

Department of Revenue

	2017-19 Actual	2019-21 Legislatively Adopted	2019-21 Legislatively Approved *	2021-23 Current Service Level	2021-23 Governor's Budget
General Fund	190,620,511	213,103,682	207,397,041	211,133,745	215,064,325
Other Funds	115,143,687	126,095,425	142,195,715	130,361,113	141,720,264
Other Funds (NL)	--	--	2,255,001	--	--
Total Funds	305,764,198	339,199,107	351,847,757	341,494,858	356,784,589
Positions	1,092	1,057	1,094	1,001	1,082
FTE	960.75	983.39	1,014.40	957.18	1,018.29

* Includes Emergency Board and administrative actions through January 2021

Program Description

The Department of Revenue (DOR) administers the state's income tax and property tax programs, although property taxes are primarily managed and collected by counties. The tax programs the Department administers generate approximately \$21 billion, or 96%, of General Fund revenue, through a combination of personal income, corporate income and excise, estate, tobacco, gift, and other taxes. DOR also administers the Corporate Activities Tax and state recreational marijuana tax as well as several property tax relief programs. DOR recently began administering various transportation packages taxes and Heavy Equipment Rental Taxes.

Other Funds revenue is derived from administrative charges to various tax, fee, assessment, collections, and other programs. The County Assessment Function Funding Assessment account also helps pay for a portion of state and local property tax assessment and taxation functions.

CSL Summary and Issues

The 2021-23 current service level budget for the agency totals \$341.5 million total funds, which includes \$211.1 million General Fund and \$130.4 million Other Funds. The budget includes 1,001 positions and 957.18 FTE. The CSL is \$10.4 million, or 2.9%, less than the 2019-21 legislatively approved budget of \$351.9 million. The CSL includes 93 fewer positions (57.22 FTE). Removal of one-time costs and position authority for the Corporate Activities Tax program, transportation tax administration, and GENTAX primarily explain the reductions to CSL. There are a number of policy package budget requests that could be considered current service level-related, which include the following.

Due to Legislative concerns about the ongoing maintenance and operational costs of the GENTAX application that were not identified as part of the original business case and are material, previous Legislatures have made such costs one-time so as to allow for their re-evaluation each biennium. These costs include onsite vendor staff to maintain and configure GENTAX and provide for knowledge transfer to agency staff. Such costs are conflated with routine GENTAX upgrade costs, which were part of the original business case. Since the implementation of

GENTAX in February of 2018, this transition from more costly vendor support to DOR staff support has progressed, but at a relatively slow pace. DOR's budget includes two policy packages: POP #109 for GENTAX vendor maintenance and support (Level-3)(\$5.6 million General Fund and \$484,435 Other Funds); and POP #110 for agency resources in order to transition support of GENTAX from the vendor to primarily DOR (\$2.2 million General Fund and \$192,818 Other Funds; nine positions/7.92 FTE). The combined total for these two packages is \$7.8 million General Fund and \$677,253 Other Funds.

In addition to GENTAX, there is ongoing contract vendor support and data processing costs for the post-implementation of the Processing Center Modernization Project. This project updated DOR's capability to process paper returns and mailed payments through high-speed scanning equipment and software. After an initial failed attempt to complete this project, which adversely impacted the 2016 tax season, the PCM project was re-authorized by the Legislature in 2017. The new technology (Quick Modules) interfaces with the GENTAX system. DOR's budget includes a policy package requesting \$394,075 General Fund and \$34,267 Other Funds to pay contract costs.

To provide supplemental resources for administration of the Corporate Activities Tax (CAT), the Legislature during the Second Special Session approved an increase in Other Funds expenditure limitation of \$11.5 million and authorized the establishment of 28 positions (28.46 FTE) for the Corporate Division, a newly established division to house the CAT program. DOR's policy package for CAT will need to be revised to reflect the actions of the Legislature.

The Processing Center is requesting \$1.4 million Other Funds for 11 limited duration positions to support implementation of HB 2017 (2017), the Statewide Transit Tax. Limited duration positions were provided by the 2018 and 2019 Legislature for mail opening and return processing of paper returns, with the expectation that the agency would return to request permanent funding; however, DOR and Oregon Employment Department plan to add reporting of this tax to the existing combined payroll tax return. Therefore, limited duration positions are being requested until this plan is implemented.

The final current service level issue is SB 254 (2018), which is the financial institution data match that requires financial institutions to participate in a data match program comparing a list of delinquent debtors with the names of account holders. Budget authority is required to pay required fees to banks for their participation. DOR's budget includes a policy package requesting \$214,500 General Fund and \$71,500 Other Funds. Previous Legislatures have made such costs one-time so as to allow for their re-evaluation each biennium.

Policy Issues

Ballot Measure 110 was passed by voters on November 3, 2020 and became law 30 days afterwards for a December 3, 2020 operative date. The ballot measure is statutory-based on three categories of provisions: (a) Expanding treatment and services; (b) funding; and (c) removing or decriminalization of drug penalties. DOR is responsible for collecting the state recreational marijuana tax and as BM 110 changes the distribution, rather than the collection of the tax or tax rate, will have minimal impact to the agency.

