in 2018 to need manual review.
- Electronically filed returns are typically more accurate and take less time to process. Yet, e-file is an option, there is no individual mandate. For more details on e-filed returns, see KPM #2. E-filed returns that didn't suspend for fraud, errors, missing information, or other processing issues averaged 14 days to process in 2018. This was about 2 days faster than 2017. Paper returns that didn't suspend averaged 23 days to process. This was a day slower than 2017.

KPM #2	Percent of Personal Income Tax Returns Filed Electronically -
	Data Collection Period: Jan 01 - Dec 31

** Upward Trend = positive result*



Report Year	2014	2015	2016	2017	2018
Percent of Personal Income Tax Returns Filed Electronically					
Actual	82.50%	84.20%	85.90%	86.70%	88%
Target	80%	82%	82%	82%	88%

How Are We Doing

The agency met the target of 88 percent of tax returns filed electronically for the reporting period, which represents 1.7 million e-filed returns. This compares to 86 percent in 2017.

E-filing has become the primary filing method for personal income tax. This is important for a variety of reasons. E-filed returns are more accurate because they are software generated so the math is accurate. They are also less costly and quicker to process. They average several days less to process because there is no manual keying needed to get them into the system.

The number of e-filers has risen each year, but the rate of growth has slowed. This is similar to what's happening at the federal level. As of May 2018, the IRS had received 89 percent of returns electronically, compared to just under 89 percent the previous year. As performance is leveling out, the agency will be requesting that the 2019–2021 biennium targets for this measure be 90 percent. The agency will also request the legislature consider removing this measure as a KPM as it has reached its useful life.

Factors Affecting Results

The agency takes several steps that are designed to encourage e-filing:

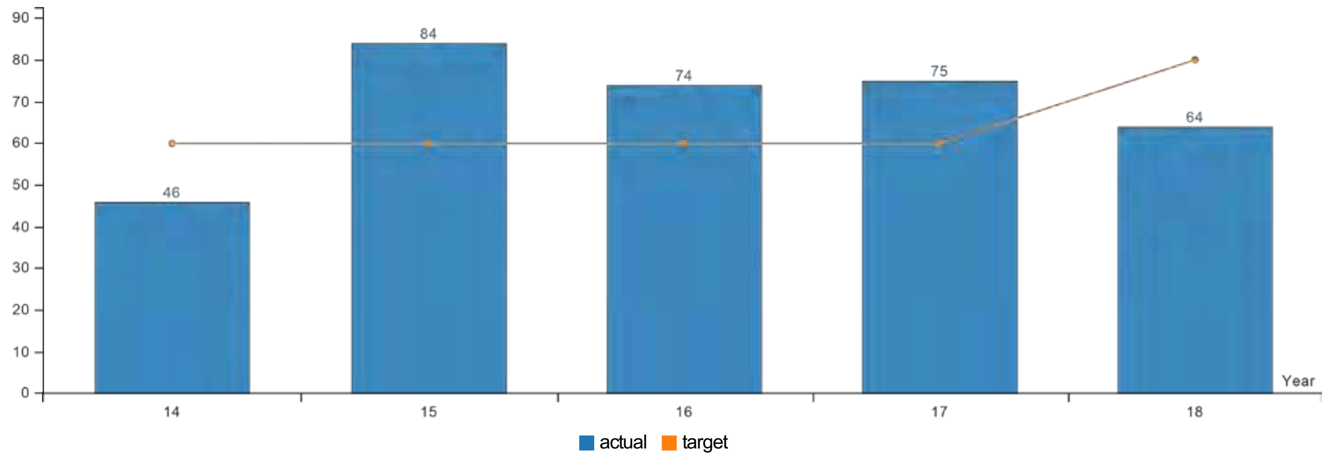
- Promotion—like the IRS, the agency discusses e-file in our publications and on our website, promoting its accuracy and typically quicker refunds.
- Ease of filing—the agency has a direct e-file system that allows any full-year-resident taxpayer to enter their return information into an online form and file the return directly with us for free, regardless of income level or return type.
- The agency also participates in the free file alliance where taxpayers meeting certain income, age, veteran and return-type criteria can e-file for free. The agency posts a list on our website of

software companies offering free services.

- The agency has an e-file mandate for tax practitioners that matches the IRS mandate. There is no penalty for noncompliance, but the agency sends a reminder letter each year to those practitioners who didn’t file their client’s returns electronically.

