

HB 5034 A BUDGET REPORT and MEASURE SUMMARY

Carrier: Sen. Campos

Joint Committee On Ways and Means

Action Date: 05/19/23

Action: Do pass the A-Eng bill.

Senate Vote

Yeas: 11 - Anderson, Campos, Dembrow, Findley, Frederick, Gelser Blouin, Girod, Hansell, Knopp, Sollman, Steiner

House Vote

Yeas: 10 - Breese-Iverson, Evans, Gomberg, Holvey, Lewis, McLain, Pham K, Sanchez, Smith G, Valderrama

Nays: 1 - Cate

Exc: 1 - Reschke

Prepared By: Wendy Gibson, Department of Administrative Services

Reviewed By: Doug Wilson, Legislative Fiscal Office

*** CORRECTED ***

Department of Revenue

2023-25

Budget Summary*

	2021-23 Legislatively Approved Budget ⁽¹⁾	2023-25 Current Service Level	2023-25 Committee Recommendation	Committee Change from 2021-23 Leg. Approved	
				\$ Change	% Change
General Fund	\$ 244,249,014	\$ 233,474,772	\$ 227,302,583	\$ (16,946,431)	(6.9%)
General Fund Debt Service	\$ 6,507,679	\$ 2,582,420	\$ 2,582,420	\$ (3,925,259)	(60.3%)
Other Funds Limited	\$ 303,492,708	\$ 160,723,308	\$ 167,068,510	\$ (136,424,198)	(45.0%)
Other Funds Debt Service	\$ 1,340,120	\$ 113,110	\$ 113,110	\$ (1,227,010)	(91.6%)
Total	\$ 555,589,521	\$ 396,893,610	\$ 397,066,623	\$ (158,522,898)	(28.5%)

Position Summary

Authorized Positions	1,134	1,109	1,138	4
Full-time Equivalent (FTE) positions	1,064.42	1,050.78	1,071.53	7.11

⁽¹⁾ Includes adjustments through January 2023

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Department of Revenue (DOR) is responsible for collecting taxes that make up 97 percent of the state’s General Fund revenue, including the Personal Income Tax, Corporate Income Tax, Inheritance Tax, Cigarette Tax, and Other Tobacco Products Tax. The General Fund is dependent on the Personal Income Tax, which is projected to account for over 80 percent of the General Fund revenues in 2023-25.

The Department’s primary source of Other Funds, to pay for the cost of administering its tax portfolio, is Other Funds taxes it collects, including the Corporate Activity Tax (CAT), Marijuana Tax, portions of the Cigarette and Other Tobacco Products Tax, transportation taxes, the State Lodging Tax, and several other taxes collected on behalf of other state agencies or local governments. Proceeds from these taxes are transferred to the departments or local governments after deducting the costs of administration. The revenues from these taxes are subject to appropriation and some of the taxes the Department collects have legal caps on the administrative costs.

In addition to the Other Funds tax revenues supporting administrative work, the Department receives Other Funds revenue from fees for services rendered. The Property Tax program receives fees for maintaining tax maps for counties, as well as document recording fees and a portion of the interest on delinquent properties. A primary revenue source for the Property Tax Division, the County Assessment Function Funding Account revenue, is projected to bring in \$38.0 million during the 2023-25 biennium. Of this amount, 90 percent will be transferred to counties to help pay for the administration of their property tax programs, while 10 percent will be retained by the Property Tax Division to

administer the division's programs. The Collections Division collects fees charged against the debt it collects on behalf of other state departments. The Department is projected to collect \$18.7 million in fees during the 2023-25 biennium related to collection activities.

Summary of General Government Subcommittee Action

DOR has approximately 60 revenue streams, including 36 tax programs, 11 fee programs, and 11 audit and collection activities. These revenue streams account for more than 97 percent of the state's General Fund revenue. DOR oversees the county property tax function and collects and distributes taxes and fees for other state agencies and local governments. The Department operates two tax relief programs for the elderly and persons with disabilities: the Non-Profit Housing for Elderly Persons Program and the Senior Citizens' and Disabled Citizens' Property Tax Deferral Program. The Subcommittee recommended a total funds budget of \$397,066,623 and 1,138 positions (1,071.53 FTE) for the 2023-25 biennium. The budget consists of a General Fund appropriation of \$229,885,003 and \$167,181,620 Other Funds expenditure limitation. This represents a 28.5 percent decrease in total funds from the 2021-23 Legislatively Approved Budget. The decrease is primarily due to a large amount of one-time funding phasing out of the current budget, including low-income tax credits funded with pandemic-related federal resources and payments to specific counties significantly impacted by wildfire damage.

