

ANALYSIS

Item 77: Department of Revenue 2023 Session Budget Adjustments

Analyst: Alex Perkins

Request: Appropriate \$463,423 General Fund, increase Other Funds expenditure limitation by \$75,357, and authorize the establishment of three positions (2.00 FTE) to support the impact of measures passed during the 2023 legislative session.

Analysis: The Department of Revenue (DOR) is the tax administration agency for state government. The agency is responsible for administering approximately 60 tax and other revenue programs, including personal income and corporate excise taxes, a corporate activities tax, state marijuana tax, and a variety of other taxes and fees. DOR provides oversight of local property tax administration by counties, values many industrial and other large-scale properties, collects selected revenues, and administers property tax relief programs. The agency also provides debt collection services for state agencies and local governments. DOR is requesting an increase of \$463,423 General Fund, \$75,357 Other Funds, and three positions (2.00 FTE) to address projects and policy measures funded or adopted during the 2023 session that require additional resources. As discussed below, these include additional funding for the Electronic Valuation Information System project, as well as funding to support the fiscal impacts of HB 2757 (2023) and HB 2083 (2023).

Electronic Valuation Information System (ELVIS) – ELVIS is a project aimed at enhancing DOR’s capabilities and accuracy in assessing and managing property taxes, especially for large-scale industrial properties. This upgrade is part of the Department’s broader effort to ensure efficient tax administration and modernize its technological infrastructure. Phase 1, completed under budget during the 2021-23 biennium, addressed the central assessment program for communications, transportation, utility, and other industries. Phase 2 focuses on the appraisal of large industrial properties, specifically those with machinery and equipment valued at over \$1 million. While the Legislature approved \$14 million during the 2023 session for phase 2 through the issuance of general obligation bonds, an associated position request was not included. The Department is requesting authorization to establish one Information Systems Specialist 7 position (0.75 FTE) to work on the maintenance and operations of the ELVIS system at a cost of \$159,799 General Fund and \$47,732 Other Funds.

9-8-8 – The 9-8-8 Crisis System Program, enacted by the Legislature in HB 2757 (2023), is designed to fund crisis services through a tax on telecommunication services. The tax applies to consumers and retail subscribers of telecommunications service or interconnected Voice over Internet Protocol (VoIP) service. The rate is set at 40 cents per line per month for postpaid services and 40 cents per transaction for prepaid telecommunications services. As the tax administration agency for state government, the Department is responsible for administering and collecting this tax. The Department must manage the incoming funds, ensuring accurate collection and appropriate allocation to the 9-8-8 Trust Fund. However, the fiscal impact of HB 2757 on DOR was not specifically known at the time the measure was adopted. To support this impact, DOR is now requesting one-time increases of \$77,000 General Fund and \$23,000 Other Funds for information technology professional services.

Pass Through Entity Elective (PTE-E) Tax Extension – The PTE-E tax extension refers to the legislative action extending the applicability of Oregon's pass-through business alternative income tax and the related personal income tax credit. This extension was adopted near the end of the 2023 session in HB 2083 (2023) without the opportunity for the measure's fiscal impact to be addressed in the agency's budget. The PTE-E tax and related tax credit, originally established by SB 727 (2021), were designed as a workaround for the federal state and local tax (SALT) deduction limitation, aiming to reduce federal tax liabilities for taxpayers without changing net state revenue. The extension of the PTE-E tax program until January 1, 2026, aligns with the existing federal law limiting the personal income SALT deduction, which is scheduled to expire following the 2025 tax year.

The extension of the pass-through business alternative income tax (PTE-E tax) and related personal income tax credit in HB 2083 has implications for the Department. Most notably, the PTE-E tax and related tax credit creates additional workload, especially in processing and reviewing tax returns related to this program. During the initial filing year of 2023, DOR had to rely on manual processes to review these tax returns and determine compliance, rather than automated processes. This increased the complexity and resource requirements for managing the program. The existing staffing level at the Department is likely less than what is required to adequately support the demands of the PTE-E tax program. To address this workload, the Department requests \$226,624 General Fund and \$4,625 Other Funds to establish two Administrative Specialist 2 positions (1.25 FTE) with an April 1, 2024, start date.

Recommendation: The Legislative Fiscal Office recommends that the Joint Interim Committee on Ways and Means recommend appropriating \$463,423 General Fund, increasing Other Funds expenditure limitation by \$75,357, and authorizing the establishment of three positions (2.00 FTE) in a budget reconciliation bill during the 2024 legislative session for the Department of Revenue to support the Electronic Valuation Information System project, collection and administration of the 9-8-8 tax, and Pass Through Entity Elective tax extension.