KPM #3	Employee Training Per Year (percent receiving 20 hours per year). -
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = positive result*



Report Year	2014	2015	2016	2017	2018
Employee Training Per Year (percent receiving 20 hours per year)					
Actual	46%	84%	74%	75%	64%
Target	60%	60%	60%	60%	80%

How Are We Doing

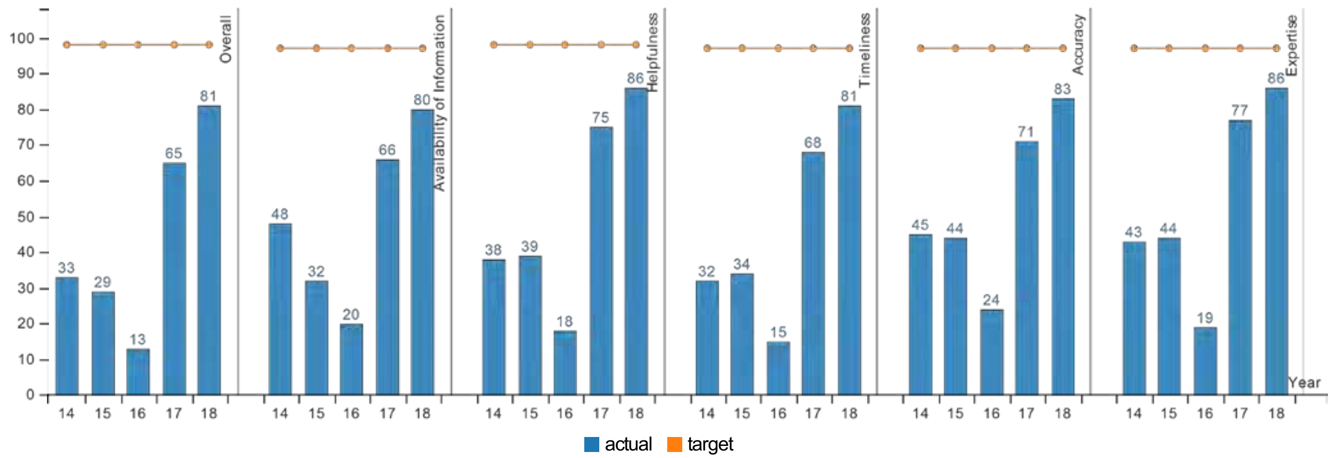
This measure allows the agency to prioritize supporting employees to keep pace with changes in technology, policy and processes, honor a respectful and professional workplace, increase understanding for inclusion and diversity, and identify employees to watch as part of the agency's succession planning strategy. Additionally, employee training and development was identified as a driver for employee engagement in the last four employee engagement surveys. The agency has exceeded its performance goal for this measure the last three years, however, the agency missed the increased target set by the legislature of 80 percent for 2018. This was expected given that the core system replacement project is complete. The agency considers employee training crucial for organizational development strategies and employees' professional success. However, the agency also recognizes that this measure is not outcome oriented or strategic, so, it is not an optimal key performance measures. Given this, the agency will recommend deletion of this measure in the future with the understanding that this information is available within the Human Resources Section.

Factors Affecting Results

For the past four years, the majority of agency staff have been required to complete training on our new core system. This emphasis is critical to system adoption, so, funding for this additional training is included in the project budget. Now that this project is complete, the agency's performance has dropped to 64 percent. However, the agency has seen a significant increase in developmental and skills based training over pre system replacement, making good strides in this areas outside of the project.

In an effort to ensure employees have access to appropriate professional training, the agency purchased licenses for unlimited training on a number of topics. This leverages available training dollars. The agency also works with local training providers to offer popular trainings at a discounted price when there is sufficient employee interest. In addition, the agency focuses on ensuring all training is captured in iLearn and encourages employees and managers to create a personal goal of completing a minimum of 20 hours of training per year. Human Resources staff are also available to meet with employees to discuss career-pathing and identify training that will assist the employee on that path. While these efforts have yielded good results, the agency believes a more realistic target for this measure is 65 percent.

KPM #4	Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good"; or "excellent" based on overall experience, timeliness, accuracy, helpfulness, expertise, and availability of information.
	Data Collection Period: Jul 01 - Jun 30



Report Year	2014	2015	2016	2017	2018
Overall					
Actual	33%	29%	13%	65%	81%
Target	98%	98%	98%	98%	98%
Availability of Information					
Actual	48%	32%	20%	66%	80%
Target	97%	97%	97%	97%	97%
Helpfulness					
Actual	38%	39%	18%	75%	86%
Target	98%	98%	98%	98%	98%
Timeliness					
Actual	32%	34%	15%	68%	81%
Target	97%	97%	97%	97%	97%
Accuracy					
Actual	45%	44%	24%	71%	83%
Target	97%	97%	97%	97%	97%
Expertise					
Actual	43%	44%	19%	77%	86%
Target	97%	97%	97%	97%	97%

How Are We Doing

This measure provides information on customers assessments of agency performance related to key drivers of customer satisfaction. While the agency recognizes that paying taxes may not make taxpayers happy, it is important they rate their experiences with the agency as satisfactory.

The agency's customer service ratings increased in 2018, the second year of improved performance. The score for the "overall" question is 81 percent, with scores of 86 percent for helpfulness and expertise, which are critical indicators of taxpayer assistance satisfaction.