Administration Division

The Administration Division provides overall Department leadership and supports DOR divisions by providing operational services in finance, communications, human resources, internal audits, and research. This Division helps the Department adhere to state policy, realize governor and legislative objectives, track delivery of programs, and approve resources and plans to achieve the goals outlined in the Department's strategic plan. The Subcommittee recommended budget for the Administration Division is \$50.4 million total funds and 84 positions (83.14 FTE). The Subcommittee's recommendation includes the following packages:

Package 081, June 2022 Emergency Board. In June 2022, the Emergency Board approved the establishment of seven permanent full-time positions for a new Internal Controls office. The Office is responsible for issues around cybersecurity, compliance, risk, and business continuity to improve the security of taxpayer financial and personal information. The \$1,436,185 million General Fund and \$359,090 Other Funds in this package represents the full 24-month cost of these seven positions (7.00 FTE).

Package 103, Diversity, Equity and Inclusion. This package provides four permanent full-time positions (3.14 FTE) for efforts of DOR to engage with communities, specifically those representing underserved and under resourced communities and to also create a more diverse workforce within the Department. The goal of this package is to provide for more culturally responsive communication both inside the Department with its workforce and outside the Department with various communities. The positions include:

1. One Public Affairs Specialist 2 (0.88 FTE) - who will actively meet with community members to provide outreach and information of DOR's programs and will focus on underserved communities.

2. One Human Resource Analyst 3 (0.50 FTE) - to serve as a dedicated Diversity, Equity, and Inclusion Officer for the Department. The position will focus on recruiting efforts and strategies to hire from historically and currently underserved and under-resourced communities.
3. One Operations and Policy Analyst 2 (0.88 FTE) - to work with Workday and other enterprise systems used by DOR to provide information and analysis from these systems. This information will assist in meeting the Department's goals around training and diversity.
4. One Human Resource Analyst 2 (0.88FTE) - for initiatives relating diversity, services to new employees, training and development, succession planning, and improved employee/employer relationships.

Total cost of these four positions is \$591,425 General Fund and \$198,299 Other Funds expenditure limitation.

Package 107, Cost Allocation Methodology. A budget note in 2017, instructed DOR to begin to develop a new methodology for allocating central operational and other costs accurately across the approximately 60 revenue streams in the Department. Currently, for some of these revenue streams General Fund resources are being used where it would be more appropriate to use Other Funds sources of revenue. This package represents the first step in this cost allocation process which will continue in future biennia. Two relatively new revenue streams -- the Corporate Activities Tax (CAT) and Marijuana Tax -- are affected by this package in the 2023-25 biennium. Agency wide, General Fund savings of \$5,399,709 are realized from transferring costs to these two Other Funds revenue streams.

Additionally, this package moves five positions (5.00 FTE) from other divisions into the Administration Division. The positions are currently funded 100 percent with either Marijuana Tax revenue or CAT revenue but in the future, they will be more accurately cost allocated across all revenue streams to reflect the diversity of work performed. One Accountant 2 position (1.00 FTE), one Human Resource Assistant 2 position (1.00 FTE), and one Public Affairs Specialist 2 position (1.00 FTE) are transferred from the Corporate Division to the Administration budget unit. One Accountant 2 position (1.00 FTE) and one Safety Specialist 2 position (1.00 FTE) are transferred from the Marijuana Program to the Administration Division.

This package represents the changes in the Administration Division's budget unit and reduces General Fund by \$990,834 and increases Other Funds expenditure limitation by \$2,292,170. Companion cost allocation packages are found in other budget units.

This set of packages reflect only the first step in developing an overall cost allocation methodology. The Department has significant and complex work in the next two or more years to complete this project.

The Subcommittee approved the following budget note:

Budget Note

The Department of Revenue will continue to develop the cost allocation methodology during 2023-25. The Department should strongly consider hiring an outside consultant with expertise in cost allocation to assist it in completing this project. Other state agencies with existing cost allocation models should be consulted and internal and external stakeholder groups should be informed of this project. Given the complexity of developing this methodology and its scope, it is suggested that established project management tools be used to complete this project. The Department should report to the Emergency Board on the project’s progress and anticipated results by September 2024.

Package 801, LFO Analyst Adjustments. This package includes reductions to meet Framework targets and to fund investments in Packages 103 and 104, across DOR. Department-wide, \$3,000,000 General Fund in additional vacancy savings are generated. The Department has a significant turnover or churning in certain position types such as Administrative Specialists, Public Service Representatives, Tax Auditors, and Revenue Agents. Since there are dozens of employees in these classifications, the Department is continually recruiting for employees. Other savings department-wide include \$1,796,072 General Fund in Services and Supplies and \$834,488 General Fund in Capital Outlay. For the Administration Division’s budget unit, General Fund is reduced by \$486,082.

