

Agency Budget Comparison

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	659.28	659.28	675.28	675.28	659.28	675.28	16.00	2.43%
Estimated Impact of HB 2*			(27.43)	(27.43)		(27.43)	(27.43)	
Net Estimated FTE*			647.85	647.85		647.85	(11.43)	
Personal Services	36,246,957	36,629,023	37,802,731	37,709,956	72,875,980	75,512,687	2,636,707	3.62%
Operating Expenses	15,200,024	14,788,745	16,294,499	16,000,853	29,988,769	32,295,352	2,306,583	7.69%
Equipment & Intangible Assets	143,765	330,978	79,646	55,604	474,743	135,250	(339,493)	(71.51%)
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	0	0	31,925	31,925	0	63,850	63,850	n/a
Total Costs	\$51,590,746	\$51,748,746	\$54,208,801	\$53,798,338	\$103,339,492	\$108,007,139	\$4,667,647	4.52%
General Fund	47,663,801	47,756,729	49,784,214	49,598,991	95,420,530	99,383,205	3,962,675	4.15%
State Special	1,015,571	1,028,900	1,152,311	1,152,725	2,044,471	2,305,036	260,565	12.74%
Federal Special	256,608	271,218	248,447	247,312	527,826	495,759	(32,067)	(6.08%)
Other	2,654,766	2,691,899	3,023,829	2,799,310	5,346,665	5,823,139	476,474	8.91%
Total Funds	\$51,590,746	\$51,748,746	\$54,208,801	\$53,798,338	\$103,339,492	\$108,007,139	\$4,667,647	4.52%

*Estimated impact of HB 2 boilerplate language showing net FTE with reductions. See boilerplate language on the following pages.

Agency Description

Mission Statement: The quality of life for all Montanans is better because we excel at public service and effective administration of the tax and liquor laws. We do this by ensuring that revenues intended by the legislature to be raised are collected to serve Montanans, advancing equity and integrity in taxation, providing innovative and respectful service, protecting the public health and safety and achieving efficiency in liquor administration, and improving public understanding of Montana's revenue system.

The Department of Revenue collects revenue from and enforces regulations for 38 Montana taxes and fees to achieve equity and integrity, while protecting taxpayer rights and information; values all property as accurately as possible and supervises Montana's property tax system; administers liquor laws to protect public health and safety; receives abandoned property and seeks to return it to its rightful Montana owners; administers unlocatable mineral trusts; informs and advises the Governor, the legislature, and the public on tax trends and issues; and cooperates with local, state, tribal, and federal governments to advance the public interest under the law.

The Department of Revenues is comprised of the following programs:

- Director's Office supports the agency's director and is composed of the following four functional units:
 - Legal Services supervises the overall legal efforts of the department, which includes rules, policies, bankruptcy, disclosure officer, and the Office of Dispute Resolution
 - Tax, Policy and Research is responsible for the preparation of legislative fiscal notes that affect revenue, the analysis of legislative proposals affecting the department, and department economic data and tax compliance analysis
 - Human Resources manages the personnel activities of the department - the office includes three functional units for human resources, payroll and benefits, and education and training
 - Executive Office provides budget analysis, public relations, and administrative support for the department
- Information Management and Technology Division has two main functions:
 - Provides application development and support services, as well as network services in the areas of data, desktop, information security, and help desk support
 - Processes tax returns and payments for the department and for state agencies
- Liquor Control Division administers the state's alcoholic beverage code, which governs the control, sale, and distribution of alcoholic beverages. The division includes liquor distribution and liquor licensing

- Citizen Services and Resource Management Division provides service to:
 - Montana citizens, businesses, and nonresident taxpayers through a call center, forms design, and other taxpayer services
 - Other divisions of the department in the areas of accounting, purchasing, and facilities and asset management
 - Administers the Unclaimed Property Program to return unclaimed property (lost money and other properties) to its rightful owners
 - Collects delinquent state taxes
 - Collects bad debts for state and local agencies, courts, and the university system through a proprietary funded program
- Business and Income Taxes Division oversees audits and verifies compliance with Montana tax law for all state taxes and completes appraisals and assessments of industrial and centrally assessed property
- Property Assessment Division is responsible for the valuation and assessment of real and personal property throughout the state for property tax purposes

Agency Highlights

Department of Revenue Major Budget Highlights
<ul style="list-style-type: none"> ◆ The budget for the department increases by 4.5% due to four primary adjustments: <ul style="list-style-type: none"> ● The addition of 16.00 FTE and related operating expenses, including \$225,000 (OTO) for postage required during the upcoming property tax reappraisal cycle ● The elimination of \$190,000 from language appropriation and its inclusion as standard HB 2 appropriation, with no change in total costs ● \$259,687 in rent increases in county property assessment offices ● \$1.0 million increase in GenTax maintenance and development costs ◆ These increases are partially offset with the adoption of an additional 2% vacancy savings