Request: Appropriate \$463,423 General Fund, increase Other Funds expenditure limitation by \$75,357, and establish three permanent full-time positions (2.00 FTE) to implement legislation that passed during the 2023 Legislative Session for which the Department of Revenue (DOR) did not receive budgetary adjustments.

Recommendation: Approve the request during the 2024 Legislative session, with the following modification; appropriate \$386,423 General Fund, increase \$152,357 Other Funds expenditure limitation and establish three permanent full-time positions (2.00 FTE).

Discussion: DOR is requesting \$463,423 General Fund, \$75,357 Other Funds expenditure limitation, and three positions (2.00 FTE) to implement 2023 legislation, which has a fiscal impact on the Department but for which no budgetary adjustment was received, as well as a position needed to implement a project funded in 2021-23 and 2023-25.

DOR is requesting \$159,799 General Fund, \$47,732 Other Funds expenditure limitation and one permanent full-time Information Systems Specialist 7 position (0.75 FTE) along with related Services and Supplies to support the on-going maintenance and operations of the Electronic Valuation and Information System (ELVIS) project. The ELVIS project seeks to replace DOR's property tax industrial valuation and central assessment information systems. Phase 1 of the ELVIS project, which completed in December 2022, established the Property Tax Division's central assessment functions within DOR's core tax processing system (Gentax). Phase 2 of the project, which will stand up the industrial valuation functionality, was funded through Senate Bill 5506 (2023) with \$14.0 million Other Funds from the sale of Article XI-Q bonds, \$2.4 million General Fund for debt service, \$265,000 Other Funds expenditure limitation for the cost of issuing the bonds, and \$100,000 General Fund for system training, but the positions DOR requested to work on the project were missed. DOR was approved to establish three of the project positions through a limited duration plan utilizing some of the approved bond funding and is awaiting classification decision on the fourth. The final position, an Information Systems Specialist 7, is requested as permanent full-time position using General Fund and Other Funds cost allocated from DOR's tax collections because the work of the position is ongoing and not tied specifically to bondable expenses.

DOR is also requesting \$77,000 General Fund and \$23,000 Other Funds expenditure limitation to administer the new 9-8-8 tax of \$0.40 per phone line per month established by House Bill 2757 (2023). Funds will be used to update DOR's tax processing software for the new tax. As the tax has a similar tax base and is administered using the same forms as Oregon's existing 9-1-1 assessment, the tax does not require as extensive policy and rules development as other new taxes in recent years. House Bill 2757 limits DOR's administrative expenses to 0.6 percent of the amounts collected for the 9-8-8 tax, which would amount to approximately \$200,000 if revenues reach the estimated \$32.9 million for 2023-25. In the request, DOR cost allocated the charges for system

development using the cost allocation percentages for the Business Tax Division, who will administer the tax. The analyst is recommending \$100,000 Other Funds expenditure limitation, instead of the \$77,000 General Fund and \$23,000 Other Funds as requested. DOR agrees with this recommendation given that the costs are directly attributable to the 9-8-8 tax and that the costs will not exceed the administrative cap under any likely scenario.

Finally, DOR is requesting \$226,624 General Fund, \$4,625 Other Funds expenditure limitation, and two permanent, full-time Administrative Specialist 2 positions (1.25 FTE) to administer provisions of House Bill 2083 (2023), which extended the Pass-Through Entity Tax (PTET). Briefly, the PTET is a revenue neutral tax and credit program through which owners of pass-through entities (PTEs), such as S-Corporations and partnerships, may voluntarily make payments through the PTE and receive a credit for those taxes paid on their individual income tax. The program was created by Senate Bill 727 (2021) and extended an additional two tax years by House Bill 2083 (2023). DOR did not receive a budgetary increase for either Senate Bill 727 or for House Bill 2083. The first filing season for the tax was in the spring of 2023 (for tax year 2022) and DOR received approximately 17,000 returns. Processing the returns requires significant manual work due to the complexity of the PTE relationships themselves. DOR staff must track credits for payments made by one PTE as they flow through multiple other PTEs to their ultimate owners to make sure they are being applied correctly on tax returns. DOR's current tax credit tracking technology was configured to handle more straightforward credit situations and is not able to support the agency in this work, thus the need for staff.

Legal Reference: Increase the General Fund appropriation established by chapter 361, section 1(3), Oregon Laws 2023, for the Department of Revenue, Personal Tax and Compliance Division, by \$226,624 for the 2023-25 biennium.