In addition, two positions are added in the Administration Division’s budget unit as a result of a recently completed report on the modernization of the Department’s call centers presented to the General Government Subcommittee earlier in the 2023 Legislative Session. The Subcommittee requested DOR review the recommendations of the report and determine what could be done in 2023-25 biennium and what resources would be required. DOR requested two positions to staff a “Center of Excellence” for this modernization project to begin the planning and implementation of some of the recommendations identified in the report. Resources for major technology related investments and changes will be requested for the 2025-27 budget. The two positions (2.00 FTE) are a Revenue Manager 2 and an Operations and Policy Analyst 4 at a cost of \$402,222 General Fund and \$134,862 Other Funds expenditure limitation.

Property Tax Division

The Property Tax Division (PTD) oversees the property tax function of Oregon county government, which generates over \$16 billion a year to fund public schools, police and fire departments, and other local government services. PTD consists of four major program areas: County Oversight, Industrial and Utility Valuation, Forestland Valuation and Timber Taxes, and Cadastral Information Systems.

This Division is supported by General Fund and Other Funds revenues. Other Funds revenues come from the County Mapping and County Assessment Funding Programs. Document recording fees, plus a portion of the interest collected on delinquent property tax payments, support the Department’s appraisal of approximately 860 industrial sites and approximately 560 centrally assessed (utility, transportation, and energy)

companies, as well as the administration of the county grant process. The Subcommittee recommended budget for the Division consists of \$68.6 million total funds and 80 positions (79.25 FTE). The Subcommittee recommendation includes the following package:

Package 801, LFO Analyst Adjustments. This package includes reductions to meet Framework targets and to fund investments in Packages 103 and 104 across DOR. Department-wide, \$3,000,000 General Fund in additional vacancy savings are generated. The Department has a significant turnover or churning in certain position types like Administrative Specialists, Public Service Representatives, Tax Auditors, and Revenue Agents. Since there are dozens of employees in these classifications, the Department is continually recruiting for employees. Other savings department-wide include \$1,796,072 General Fund in Services and Supplies and \$834,488 General Fund in Capital Outlay. The PTD's share of these reductions is \$253,790 General Fund.

Personal Tax and Compliance Division

The Personal Tax and Compliance Division (PTAC) is responsible for administering the Personal Income Tax. The Division also provides enforcement and collection services for the TriMet and Lane Transit District Self-Employment taxes. The Personal Income Tax is projected to bring in approximately \$21.5 billion during the 2023-25 biennium; and for context an estimated 2.2 million personal income tax returns were processed in 2022.

The mission of PTAC is to improve taxpayer compliance with the programs it administers through taxpayer assistance, education, and enforcement activities. To aid voluntary compliance, PTAC provides taxpayer education and assistance programs. It also employs enforcement activities for those who do not voluntarily comply with Oregon's personal income tax laws. Enforcement actions affect individuals who fail to file required returns, understate income, overstate expenses or deductions, or fail to pay.

This Division is supported primarily by General Fund revenues. PTAC Other Funds expenditures are primarily for the administration of Tri-Met and Lane County Transit Self-Employment Tax programs. The Subcommittee recommended budget for PTAC consists of \$64.0 million total funds and 276 positions (259.87 FTE). The Subcommittee recommendation includes the following packages:

Package 090, Analyst Adjustments. This package continues 16 positions (8.19 FTE) for certifying taxpayer qualifications for the refundable tax credits for agricultural worker overtime authorized in House Bill 4002 during the 2022 Legislative Session. The bill established maximum hours and overtime wage requirements related to the tax credits. DOR administers the tax credit and certifies taxpayer eligibility. This package provides \$1,708,565 General Fund and \$34,870 Other Funds expenditure limitation.

Package 801, LFO Analyst Adjustments. This package includes reductions to meet Framework targets and to fund investments in Packages 103 and 104 across DOR. Department-wide, \$3,000,000 General Fund in additional vacancy savings are generated. The Department has a significant turnover or churning in certain position types like Administrative Specialists, Public Service Representatives, Tax Auditors, and Revenue Agents. Since there are dozens of employees in these classifications, the Department is continually recruiting for employees. Other savings department-wide

include \$1,796,072 General Fund in Services and Supplies and \$834,488 General Fund in Capital Outlay. The PTAC's share of these reductions is \$2,099,053 General Fund.

Business Division

The Business Division administers the Corporation Income and Excise taxes, Employer Income Tax Withholdings, state and local Transit Payroll Taxes, Fiduciary, Inheritance, Cigarette Tax, Tobacco Tax, the Vehicle Excise and Use Taxes, other Special Programs, and other taxes. Although administered by the Business Division, the costs associated with administering the Marijuana Tax and the CAT are budgeted in the Marijuana Program and the Corporate Division, respectively. The Business Division shares administrative responsibility for administering the Combined Payroll Tax program with the Oregon Employment Department, which processes the majority of the returns and administers the state's unemployment tax, and the Department of Consumer and Business Services, which administers the workers' benefit fund assessment. The Business Division audits corporation income and excise tax returns, fiduciary returns, and transit self-employment tax returns.