The target for this measure has been 97–98 percent for several biennium. While the agency strives to maximize performance, research conducted by a consultant hired to evaluate this measure suggest that this is not a "realistic" target given the regulatory nature of the agency's work and benchmark results conducted on other revenue collection entities. Given this research and current performance, the agency anticipates proposing a more realistic target of 85 percent for the 2019–21 biennium.

Factors Affecting Results

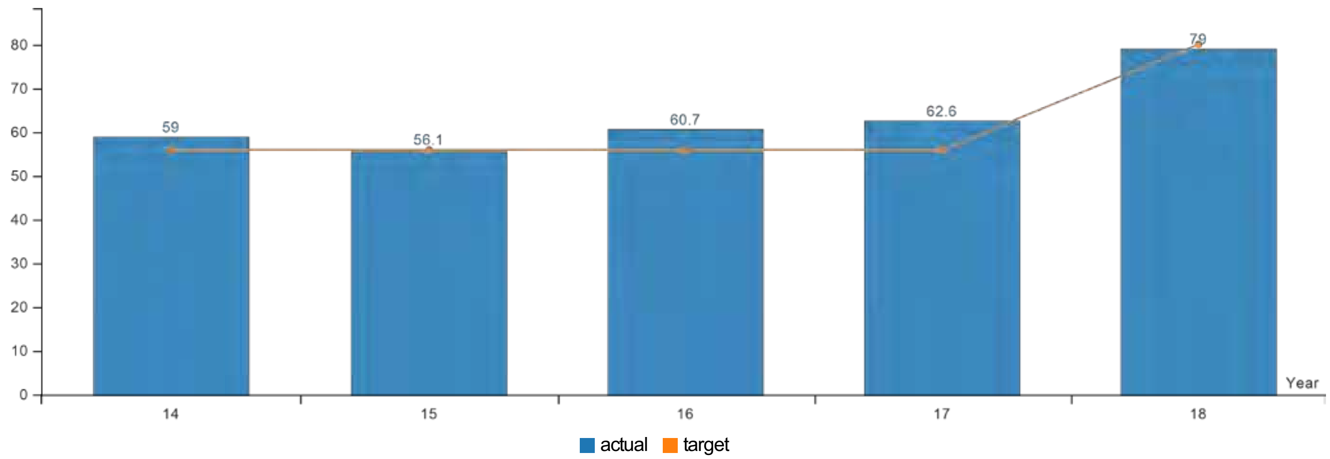
The agency hired a consultant to help improve the data collection processes for this measure. As a result, sample sized jumped from 1,875 in 2016 to more than 7,800 in 2017, and about 11,000 in 2018. The agency has also created a cross-agency customer service review group to support implementing improvements identified through this enhanced data collection process. The agency is requesting funding for the 2019–21 biennium to further leverage this work.

The agency believes there is a relationship between timely processing of returns and satisfaction; however, despite the increase in number of days to process a return, customer satisfaction has increased. The agency believes this is attributable to:

- Improvements made by the cross-agency workgroup.
- The agency's commitment to hiring additional seasonal help in the main call center.
- Addition of new, separate telephone lines for tax professionals as well as one for corporations.
- Staff encouraging taxpayers who use services to take the survey, increasing the sample size.

KPM #5	Effective Taxpayer Assistance - Provide effective taxpayer assistance through a combination of direct assistance and electronic self-help services.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = positive result*



Report Year	2014	2015	2016	2017	2018
Effective Taxpayer Assistance					
Actual	59	56.10	60.70	62.60	79
Target	56	56	56	56	80

How Are We Doing

This measure assesses the effectiveness of taxpayer assistance by creating a composite score from three activities: call wait times, success rates for “Where’s My Refund,” and overall customer service rates reported on KPM #4. Our overall score of 79 is a significant increase over the 2017 value of 63. While performance has increased from the previous year, it fell just short of the new target of 80 set in the 2017 budget process. Performance improvements are attributed primarily to significant improvements in call wait times and customer service ratings.

This measure concept aligns with the agency’s strategic priority to enhance taxpayer assistance. The goal is to provide self-help access for those who want it and provide effective one-on-one assistance where necessary. In practice, the agency believes this measure is too complex and weighted on timeliness verses taxpayer’s being able access the support they receive against their expectations. The agency is exploring alternatives with the hope of proposing an improved measure of taxpayer assistance. For the 2019–21 biennium, the agency is asking that the target be adjusted to 85, which is in line with benchmarked agencies.