Summary of Legislative Action

The legislature approved a budget for the Department of Revenue (DOR) with a total funds increase of 4.5% over the 2013 biennium. The most significant change in the budget is the addition of 16.00 FTE, which includes:

- 4.00 FTE in the Information Management and Technology Division
- 2.00 FTE in the Liquor Control Division
- 5.00 FTE in the Business and Income Taxes Division (temporary and modified made permanent)
- 5.00 FTE in the Property Assessment Division (one-time-only)

The personal services cost for the 16 FTE is \$2.7 million. Personal service increases are partially offset by an additional 2% vacancy savings, imposed by the legislature, providing savings in the DOR of \$1.5 million over the biennium. The vacancy savings reductions are established in the Director’s Office and the Business and Income Taxes programs and language allows DOR to allocate the reductions across programs as needed. The tables included in this report do not contain the personal service cost impacts of HB 13, the employee pay plan. The legislation provides a lump sum distribution for all executive branch agencies and allows the Governor’s Office the discretion to allocate the appropriation with consideration of the provisions of the bill, so it is not known what the cost will be for DOR. For more information on HB 13, see the “Other Legislation” section of this report.

The legislature also passed SB 410, which provides an appropriation of \$7.5 million to the Governor's Office. The appropriation may be distributed among certain agencies should budget shortfalls manifest. The DOR is included in the list of agencies that could receive added appropriations from the legislation. For more information on SB 410, see the "Other Legislation" section of this report.

Boilerplate

The boilerplate section in HB 2 includes the following language:

"It is the intent of the legislature that the appropriations for personal services contained in this bill for fiscal year 2014 and fiscal year 2015, except for the reductions contained in decision packages that remove an additional vacancy savings amount, are supported by only the number of FTE that are funded. It is the intent of the legislature that this net level of FTE is the level that will be used to calculate personal services funding in the next biennium."

The LFD has calculated that this intent language would reduce the current biennium base FTE by 440 statewide and by 27.43 for this agency. The lower level of FTE will be the starting point or base the legislature will use for personal services budget deliberations in the 2017 biennium.

Agency Discussion

The DOR administers the tax collection and compliance functions for most state taxes. Additionally, the department values all property in the state, regulates the sale and distribution of alcoholic beverages in the state, and administers the abandoned property program. To accomplish these activities, the department supports a staff of 375.28 FTE, costing 70.0% of the total budget. The largest cost change in the DOR budget is the addition of 17.00 FTE, which the legislature approved to achieve the following goals:

- Enabling additional E-filing
- Reducing temporary staffing needs at the liquor warehouse
- Continuing tobacco tax and unclaimed property compliance activities
- Providing staff for the upcoming appraisal cycle

Information technology (IT) is another significant cost driver in DOR, impacting most aspects of the department's work product. In the 2015 biennium, HB 2 budget included two of the department's IT initiatives. The first initiative, with a cost of \$1.0 million, increases the budget for maintenance associated with the functional expansion of the GENTAX system. This funding will allow the department to maintain the system at the necessary level of support and maintenance. The legislature also provided \$44,400 in appropriations for a "web-based portal for one-stop licensing". The system upgrade will provide a variety of online and electronic services for citizens, local governments, and the state. These services include functionality that ensure the security and accuracy of the data resulting in better service and timely tax collections. Another agency IT initiative that addresses issues related to the security of the department's electronic data is included in HB 10, the Long-Range Information Technology Program bill. The appropriation of \$2.0 million appropriated to the Department of Administration and co-administered by DOR will be used to prevent potential security gaps in state IT systems and networks, to eliminate access to confidential information kept in the system.

Funding

The following table shows agency funding by source of authority. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department Of Revenue Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$99,653,333	\$0	\$234,511,665	\$334,164,998	58.2%
State Special Total	2,305,036	-	231,264,506	233,569,542	40.7%
Federal Special Total	495,759	-	-	495,759	0.1%
Proprietary Total	5,823,139	368,700	-	6,191,839	1.1%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	\$108,277,267	\$368,700	\$465,776,171	\$574,422,138	
Percent - Total All Sources	18.8%	0.1%	81.1%		

The department is primarily funded with general fund. Proprietary funds support the operation of the Liquor Control Division and other divisions that support liquor control functions or the staff of the Liquor Control Division. State special revenue supports:

- o Tobacco tax compliance activities under the Tobacco Master Settlement Agreement
- o Appraisal, assessment, and taxation processes
- o Administration of the unclaimed property program
- o Administrative costs associated with billing and collecting hail insurance premiums and livestock per capita fees, noting that with the passage of SB 162, DOR will only receive hail insurance premiums fees through January 1, 2014 (see “Other Legislation” section for more information on SB 162)