This section is supported by General Fund and by charges to Other Funds programs for their share of the Department's administrative expenses. Other Funds revenue includes administrative charges to the Other Funds taxes the Division administers. The Subcommittee recommended budget for the Business Division consists of \$38.0 million total funds and 138 positions (137.00 FTE). The Subcommittee recommendation includes the following package:

Package 801, LFO Analyst Adjustments. This package includes reductions to meet Framework targets and to fund investments in Packages 103 and 104 across DOR. Department-wide, \$3,000,000 General Fund in additional vacancy savings are generated. The Department has a significant turnover or churning in certain position types like Administrative Specialists, Public Service Representatives, Tax Auditors, and Revenue Agents. Since there are dozens of employees in these classifications, the Department is continually recruiting for employees. Other savings department-wide include \$1,796,072 General Fund in Services and Supplies and \$834,488 General Fund in Capital Outlay. The Business Division's share of these reductions is \$885,111 General Fund.

Collections Division

The Collections Division contains all of DOR's collections functions, including the transfer in of collection functions from the Personal Tax and Compliance Division and the Business Division, as well as the Other Agency Accounts (OAA) section. OAA acts as an in-house collection's agency for state government, collecting on debts for 180 state departments, boards, and commissions and managing contracts for private collections firms for Executive Branch agencies.

The Subcommittee recommended budget for the Collections Division is \$53.0 million total funds and 249 positions (247.39 FTE). The Subcommittee recommendation includes the following package:

Package 801, LFO Analyst Adjustments. This package includes reductions to meet Framework targets and to fund investments in Packages 103 and 104 across DOR. Department-wide, \$3,000,000 General Fund in additional vacancy savings are generated. The Department has a significant turnover or churning in certain position types like Administrative Specialists, Public Service Representatives, Tax Auditors, and Revenue Agents. Since there are dozens of employees in these classifications, the Department is continually recruiting for employees. Other savings department-wide include \$1,796,072 General Fund in Services and Supplies and \$834,488 General Fund in Capital Outlay. The Collections Division's share of these reductions is \$1,315,272 General Fund.

Corporate Division

The Corporate Division administers the Corporate Activity Tax (CAT) established by House Bill 3427 (2019). Proceeds from the tax are deposited into the Fund for Student Success and directly support investments in education. This program unit reports to the Business Division and includes administrative resources to support taxpayers in complying with tax reporting and payment regulations, as well as revenue receipts, which are transferred to the Oregon Department of Education. As of May 2023, over 36,000 taxpayers registered for the CAT and approximately 58,000 tax returns were filed for tax years 2020, 2021, and 2022. The Subcommittee recommended a budget of \$16.5 million Other Funds expenditure limitation and 50 positions (50.00 FTE). The Subcommittee recommendation includes the following package:

Package 107, Cost Allocation Methodology. A budget note in 2017 instructed DOR to begin to develop a new methodology for allocating central operational and other costs accurately across the approximately 60 revenue streams in the Department. Currently, for some of these revenue streams General Fund resources are being used where it would be more appropriate to use Other Funds sources of revenue. This package represents the first step in this cost allocation process, which will continue in future biennia. Two relatively new revenue streams – CAT and Marijuana Tax – are affected by this package in the 2023-25 biennium. Agency wide, General Fund savings of \$5,399,709 are realized from transferring costs to these two Other Funds revenue streams.

Additionally, this package moves 17 positions (10.98 FTE) from the Corporate Division to other divisions in DOR. The positions are currently funded 100 percent with CAT revenue, but in the future will be more accurately cost allocated across all revenue streams to reflect the diversity of work performed. Four Information System Specialist positions (4.00 FTE), five Office Specialist and Assistant positions (1.69 FTE), three Data Entry Operator positions (0.71 FTE), and two Operations and Policy Analyst positions (1.58 FTE) are transferred to Information Technology Services Division. One Accountant 2 position (1.00 FTE), one Human Resource Assistant 2 (1.00 FTE), and one Public Affairs Specialist 2 position (1.00 FTE) are transferred to the Administration budget unit.

Companion cost allocation packages are found in other budget units. Total Other Funds savings from this package for the Corporate Division is \$2,686,689.

Information Technology Services Division

The Information Technology Services Division supports the technology platforms on which DOR operates, processes incoming paper returns and correspondence, and processes and deposits all payments received by the Department. The Division includes Engineering Services, which manages DOR's network, databases, middleware, systems and servers; the Service Desk, which provides end-user support for DOR's employees; the Core Systems group, which supports DOR's core system, Gentax; Application Services, which develops and supports in-house applications DOR uses to administer its tax portfolio; and the Processing Center, which processes all incoming paper returns, payments, and correspondence and deposits all payments.