Factors Affecting Results

The results of this measure are impacted by the performance on the three components that make up this composite measure:

- Call wait time. Calls with less than a five-minute wait time made up 71 percent of total calls, up from 34 percent in 2017. Staffing increases are the primary driver of this improvement.
- “Where’s My Refund” inquiries. The percentage of “successful” inquiries made through phone or web applications was 84 percent, which mirrors 2017 performance. Successful inquiries are

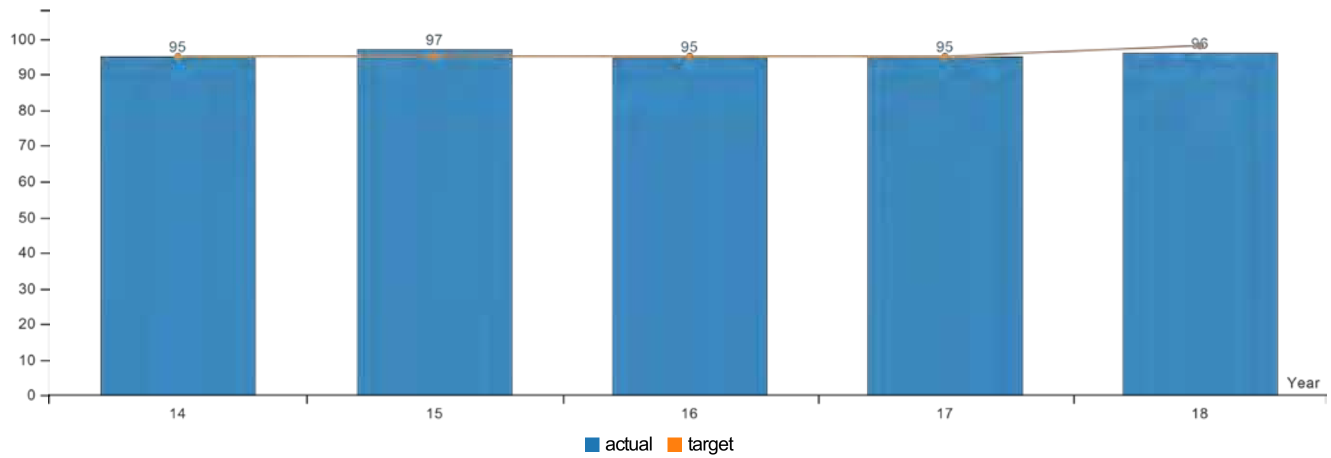
defined as any response other than "not found," which means the return is not in the system when the taxpayer asks. This is primarily because taxpayers don't wait the suggested two weeks from when they file before requesting a status update.

- Customer service rating. The percentage of customers rating our service as "good" or "excellent" is 81 percent, up from 70 percent in 2017. This is also a contributing factor to the increased performance on this measure.

While these three components are all important indicators of customer service performance, aggregating the results into a composite measure does not allow for flexibility over time related to taxpayer assistance expectations.

KPM #6	Appraisal Program Equity and Uniformity - We will measure the degree to which county appraisal program equity and uniformity is achieved by determining the percentage of study areas statewide with real market values that are within accepted appraisal standards.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = positive result*



Report Year	2014	2015	2016	2017	2018
Appraisal Uniformity					
Actual	95%	97%	95%	95%	96%
Target	95%	95%	95%	95%	98%

How Are We Doing

For the five-year period from 2014 to 2017, the agency consistently met or exceeded established targets. In 2018, the target increased to 98 percent. Performance for the period was 96 percent, slightly below the target. The agency considers this a goal that make take a few years to achieve.

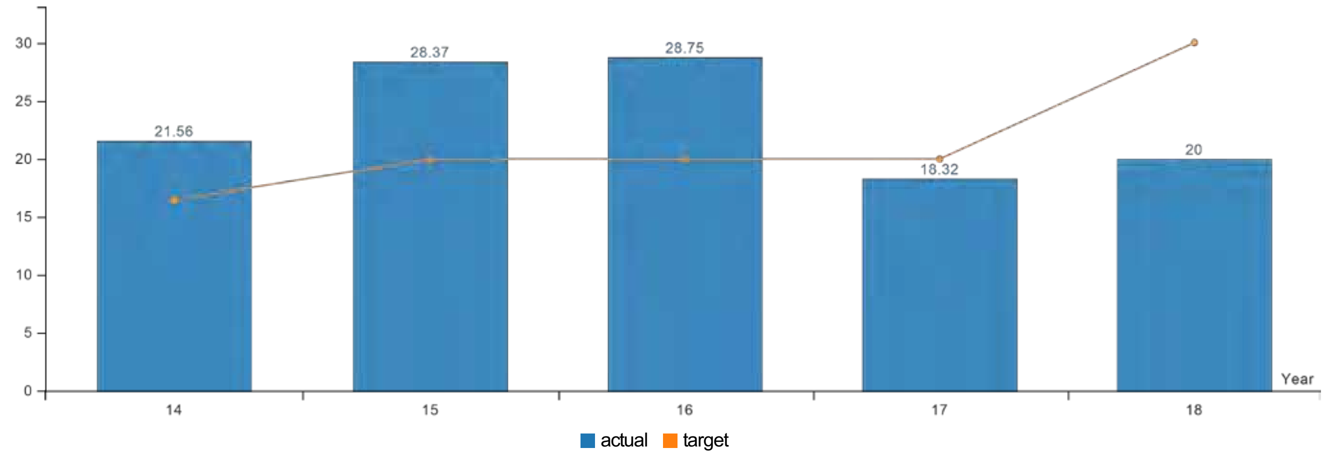
The agency considers this an effective outcome measure because the primary goal of the Support, Assistance, and Oversite (SAO) Section is to support and monitor the performance of counties. This is accomplished by providing training, teaching best practices, and reviewing processes of county appraisal programs.