State special revenue from the property valuation improvement fund is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Federal special revenue supports federal mineral royalty audits.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	47,663,801	47,663,801	95,327,602	95.92%	51,590,746	51,590,746	103,181,492	95.53%
Statewide PL Adjustments	1,005,558	823,183	1,828,741	1.84%	1,034,660	847,754	1,882,414	1.74%
Other PL Adjustments	558,251	610,121	1,168,372	1.18%	1,078,060	909,255	1,987,315	1.84%
New Proposals	556,604	501,886	1,058,490	1.07%	505,335	450,583	955,918	0.89%
Total Budget	\$49,784,214	\$49,598,991	\$99,383,205		\$54,208,801	\$53,798,338	\$108,007,139	

Other Legislation

HB 10 – This legislation provides an appropriation of \$2 million of general fund for the Department of Administration (DOA) to expand and enhance measures to address potential security gaps in state information technology systems and networks and to prevent hackers from gaining access to confidential information. The project will be jointly administered by the department and the DOA.

HB 13 - The legislature approved funding for a pay plan for state employees. The bill includes a lump sum appropriation for pay raises that will be determined for their respective employees by the executive, legislative, and judicial branches as well as the Montana University System. The bill also includes funding for a 10% insurance increase for all employees each year. The legislature did not specify a particular percentage salary increase a state employee should receive, but

stipulated that the appropriated funds must be used to increase the base pay of each employee, with particular attention to the lower pay bands and employees who did not receive an increase in the 2013 biennium.

HB 19 – This legislation revises several provisions relating to interest and penalties for late tax payments, late filing, not filing a return, and filing a false return. The implementation of this legislation for changes to the penalty and interest calculations in the department’s data processing system would be done by the vendor or by department employees, at a cost estimated by the department at \$24,600 in each year of the 2015 biennium. Funding for these costs was not included in HB 2. This legislation was vetoed by the Governor and at the time of this writing a veto override poll has been sent to legislators.

HB 66 – This legislation would allow the department to issue a notice of levy for collection of delinquent taxes and receive a levy against state tax refunds electronically. The costs of implementing electronic notification are estimated by the department to be \$24,600 in each year of the biennium. Funding for these costs was not included in HB 2.

HB 402 – This legislation creates a direct shipment endorsement for wineries licensed or registered, creates sell and shipment limitations for personal use, and eliminates certain connoisseur’s licenses. Implementation costs were estimated by the department to be \$24,600 in FY 2014 for modifications to the computer system, adding a direct shipment endorsement attributed to both foreign and domestic winery accounts, modifying existing forms and letters for both foreign and domestic winery accounts, verifying payment processing and revenue accounting, and system implementation costs. Funding for this cost was not included in HB 2.

HB 509 – This legislation directs the collection of 9-1-1 fees and the remittance of quarterly collections for deposit in the 9-1-1 accounts. The bill also provides compensation for the collection of the fees. The department estimated that implementation of this legislation would increase contracted services costs by \$33,000 for processing and programing modifications and form changes in the department’s integrated tax system in FY 2014. Funding for this cost was not included in HB 2. This legislation was vetoed by the Governor and at the time of this writing a veto override poll has been sent to legislators.

HB 524 – This legislation will expand the number of retail licensees selling beer or wine for off-premise consumption. The department estimated that implementation of these changes would require 1.00 FTE to process the increase in applications and renewals, with total personal service and operating costs of \$60,522 in FY 2014 (includes ¾ year FTE and one-time-only operating costs) and \$57,578 in FY 2015. Funding for these costs was not included in HB 2.

SB 96 – This legislation reduces the taxes assessed on class eight business equipment and provides reimbursements to the university system, local governments, local schools, and tax increment financing districts (TIFs) for reductions in property tax revenue. The department estimated costs of implementing this legislation in the property assessment system as \$16,405 in FY 2014. Funding for this cost was not included in HB 2.

SB 117 – This legislation expands the Family Education Savings Account exemption to include deposits to out-of-state accounts. The department estimated implementation costs of \$32,000 in FY 2014 for form development and changes to the data capture and processing systems. Funding for this cost was not included in HB 2.

SB 162 – This legislation transfers the administrative responsibilities of collecting hail insurance fees from the DOR to the Department of Agriculture. There are costs to the department with this transition. However, the department will no longer be entitled to the 2% of the fees collected for administering the program, reducing state special revenues to the department. While the department will no longer receive the fee revenue, the administrative costs of the department will be eliminated. The impacts of this legislation were not included in HB 2.