This Division is supported by General Fund and by charges to Other Funds programs for their share of the Department's administrative expenses. The Subcommittee recommended budget for the Information Technology Services Division consists of \$59.2 million total funds and 243 positions (197.13 FTE). The Subcommittee recommendation includes the following packages:

Package 104, Reliable Operations. This package increases the FTE on an Information Technology (IT) Help or Service Desk position, backfills a gap in the Processing Center's Services and Supplies budget, and reclasses 12 Processing Center positions resulting from a union grievance.

1. Given the increase in the number of DOR employees, continued off-site or remote work, and the complexity of information technology applications there is a need to increase the IT Service Desk capacity. An existing Information System Specialist 4 position is increased from part-time to full-time. Funding for this 0.42 FTE expansion is made available by reducing Services and Supplies budget by \$63,311 General Fund and \$18,911 Other Funds expenditure limitation and increasing Personal Services by a corresponding amount.
2. A funding gap of \$693,280 General Fund and \$207,083 Other Funds expenditure limitation is estimated for the Processing Center's Services and Supplies budget. This gap in basic operations costs begun in 2017. The transfer of the Statewide Transit Program processing to the Employment Department, contributes to the challenge in filling this gap. Reductions in Services and Supplies budgets in other areas of the Department's Services and Supplies budget fund the filling of this gap.
3. A 2021 union-filed grievance claimed that 12 Office Assistant 1 mail room staff were assigned duties of a higher classification. Internal and external reviews demonstrated the positions required a reclassification to an Office Assistant 2 classification at a cost of \$37,792 General Fund and \$11,289 Other Funds expenditure limitation.

Overall, this package increases the General Fund by \$731,072 and the Other Funds expenditure limitation is increased by \$218,372.

Package 107, Cost Allocation Methodology. A budget note in 2017, instructed DOR to begin to develop a new methodology for allocating central operational and other costs accurately across the approximately 60 revenue streams in the Department. Currently, for some of these revenue

streams General Fund resources are being used where it would be more appropriate to use Other Funds sources of revenue. This package represents the first step in this cost allocation process, which will continue in future biennia. Two relatively new revenue streams -- CAT and Marijuana Tax -- are affected by this package in the 2023-25 biennium. Agencywide, General Fund savings of \$5,399,709 are realized from transferring costs to these two Other Funds revenue streams.

This package also transfers 18 positions (11.98 FTE) to the Information Technology Services Division. The positions are currently funded 100 percent with either Marijuana Tax revenue or CAT revenue but are more accurately cost allocated across all revenue streams to reflect the diversity of work performed. The positions include four Administrative Specialist 2 positions (4.00 FTE) transferred from the Marijuana Program to this Division. Also transferred are five Office Specialist and Assistant positions (1.69 FTE), three Data Entry Operator positions (0.71 FTE), four Information System Specialist positions (4.00 FTE), and two Operations and Policy Analyst positions (1.58 FTE) from the Corporate Division to this Division.

Total changes in this package for the Information Technology Services Division total \$4,408,874 less in General Fund and an increase in Other Funds expenditure limitation of \$6,908,588. Companion cost allocation packages are found in other budget units.

Package 801, LFO Analyst Adjustments. This package includes reductions to meet Framework targets and to fund investments in Packages 103 and 104 across DOR. Department-wide, \$3,000,000 General Fund in additional vacancy savings are generated. The Department has a significant turnover or churning in certain position types like Administrative Specialists, Public Service Representatives, Tax Auditors, and Revenue Agents. Since there dozens of employees in these classifications, the Department is continually recruiting for employees. Other savings department-wide include \$1,796,072 General Fund in Services and Supplies and \$834,488 General Fund in Capital Outlay. The Information Technology Services Division's share of these reductions is \$602,642 General Fund.

Marijuana Program

The Marijuana Program consists of the staff needed to administer the Marijuana Tax, including communications, policy analysis, and the development of administrative rules and forms. In addition, the Marijuana Program administers approximately 90 local marijuana taxes on behalf of local governments. Marijuana businesses are newly able to use the formal banking system; however, many still pay their taxes in cash, which requires the Department to build and staff a cash handling facility where all taxpayers seeking to make cash payments must go.

This program is supported by marijuana tax revenues and reimbursements from local governments for the administration of their taxes. The Subcommittee recommended budget for the Marijuana Program is \$4.1 million total funds and 10 positions (10.00 FTE). The Subcommittee recommendation includes the following package:

Package 107, Cost Allocation Methodology. A budget note in 2017, instructed DOR to begin to develop a new methodology for allocating central operational and other costs accurately across the approximately 60 revenue streams in the Department. Currently, for some of these revenue

streams General Fund resources are being used where it would be more appropriate to use Other Funds sources of revenue. This package represents the first step in this cost allocation process, which will continue in future biennia. Two relatively new revenue streams -- CAT and Marijuana Tax -- are affected by this package in the 2023-25 biennium. Agency wide, General Fund savings of \$5,399,709 are realized from transferring costs to these two Other Funds revenue streams.