Factors Affecting Results

The coefficient of dispersion (COD) is the average absolute deviation converted to a percentage of the median. CODs are self-reported by the counties, so our ability to validate each county's methodology is limited at this time. Additionally, study areas can vary year-to-year, creating consistency and comparison issues. Each year, when a property sells, the county examines the relationship between the value they had on the tax roll and the price the property sold for. The variance for each of these sale properties is what is measured in the COD. Different property types have different accuracy requirements. The percentages reported above relate to the percentage of properties that met their accuracy requirements. The 2016 Legislature provided funding to fill some existing department positions that work closely with counties on assessment and taxation. This includes analysis of the sales used by counties in determining whether their appraised values are compliant with appraisal standards. The department will continue working with counties to ensure appraisal processes are resulting in accurate real market values and within accepted appraisal standards.

KPM #7	Appraisal Value Uniformity - We will demonstrate our ability to deliver high quality business results by measuring appraisal equity and uniformity for DOR industrial accounts.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = negative result*



Report Year	2014	2015	2016	2017	2018
Appraisal Value Uniformity					
Actual	21.56%	28.37%	28.75%	18.32%	20%
Target	16.50%	20%	20%	20%	30%

How Are We Doing

Measuring the coefficient of dispersion (COD) is an appraisal industry standard metric for uniformity. The metric is reliant on market sale transactions. In the last five years, the agency hasn't had any usable sale transactions, so, the agency used site-specific appraisals to measure the COD. Our reported metric is the measure of variance between the values from our site-specific appraisals and the values from our mass-appraisal process. This performance is below the target. Performance for 2018 was 20 percent, well below the adjusted target of 30 percent. As the goal is to perform below the target, the agency anticipated requesting that the target be adjusted to 20 percent for the 2019–21 biennium.

The agency would ultimately like to eliminate this measure because the small number of transactions and substitute of site-specific appraisals makes the measure more volatile than may be the case. For example, the original COD data for 2014 included just eight data points. When the universe is increased by just two appraisals, the metric result increased from 16 to 22 percent; a 38 percent increase. Given this, the agency anticipates proposing a replacement to the measure.

Factors Affecting Results

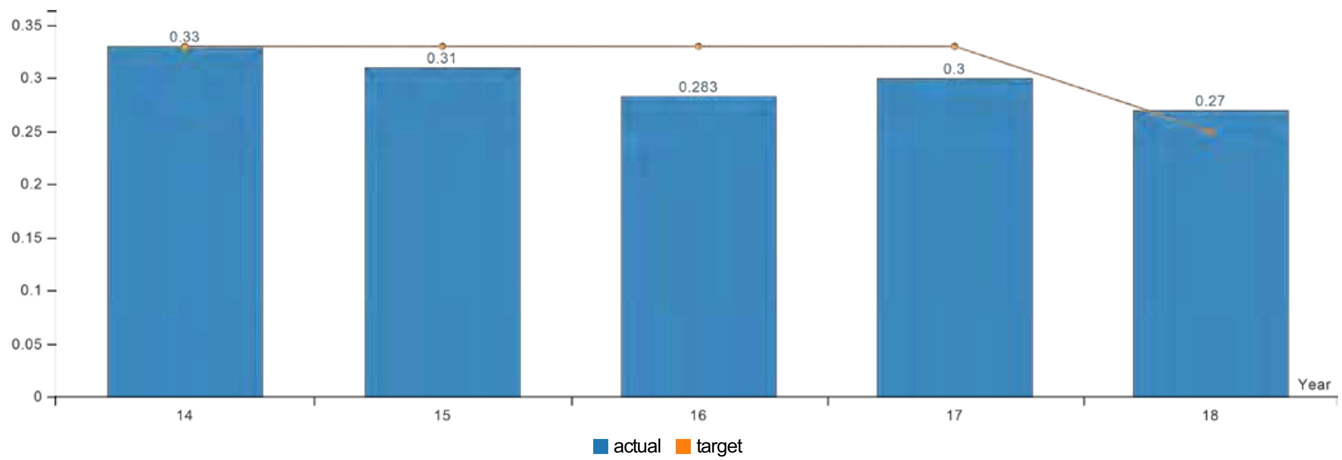
The agency is required to appraise Oregon's highly complex industrial properties that are engaged in processing and manufacturing activities. These properties don't sell often. When they do, there are many factors that make it difficult to compare the sales price to assessment roll values. Therefore, the limited number of sales transactions has decreased the reliability of this indicator.