Increase the General Fund appropriation established by chapter 361, section 1(6), Oregon Laws 2023, for the Department of Revenue, Information Technology Services Division, by \$159,799 for the 2023-25 biennium.

Increase Other Funds expenditure limitation established by chapter 361, section 2(3), Oregon Laws 2023, for the Department of Revenue, Personal Tax and Compliance Division, by \$4,625 for the 2023-25 biennium.

Increase Other Funds expenditure limitation established by chapter 361, section 2(7), Oregon Laws 2023, for the Department of Revenue, Information Technology Services Division, by \$147,732 for the 2023-25 biennium.



Oregon

Tina Kotek, Governor

Department of Revenue
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December 4, 2023

Senator Elizabeth Steiner, Co-Chair
Representative Tawna Sanchez, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

Dear Co-Chairs:

Nature of the Request

The Department of Revenue (DOR) is requesting budget and position authority for policy bills that were passed in the 2023 Legislative Session; however, the fiscal impacts were not included within the end of Session budget bills. Specifically, the department requests a \$463,423 General Fund appropriation, an increase of \$75,357 Other Funds expenditure limitation, and the establishment of three permanent, full-time (2.00 FTE) positions for the 2023-2025 biennium to provide support for policy bills passed during the 2023 Legislative Session.

Agency Action

The department has identified three budget and policy bills where the fiscal impacts were not provided within the end of Session budget bills.

First, the Legislature approved the funding for the ELVIS project that modernizes the property tax system through the bond bill. The associated position request was not included so the department is requesting one permanent, full time (0.75 FTE) Information Systems Specialist 7 position and related Services and Supplies to support the on-going maintenance and operations of the ELVIS system. The request is for \$159,799 General Fund and \$47,732 Other Funds with a January 1, 2024 start date as this project is already underway. DOR was advised by the legislative fiscal office to return to the February 2024 Session to request this permanent position.

Second, the new 9-8-8 crisis system program was enacted by the Legislature in HB 2757 (2023). DOR was advised to return to the February 2024 Session to request the one-time \$77,000 General Fund and \$23,000 Other Funds in IT Professional Services associated with collecting and administering this revenue source.

Lastly, the Pass Through Entity Tax Extension was enacted by the Legislature in HB 2083 (2023). DOR was advised to return to the February 2024 Session to request budget and position authority to support this tax program. The 2021 Legislature created the PTE-E tax and the related personal income tax credit through the passage of SB 727 (2021). DOR began accepting the PTE-E tax returns in 2023 and discovered during this initial filing year that DOR has to rely

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on a manual process for reviewing tax returns to determine compliance instead of using automated processes. As a result, this has significantly increased the resources needed for processing PTE-E tax returns and the related tax credit. The current staffing level is inadequate to support the PTE-E tax program. DOR requests two permanent, full time (1.25 FTE) Administrative Specialist 2 positions and related Services and Supplies for \$226,624 General Fund and \$4,625 Other Funds with an April 1, 2024 start date.

The department is requesting one Information Systems Specialist 7 position and related Services and Supplies with a start date of January 1, 2024, for the Information Technology Services Division, and two Administrative Specialist 2 positions and related Services and Supplies with a start date of April 1, 2024, for the Personal Tax and Compliance Division

Action Requested

The department requests that the Legislature appropriate \$463,423 General Fund, increase its Other Funds expenditure limitation by \$75,357, and approve the establishment of three permanent, full-time (2.00 FTE) positions within the Personal Tax and Compliance Division, and the Information Technology Services Division.

Legislation Affected

Allocation of \$226,624 to supplement the appropriation established by chapter 361, Section 1 (3) Oregon Laws 2023 (enrolled HB 5034) made to the Department of Revenue, Personal Tax and Compliance Division, for the 2023–25 biennium. Increase the Other Funds expenditure limitation established by chapter 361, section 2 (3) Oregon Laws 2023 (enrolled HB 5034) for the Department of Revenue, Personal Tax and Compliance Division, by \$4,625 for the 2023-25 biennium.

Allocation of \$236,799 to supplement the appropriation established by chapter 361, Section 1 (6) Oregon Laws 2023 (enrolled HB 5034) made to the Department of Revenue, Information Technology Services Division, for the 2023–25 biennium. Increase the Other Funds expenditure limitation established by chapter 361, section 2 (7) Oregon Laws 2023 (enrolled HB 5034) for the Department of Revenue, Information Technology Services Division, by \$70,732 for the 2023-25 biennium.

Sincerely,

A handwritten signature in black ink, appearing to read "Betsy A. Imholt". The signature is fluid and cursive, with the first name "Betsy" being more prominent.

Betsy Imholt
Director