This package also reduces Other Funds expenditure limitation related to the transfer of six positions (6.00 FTE) from the Marijuana Program into other divisions as part of the cost allocation plan implementation. The positions are currently funded 100 percent with Marijuana Tax revenue but are more accurately cost allocated across all revenue streams to reflect the diversity of work performed. The transferred positions are one Safety Specialist 2 position (1.00 FTE) and one Accountant 2 position (1.00 FTE) which are transferred to the Administration budget unit. Also transferred are four Administrative Specialist 2 positions (4.00 FTE) to the Information Technology Services Division.

Total changes in this package for the Marijuana Program are \$1,114,360 less in Other Funds expenditure limitation. Companion cost allocation packages are found in other budget units.

Non-profit Housing For Elderly Persons

The Nonprofit Housing for Elderly Persons program reimburses counties for the costs of a property tax exemption for certain nonprofit homes for the elderly. The nonprofit homes receive the exemption regardless of whether or to what extent the counties are reimbursed for this exemption. The Subcommittee recommended a budget of \$3.6 million General Fund for this program.

Senior Deferral Program

The Department administers the Senior Citizens' Property Tax Deferral program, the Senior Citizens' Special Assessment Deferral Program, and the Disabled Citizens' Property Tax Deferral Program. These programs pay the property taxes and special property assessments for qualified senior and disabled citizens in exchange for a lien against the property in the amount of the deferred taxes. The deferred taxes are repaid when either the participant no longer lives in their home, sells the home, or the participant dies. The Subcommittee recommended a budget of \$37.0 million total funds and eight positions (7.75 FTE).

Capital Debt Service and Related Costs

This program unit includes the total cost of all debt service for the Department. The base budget pays the debt service for bonds issued for the Core System Replacement and Property Valuation System during previous biennia. The Subcommittee recommended a budget of \$2.7 million total funds for this program.

Core System Replacement

The Department recently completed a multi-biennia effort to replace their legacy tax processing system with a new, integrated system called GenTax. The Department identified the need to replace core tax systems to improve efficiency, reduce the risk of system failure, and enhance

the ability to improve performance and generate revenue. In the 2021-23 biennium, the Department advanced their modernization efforts by starting the first phase of the Electronic Valuation Information System project, which modernized the centrally assessed appraisal program's core software. The first phase is scheduled to be completed in July 2023. This program unit contains no expenditure limitation; however, the Department has requested funding for Phase 2 of the ELVIS project. If approved by the Legislature, it will be allocated under separate legislation.

Summary of Performance Measure Action

See attached Legislatively Adopted 2023-25 Key Performance Measures form.

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

Department of Revenue
Wendy Gibson -- 971-900-9992

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2021-23 Legislatively Approved Budget at Jan 2023 *	\$ 250,756,693	\$ -	\$ 304,832,828	\$ -	\$ -	\$ -	\$ 555,589,521	1,134	1,064.42
2023-25 Current Service Level (CSL)*	\$ 236,057,192	\$ -	\$ 160,836,418	\$ -	\$ -	\$ -	\$ 396,893,610	1,109	1,050.78
<u>SUBCOMMITTEE ADJUSTMENTS (from CSL)</u>									
SCR 003 - Administration									
Package 081: June 2022 Emergency Board									
Personal Services	\$ 1,387,739	\$ -	\$ 346,936	\$ -	\$ -	\$ -	\$ 1,734,675	7	7.00
Services and Supplies	\$ 48,446	\$ -	\$ 12,154	\$ -	\$ -	\$ -	\$ 60,600		
Package 103: Diversity, Equity and Inclusion									
Personal Services	\$ 519,005	\$ -	\$ 174,019	\$ -	\$ -	\$ -	\$ 693,024	4	3.14
Services and Supplies	\$ 72,420	\$ -	\$ 24,280	\$ -	\$ -	\$ -	\$ 96,700		
Package 107: Cost Allocation Methodology									
Personal Services	\$ (1,934,880)	\$ -	\$ 3,182,939	\$ -	\$ -	\$ -	\$ 1,248,059	5	5.00
Services and Supplies	\$ 873,636	\$ -	\$ (820,359)	\$ -	\$ -	\$ -	\$ 53,277		
Capital Outlay	\$ 70,410	\$ -	\$ (70,410)	\$ -	\$ -	\$ -	\$ -		
Package 801: LFO Analyst Adjustments									
Personal Services	\$ 243,552	\$ -	\$ 131,043	\$ -	\$ -	\$ -	\$ 374,595	2	2.00
Services and Supplies	\$ (238,610)	\$ -	\$ 3,819	\$ -	\$ -	\$ -	\$ (234,791)		
Capital Outlay	\$ (88,802)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (88,802)		
SCR 004 - Property Tax Division									
Package 801: LFO Analyst Adjustments									
Personal Services	\$ (149,376)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (149,376)	0	0.00
Services and Supplies	\$ (100,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (100,000)		
Capital Outlay	\$ (4,414)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,414)		
SCR 005 - Personal Tax and Compliance Division									
Package 090 - Analyst Adjustment									
Personal Services	\$ 1,419,515	\$ -	\$ 28,971	\$ -	\$ -	\$ -	\$ 1,448,486	16	8.19
Services and Supplies	\$ 245,639	\$ -	\$ 5,013	\$ -	\$ -	\$ -	\$ 250,652		
Capital Outlay	\$ 43,411	\$ -	\$ 886	\$ -	\$ -	\$ -	\$ 44,297		
Package 801: LFO Analyst Adjustments									
Personal Services	\$ (1,138,844)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,138,844)	0	0.00
Services and Supplies	\$ (600,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (600,000)		
Capital Outlay	\$ (360,209)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (360,209)		