Some properties have valuation issues including omitted property, taxpayer reporting errors (duplicates, age of assets, failure to report), and reclassification of assets. These issues create a greater separation between the value determined via our mass appraisal process and the value determined via our site-specific appraisal process, resulting in higher COD and greater deviation between RMV and the roll value.

In 2017, the agency refined its business strategy and set a goal to appraise industrial sites on an eight-year cycle. Once our first regular appraisal cycle is complete, a more consistent COD trend should emerge. Through the implementation of our eight-year appraisal cycle, we should continue to see a reduction in the deviation between roll values and RMV; however, this is five years in the future. Looking ahead, the agency anticipates proposing a more informative outcome measure for this program.

KPM #8	Direct Enforcement Dollars Cost of Funds - We will demonstrate our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens by measuring the cost of funds (COF) for every direct enforcement dollar received by our agency.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = negative result*



Report Year	2014	2015	2016	2017	2018
Cost of Direct Enforcement Funds					
Actual	$0.33	$0.31	$0.28	$0.30	$0.27
Target	$0.33	$0.33	$0.33	$0.33	$0.25

How Are We Doing

The agency's cost of funds (COF) for direct enforcement for fiscal year 2018 was $0.27. For this measure, lower performance is better. This represents a slight decrease from the 2017 COF of $0.30. Dollars received decreased from $256.8 million in 2017 to $237.8 million in 2018. The enforcement function funding in our Legislatively Adopted Budget (LAB) decreased as well, from $76.2 million in 2017 to $64.3 million in 2018.

At the heart of this measure is a complex enforcement revenue calculation based on numerous variables that periodically need to be adjusted based on new information. The challenge is that some factors, such as automation, which support efficiency, can impact the calculation in unintended ways. Trying to adjust the calculation to appropriately compensate becomes a bit of trial and error. As a result, the agency's confidence in the accuracy of this measure has decreased. In addition, the measure is very complex to explain. The agency anticipates completing a comprehensive assessment of its KPMs during the 2019–21 biennium. The goal is to find a more suitable measure of enforcement outcomes.

Factors Affecting Results

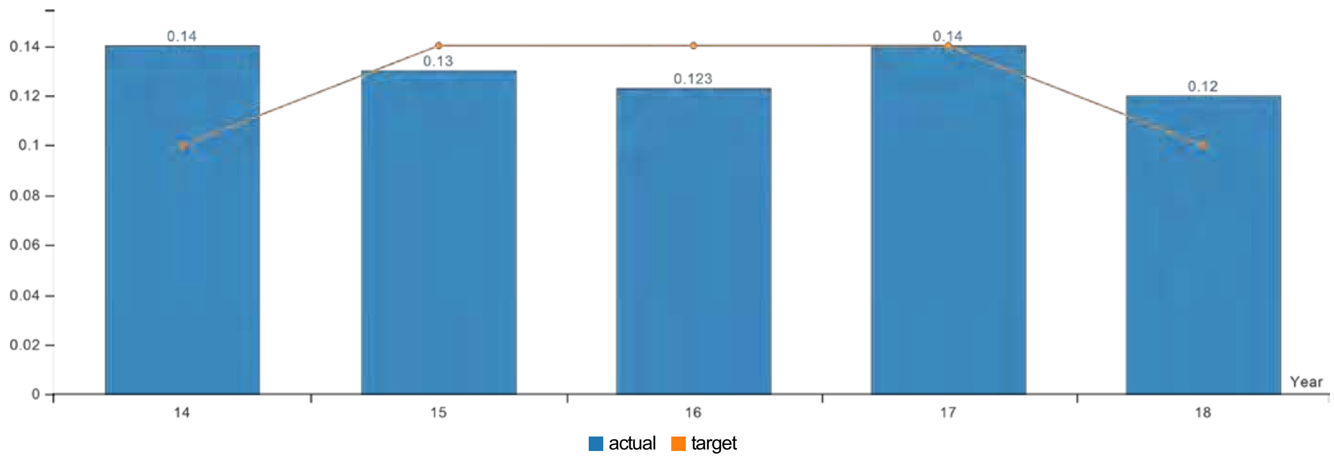
There are many factors that impact cost of funds. Some of the external factors affecting enforcement revenue include the health of the overall economy and the labor market participation rate; however, we don't have a way to measure the impact of those factors on our activities. Internal factors influencing our enforcement revenue include:

- Increases or decreases to our legislative approved budget. Fiscal Year 2018 represented a large decrease to our enforcement positions. The loss of these positions may contribute to reduced enforcement revenue.

- The Corporation Section has a lot of volatility in its enforcement revenue received. In past fiscal years, one audit payment has made a large difference in the KPM. Corporation enforcement revenue dollars decreased this fiscal year which caused the largest change to the KPM. This decrease is directly tied to relatively few audit payments that just weren't as large as the previous year.