SB 280 – This legislation allows owners of property to enter into mediation with the department. The department estimated implementation of this legislation would have operating expenses of \$21,916 in FY 2014 and \$92,488 in FY 2015. Funding for these costs were not included in HB 2.

SB 410 –This bill includes a one-time-only biennial appropriation of \$7.5 million general fund to the Governor’s Office. The funding can be transferred at the Governor’s discretion in the 2015 biennium to the following departments for operations costs:

- Governor’s Office
- Public Health and Human Services
- Natural Resources and Conservation
- Environmental Quality
- Administration
- Commerce
- Revenue
- Corrections
- Labor and Industry

Any funds transferred are one-time-only and consequently will not be part of the FY 2014 budget base.

Executive Budget Comparison

The following table compares the legislative budget in the 2015 biennium to the budget requested by the Governor, by type of expenditure and source of funding.

Executive Budget Comparison								
Budget Item	Base Budget Fiscal 2012	Executive Budget Fiscal 2014	Legislative Budget Fiscal 2014	Leg – Exec. Difference Fiscal 2014	Executive Budget Fiscal 2015	Legislative Budget Fiscal 2015	Leg – Exec. Difference Fiscal 2015	Biennium Difference Fiscal 14-15
FTE	659.28	679.28	675.28	(4.00)	679.28	675.28	(4.00)	
Estimated Impact of HB 2*			(27.43)	(27.43)		(27.43)	(27.43)	
Net Estimated FTE*			647.85	(31.43)		647.85	(31.43)	
Personal Services	36,246,957	38,587,736	37,802,731	(785,005)	38,685,265	37,709,956	(975,309)	(1,760,314)
Operating Expenses	15,200,024	16,405,769	16,294,499	(111,270)	16,080,258	16,000,853	(79,405)	(190,675)
Equipment & Intangible Assets	143,765	79,646	79,646	0	55,604	55,604	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	31,925	31,925	0	31,925	31,925	0	0
Total Costs	\$51,590,746	\$55,105,076	\$54,208,801	(\$896,275)	\$54,853,052	\$53,798,338	(\$1,054,714)	(\$1,950,989)
General Fund	47,663,801	50,818,750	49,784,214	(1,034,536)	50,601,932	49,598,991	(1,002,941)	(2,037,477)
State/Other Special	1,015,571	1,160,893	1,152,311	(8,582)	1,161,312	1,152,725	(8,587)	(17,169)
Federal Special	256,608	252,611	248,447	(4,164)	251,479	247,312	(4,167)	(8,331)
Proprietary	2,654,766	2,872,822	3,023,829	151,007	2,838,329	2,799,310	(39,019)	111,988
Total Funds	\$51,590,746	\$55,105,076	\$54,208,801	(\$896,275)	\$54,853,052	\$53,798,338	(\$1,054,714)	(\$1,950,989)

*Estimated impact of HB 2 boilerplate language showing net FTE with reductions. See boilerplate language on the previous pages.

Total funding in this agency is a net biennium reduction of \$2.0 million from the executive proposal in both total and general fund. The changes to the biennial budget include:

- Reduction of funding for 3.00 FTE from agency requests – (\$310,409)
- Reductions of a biennium total \$1.5 million with the adoption of an additional 2% vacancy savings
- Removal of two items from language appropriations for ongoing expenses in the Liquor Control Division and their inclusion in a standard appropriation - \$190,000 (does not increase actual costs)
- Fixed cost adjustments - \$1,425
- Rejection of the Professional Development Center request - (\$17,952)
- A reduction in the Director’s Office was made by the legislature to fund a pilot project for the review active exempt property records in the Property Assessment Division (the reduction to the Director’s Office included the elimination of a one-time-only FTE request, \$163,656, and a reduction from the base budget, \$106,472). Funding for the pilot project was subsequently vetoed by the Governor creating a budget reduction – (\$270,128)

Language and Statutory Authority

The legislature included the following language in HB 2.

"Director's Office includes a reduction in general fund of \$720,405 in fiscal year 2014 and \$720,965 in fiscal year 2015, state special revenue of \$8,582 in fiscal year 2014 and \$8,587 in fiscal year 2015, and proprietary funds of \$38,523 in fiscal year 2014 and \$38,549 in fiscal year 2015. The reduction is the equivalent of an additional 2% vacancy savings. The agency may allocate this reduction in funding among programs when developing 2015 biennium operating plans."

"Business and Income Taxes Division includes a reduction in federal special revenue of \$4,164 in fiscal year 2014 and \$4,167 in fiscal year 2015. The reduction is the equivalent of an additional 2% vacancy savings. The agency may allocate this reduction in funding among programs when developing 2015 biennium operating plans."