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE	
			LIMITED	NONLIMITED	LIMITED	NONLIMITED				
SCR 006 - Business Division										
Package 801: LFO Analyst Adjustments										
Personal Services	\$ (476,292)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (476,292)	0	0.00	
Services and Supplies	\$ (350,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (350,000)			
Capital Outlay	\$ (58,819)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,819)			
SCR 007 - Collections Division										
Package 801: LFO Analyst Adjustments										
Personal Services	\$ (748,615)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (748,615)	0	0.00	
Services and Supplies	\$ (350,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (350,000)			
Capital Outlay	\$ (216,657)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (216,657)			
SCR 008 - Corporate Division										
Package 107: Cost Allocation Methodology										
Personal Services	\$ -	\$ -	\$ (2,577,216)	\$ -	\$ -	\$ -	\$ (2,577,216)	(17)	(10.98)	
Services and Supplies	\$ -	\$ -	\$ (109,473)	\$ -	\$ -	\$ -	\$ (109,473)			
SCR 009 - Information Technology Services Division										
Package 104: Reliable Operations										
Personal Services	\$ 101,103	\$ -	\$ 30,200	\$ -	\$ -	\$ -	\$ 131,303	0	0.42	
Services and Supplies	\$ 629,969	\$ -	\$ 188,172	\$ -	\$ -	\$ -	\$ 818,141			
Package 107: Cost Allocation Methodology										
Personal Services	\$ (3,005,363)	\$ -	\$ 5,384,951	\$ -	\$ -	\$ -	\$ 2,379,588	18	11.98	
Services and Supplies	\$ (1,380,022)	\$ -	\$ 1,500,148	\$ -	\$ -	\$ -	\$ 120,126			
Capital Outlay	\$ (23,489)	\$ -	\$ 23,489	\$ -	\$ -	\$ -	\$ -			
Package 801: LFO Analyst Adjustments										
Personal Services	\$ (339,593)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (339,593)	0	0.00	
Services and Supplies	\$ (157,462)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (157,462)			
Capital Outlay	\$ (105,587)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (105,587)			
SCR 014 - Marijuana Program										
Package 107: Cost Allocation Methodology										
Personal Services	\$ -	\$ -	\$ (1,050,430)	\$ -	\$ -	\$ -	\$ (1,050,430)	(6)	(6.00)	
Services and Supplies	\$ -	\$ -	\$ (63,930)	\$ -	\$ -	\$ -	\$ (63,930)			
TOTAL ADJUSTMENTS	\$ (6,172,189)	\$ -	\$ 6,345,202	\$ -	\$ -	\$ -	\$ 173,013	29	20.75	
SUBCOMMITTEE RECOMMENDATION *	\$ 229,885,003	\$ -	\$ 167,181,620	\$ -	\$ -	\$ -	\$ 397,066,623	1,138	1,071.53	
% Change from 2021-23 Leg Approved Budget	(8.3%)	0.0%	(45.2%)	0.0%	0.0%	0.0%	(28.5%)	0.4%	0.7%	
% Change from 2023-25 Current Service Level	(2.6%)	0.0%	3.9%	0.0%	0.0%	0.0%	0.0%	2.6%	2.0%	

*Excludes Capital Construction Expenditures

Legislatively Approved 2023 - 2025 Key Performance Measures

Published: 5/17/2023 10:14:05 AM

Agency: Department of Revenue

Mission Statement:

Together, we collect the revenue that Oregon counts on.