KPM #9	Collection Dollars Cost of Funds - We will demonstrate our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens by measuring the cost of funds (COF) for every dollar collected by our agency.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = negative result*



Report Year	2014	2015	2016	2017	2018
Cost of Collections Funds					
Actual	$0.14	$0.13	$0.12	$0.14	$0.12
Target	$0.10	$0.14	$0.14	$0.14	$0.10

How Are We Doing

Our cost of funds (COF) for collections for fiscal year 2018 was $0.121. For this measure, lower performance is better. This represents a slight decrease from the fiscal year 2017 COF of $0.14. Dollars collected decreased from $256.8 million in 2017 to $237.8 million in 2018. The collection function funding in our Legislatively Adopted Budget (LAB) decreased as well, from $34.7 million in 2017 to $28.8 million in 2018.

Similar to KPM #8, this measure's numerator is the same complex enforcement revenue calculation. The only difference between this measure and KPM #8 is the denominator is based on collections budget instead of enforcement budget. The agency goal is to find a more effective collections measure in the future.

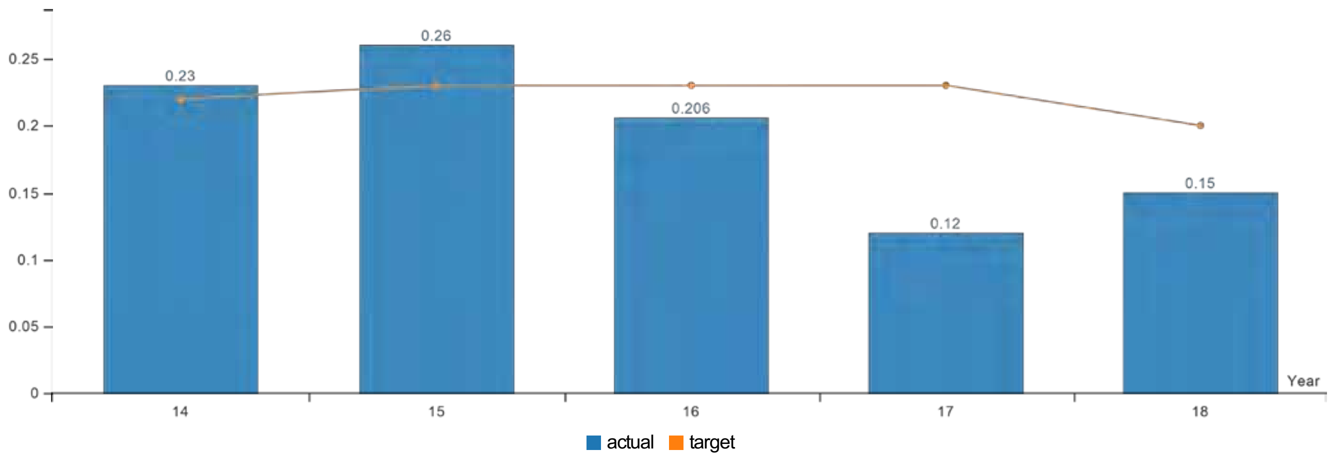
Factors Affecting Results

There are many factors that impact cost of funds. Some of the external factors that affect our enforcement revenue include the health of the overall economy and the labor market participation rate; however, we don't have a way to measure the impact of those factors on our activities. Internal factors influencing our enforcement revenue include:

- Increases or decreases to our LAB. Fiscal Year 2018 represented a large decrease to our enforcement positions. The loss of these positions may be impacting performance.
- The Corporation Section has a lot of volatility in its enforcement revenue received. In past fiscal years, one audit payment has made a large difference in the KPM. Corporation enforcement revenue dollars decreased this fiscal year which caused the largest change to the KPM. This decrease is directly tied to relatively few audit payments that just weren't as large as the previous year.

KPM #10	Cost of Assessments - We will demonstrate our efficiency and effectiveness of our suspense, audit and filing enforcement functions by measuring the cost of every audit and filing enforcement dollar assessed.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = negative result*



Report Year	2014	2015	2016	2017	2018
Cost of Assessments					
Actual	0.23%	0.26%	0.21%	0.12%	0.15%
Target	0.22%	0.23%	0.23%	0.23%	0.20%

How Are We Doing

In 2018, our cost of assessments (COA) increased to $0.15. For this measure, lower performance is better. This represents an increase from the fiscal year 2017 COA of $0.12. This was due, in large part, to decreased assessments in the personal income tax program. Assessed dollars decreased from $349.4 million in 2017 to $241.9 million in 2018. The audit and filing enforcement function funding in our Legislatively Adopted Budget (LAB) decreased as well from $41.5 million in 2017 to $35.6 million in 2018.