Pandemic

There appear to be no operational impacts of the pandemic to the agency, which has transitioned to the remote work environment. Of note is that DOR extended tax filing deadline to July 15, 2020 for personal income and other taxes and the Governor issued an executive order protecting CARES Act rebate payments from garnishments (EO 20-18).

Other Significant Issues and Background

There are a number of issues that will need to be considered during the Legislative session.

The Legislature in 2017 enacted SB 1067, which among other changes consolidated state agency receivables statewide with the DOR. A new Collections Division was established and the Legislature approved funding for a Collections Division Administrator. DOR, by budget note was directed to submit a feasibility study for consolidating the agency's remaining collections functions (e.g., Personal Tax and Compliance Division and the Business Divisions) in the new Collections Division. The study was completed and reported to the Legislature in 2018. DOR's budget includes a net zero policy package to consolidate all remaining collections activities in the Personal Tax and Compliance Division and the Business Divisions collections into the Collections Division.

Ballot Measure (BM) 108, which voters approved on November 3rd, 2020, increased the cigarette tax, impose a cigarette floor tax, increase the cap on the cigar tax, and impose a tax on inhalant delivery systems. BM 108 has an operative date of January 1, 2021. DOR's 2021-23 agency request budget includes a policy package (#104) related to implementing BM 108. The package totals \$1.3 million Other Funds and includes six positions (6.00 FTE). Of note is that the Emergency Board (December 2020) also provided Other Funds expenditure limitation of \$842,230 and authorize the establishment of six permanent full-time positions (1.67 FTE) and three limited duration positions (0.88 FTE) for the implementation of Ballot Measure 108 (2020). This package will need to be revised to reflect the actions of the Emergency Board (December 2020).

DOR has the statutory responsibility for developing real market values for approximately 4,450 industrial and 500 central assessment companies across the state, whose value is in excess of \$1 million. The state undertakes this work on behalf of counties, which are the taxing authority and through DOR's appraisal efforts collects \$600 million in property tax revenue on over \$50 billion in taxable value, according to the agency. DOR's current property tax administration relies on a roughly 15-year-old legacy "system" comprised of non-integrated applications, and internally developed databases, spreadsheets, and paper files to manage property valuations. After a failed attempt in prior biennia to implement a new system, DOR has submitted a budget request seeking to re-authorize the Property Tax Valuation System (\$9.2 million Other Funds/Article XI-Q and five positions (4.40 FTE). Recent discussions with DOR suggest that the policy package and budget requires updating.

DOR is also requesting policy packages for human resources staffing, Personal Income Tax and Compliance Division seasonal staffing augmentation, information technology compliance and risk management staff.

Per previous audit findings, and at the request of the Legislative Fiscal Office, DOR's administrative cost allocation requires review and updating. The allocation of DOR's central costs (e.g., Director's Office, Finance, Accounting, Human Services, and Information Technology, etc.) has not been reviewed or updated in possibly the last five or more biennia even with the introduction of major new Other Funded tax programs (e.g., transportation, marijuana, Corporate Activities Tax, and local government agreements). In other words, the General Fund portion of the administrative prorate is subsidizing the administration of major Other Fund revenue streams. DOR is undertaking efforts to update the agency's cost allocation methodology and has completed, where possible, the direct costing of expense to Other Fund revenue sources as opposed to running such costs through the existing administrative cost allocation. The updating of DOR's cost allocation percentages will directly impact the fund split of the agency's current service level budget and all policy packages.

DOR has been relying upon General Fund to provide working capital for Other Funded program operations. The standard practice, which DOR has been working to adopt, is that each Other Fund revenue stream must be self-supporting, including any cash flow needed to pay for DOR administrative expense.

Governor's Budget

The 2021-23 Governor's budget for the agency totals \$356.8 million total funds, which includes \$215.1 million General Fund and \$141.7 million Other Funds. The budget includes 1,082 positions and 1,018.29 FTE. The Governor's budget is \$4.9 million, or 1.4%, more than the 2019-21 legislatively approved budget of \$351.9 million. The Governor's budget includes most all of DOR's requested policy packages; however, the budget includes the following General Fund reduction:

- Eliminates all funding for Nonprofit Homes for the Elderly Program (\$3.4 million General Fund). Under the NPH, counties grant a property tax exemption to qualifying nonprofit corporations that provide housing to individuals age 62 or older who are within certain income limits. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly. The nonprofit entity passes the property tax exemption on to eligible tenants in the form of reduced rent.

Operational Update

Operationally, DOR is due much credit for the successful implementation of federal and state tax law changes and simultaneously successfully implementing a variety of new and complex state taxes as well as the consolidation of the state's collection function. DOR, even with another change in the agency director position, continues on a trajectory of demonstrable improvement.

Reduction Options

General Fund reduction options are possible for DOR but must be strategically taken so as to avoid a possible (negative) revenue impact to the state General Fund and other tax revenue streams. In addition, DOR was requested to provide Other Fund reduction option for the

Corporate Activities Tax, County Assessment Function Funding Account, and the state marijuana tax, which have an indirect link to the General Fund.

Key Performance Measures

A copy of the DOR's Annual Performance Progress Report can be found on the LFO website:

https://www.oregonlegislature.gov/lfo/APPR/APPR_DOR_2020-09-30.pdf

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