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2024	Target 2025
1. Average Days to Process Personal Income Tax Refund.		Approved	14	14	14
2. Percent of Personal Income Tax Returns Filed Electronically		Approved	93.10%	94%	94%
3. Employee Training Per Year (percent receiving 20 hours per year).		Approved	38%	65%	65%
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.	a) Overall	Approved	89%	90%	90%
	b) Availability of Information		88%	90%	90%
	c) Helpfulness		93%	90%	90%
	d) Timeliness		90%	90%	90%
	e) Accuracy		91%	90%	90%
	f) Expertise		93%	90%	90%
5. Effective Taxpayer Assistance - Provide effective taxpayer assistance through a combination of direct assistance and electronic self-help services.		Approved	71	85	85
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.		Approved	95%	98%	98%
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.		Approved	12%	12%	12%
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.		Approved	\$0.19	\$0.20	\$0.20
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.		Approved	\$0.07	\$0.10	\$0.10
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.		Approved	\$0.10	\$0.10	\$0.10
11. Employee Engagement - Percentage of employees considered actively engaged by a standardized survey.		Approved	52	60	60

LFO Recommendation:

The Legislative Fiscal Office (LFO) recommends the following for the Department of Revenue's (DOR) KPMs:

- KPM #1 - *Average Days to Process Personal Income Tax Refund*. LFO recommends decreasing the current target of 16 days to 14 days based on recent performance.
- KPM #2 -- *Percent of Personal Income Tax Returns Filed Electronically*. LFO recommends increasing target to 94 percent based on recent performance which has increased from 88% in 2018 to over 93 percent for 2022. Since there is not a mandate for electronic filing for individual taxpayers, there is likely a limit on how high this performance can attain. The agency continues to educate taxpayers on the advantages of electronic filing.
- KPM #3 -- *Employee Training Per Year*. This KPM is measured by the share of employees receiving 20 hours of training per year. LFO recommends retaining the current target even when the agency has had difficulty in meeting the target. The agency's strategic plan has identified employee training as a priority. Between 2021 and 2022 the agency improved from 26 percent to 38 percent, so it is making progress in this area. The agency has identified improvements to reporting training received by employees so this should also contribute to moving closer to the target.
- KPM #4 -- *Customer Service*. This is the general customer service KPM common to most state agencies. The agency is currently meeting or exceeding the current 90% target in four of the six categories and are within two percentage points of the targets with the remaining two KPMs. LFO recommends maintaining the targets for all six categories at 90 percent since the agency is exploring ways to make the collection of data relating to this KPM more robust. The targets should be reviewed again after the data collection process has been changed.
- KPM #5 -- *Effective Taxpayer Assistance*. This KPM is measured by a weighted combination of three variables -- call wait time, Where's My Refund inquiries, and customer service. Performance for 2022 was 71 percent, a decrease from 85 percent in 2020 and 80 percent in 2021. The agency states that call wait times were up in 2022. LFO recommends retaining the 85% target. DOR is currently exploring improvements to response times and other issues of the various call centers in the agency.
- KPM #6 -- *Appraisal Program Equity and Uniformity*. LFO recommends maintaining the 98 percent target. Performance decreased to 95 percent in 2022 from 98 percent for 2021.
- KPM #7 -- *Appraisal Value Uniformity*. This KPM measures the variance between values from site-specific appraisals and the values from the annual program of processing taxpayer-filed industrial property returns. The agency has been consistently outperforming the target for this measure since 2018. For the most recent year, the target was 20 percent while actual performance was 12 percent (lower is better). The previous year's performance was four percent. LFO recommends lowering the target to 12 percent.
- KPM #8 -- *Direct Enforcement Dollars Cost of Funds*. This KPM measures the cost effectiveness of enforcement activities (e.g., audits) for the agency measuring the costs of these enforcement activities with the amount collected through these activities. In 2022, the agency outperformed the target for the first time since 2018. LFO recommends maintaining the current target of \$.20, which is slightly higher than the actual cost for 2022.
- KPM #9 -- *Collection Dollars Cost of Funds*. This KPM demonstrates the agency's efficiency in collecting revenues that are past due. For the most recent year, the cost has fallen to seven cents for each dollar collected. The target for that period was ten cents. LFO recommends leaving the target at ten cents since there has been a change in how this is measured, and DOR is uncertain how this change will affect this KPM's performance.
- KPM #10 -- *Cost of Assessments*. This KPM measures the efficiency and effectiveness of suspense, audit and filing enforcement efforts by measuring the cost of these efforts vs the amount collected in these efforts. The 2022 data has increased from the previous two years but is still below the target. LFO recommends maintaining the current target of ten cents.
- KPM #11 -- *Employee Engagement*. This KPM measures the percentage of employees who are actively engaged by a standardized survey. The most recent reported year of data (2022) or 52% is below the target of 60%. DOR's performance for this survey that is used nationally is 19 points higher than the national average. LFO recommends maintaining the current target.

SubCommittee Action:

Approve the Legislative Fiscal Office recommendation.