This measure is calculated using “failure to file” data, which is a department estimate of owed revenues. This estimate is typically quite different than actual moneys owed, which is determined when the taxpayer actually files. When the agency overestimates the amounts owed, performance on this measure will look more favorable. Sophisticated reviewers of this information could make this assertion, which makes this a less reliable measure. The agency anticipates completing a comprehensive assessment of its KPMs during the 2019–21 biennium. The goal is to find a more suitable collections measures.

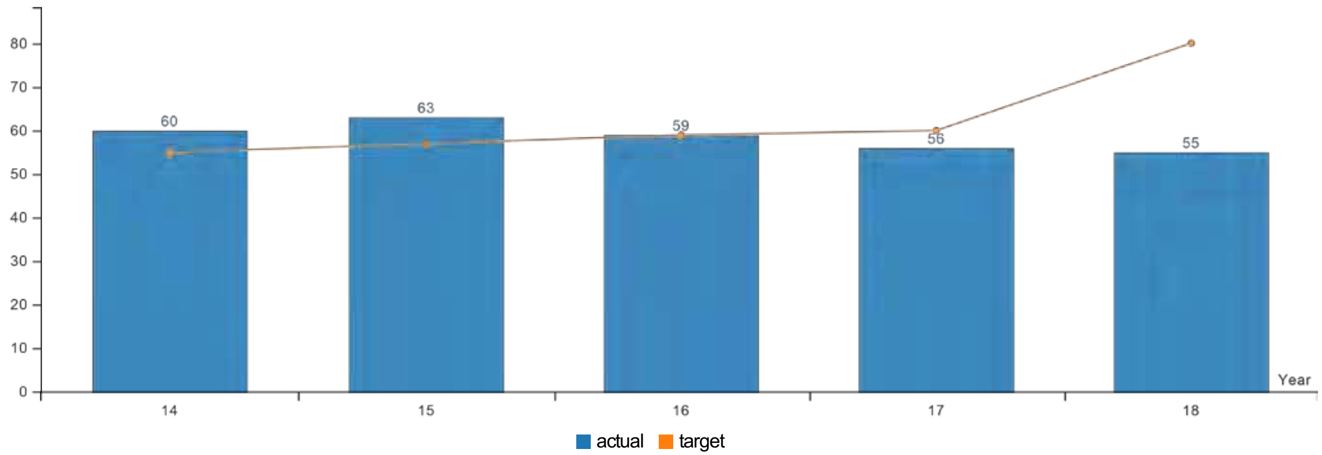
Factors Affecting Results

There are many factors that impact the cost of assessments. The largest contributing factor to the increase in cost of assessments was a decrease in failure to file assessments. The personal income tax division drastically increased automation in its filing enforcement section last fiscal year through the use of GenTax. By automating filing enforcement cases, we were able to bill a large number of older accounts that we hadn’t been able to address up to that point . This reduced our cost of assessments. In the current fiscal year, we have been able to focus on more recent filing enforcement work and the more difficult cases that can’t be automated. The overall level of assessments decreased this fiscal year as a result.

Another factor that impacted the cost of assessments was a decrease to the LAB. Fiscal year 2018 represented a large decrease to our enforcement positions, which may impact results.

KPM #11	Employee Engagement - Index of employees considered actively engaged by a standardized survey.
	Data Collection Period: Jul 01 - Jun 30

** Upward Trend = positive result*



Report Year	2014	2015	2016	2017	2018
Employee Engagement					
Actual	60	63	59	56	55
Target	55	57	59	60	80

How Are We Doing

The metric performance result for 2018 is 55, which is a unit below past performance. This level of change is statistically small, so, it's difficult to draw conclusions from this performance. The agency anticipated a dip in performance due to concerns raised externally about low employee morale. Results of the latest employee engagement survey suggest that employees feel similarly for the last two reporting cycles. The agency anticipated that if morale were down it may contribute to decreased employee engagement performance more than what the results suggest. Morale in the work place is complex, and a number of factors contribute. At the request of the legislature, the Oregon Secretary of State has been conducting an organizational culture audit. This audit may provide agency leadership with additional insights into employee engagement and overall morale.

Measuring employee engagement has been a long-standing priority for the agency. In 2013, the agency contracted with Department of Administrative Services to access an employee engagement tool used by several other state agencies. This tool was used to report results from 2013 to 2018. In 2018, the agency was given final use of this tool, without key reporting capability to enable compliance with reporting on this metric. In future years, the product used and methodology for measuring employee engagement must change. Given this, the agency would optimally like to delete this measure and work with the Legislative Fiscal Office to determine if the replacement measure is appropriate as a KPM.

Factors Affecting Results

Employee engagement is impacted by a number of variables. For example, changes in leadership, new programs or workload, and communications about expectations. The agency has hired a consultant to evaluate the current state of outcome-based management practices and policies within the agency. An outcome-based management approach is built on a foundation that looks to engage and empower employees at all levels of the organization. Given this, the agency will explore new ways to measure the health of the organization that may include and extend beyond employee engagement.