

Department of Revenue

	2019-21 Actual	2021-23 Legislatively Adopted	2021-23 Legislatively Approved *	2023-25 Current Service Level	2023-25 Governor's Budget
General Fund	194,787,706	242,537,681	250,756,693	236,057,192	236,554,601
Other Funds	121,228,801	155,572,693	304,832,828	160,836,418	166,517,726
Other Funds (NL)	2,255,000	--	--	--	--
Total Funds	318,271,507	398,110,374	555,589,521	396,893,610	403,072,327
Positions	1,082	1,125	1,134	1,109	1,144
FTE	1,007.33	1,060.21	1,064.42	1,050.78	1,079.24

* Includes Emergency Board and administrative actions through December 2022.

Program Description

The Department of Revenue (DOR) is the tax administration agency for state and local government. The agency is responsible for administering over 60 tax and other programs (e.g., fees, audit/collections), including personal income and corporate excise taxes, inheritance tax, 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 larger industrial and other large-scale properties, and administers several property tax relief programs. The agency also provides debt collection services for state agencies and local governments. Local taxes collected by the agency includes local transit taxes and the Private Rail Car Tax. The agency's budget is divided into seven divisions and five additional separate programs. The table below shows the 2023-25 Current Service Level (CSL) budget by division/program.

Department of Revenue -- 2023-25 Current Service Level by Division/Program					
<i>Millions of Dollars</i>					
Division/Program	General Fund	Other Funds	Total Funds	Positions	FTE
Administration	36.7	9.8	46.5	66	66.00
Property Tax Division	21.2	47.7	68.9	80	79.25
Personal Tax and Compliance Division	62.9	1.5	64.3	260	251.68
Business Division	23.8	15.1	38.9	138	137.00
Collections Division	35.6	18.7	54.3	249	247.39
Corporate Division	-	19.2	19.2	67	60.98
Information Technology Services Division	49.7	6.6	56.3	225	184.73
Marijuana Program	-	5.2	5.2	16	16.00
Non-Profit Housing for Elderly Persons	3.6	-	3.6	-	-
Senior Citizens Property Tax Deferral	-	37.0	37.0	8	7.75
Core System Replacement	-	-	-	-	-
Capital Debt Service and Related Costs	2.6	0.1	2.7	-	-
Agency Total	236.1	160.8	396.9	1,109	1,050.78

Administratively, DOR is funded with a combination of General Fund and Other Funds. DOR's Other Funds revenue is derived from three primary sources: (1) administrative prorate charges to various Other Fund taxes, fees, assessments, and collection activities; (2) direct charges to program revenues, such as the Corporate Activity Tax, collections, and the Marijuana Tax; and (3) revenue from the recovery of agency cost when administering local government taxes. In addition to these revenues supporting administrative work, the agency retains, by statute, 10% of County Assessment Function Funding Assistance account revenue. The remaining 90% is distributed to counties. Also, a portion of each recording fee (\$1) is dedicated to the development and support of a statewide digital base map to improve the administration of the property tax system. Other Funds revenue is also received from the payment of mapping contracts.

CSL Summary

The 2023-25 current service level for the Department of Revenue (DOR) is \$396.9 million total funds of which \$236.1 million is General Fund and the remaining \$160.8 million is Other Funds. Overall, the General Fund CSL is \$14.7 million, or 5.9%, less than the 2021-23 legislatively approved budget and the Other Funds CSL is \$144 million, or 47.2%, less than the 2021-23 LAB. The decrease in General Fund resources is primarily driven by a \$23.2 million phase-out for grants to counties for reimbursement of lost tax revenue related to the 2020 wildfires. The Other Funds decrease is due to the phase-out of \$147 million in one-time assistance payments in 2021-23 to eligible households funded through a transfer from the Department of Administrative Services (DAS) of American Rescue Plan Act's Coronavirus State Fiscal Recovery funds, and \$3.4 million one-time resources for Phase 1 of the ELVIS IT system. There was a \$5.2 million total funds phase-out of debt service payments (\$3.9 million General Fund and \$1.2 million Other Funds). DOR's 2023-25 CSL has 1,109 positions and 1,050.78 FTE. This is a decrease of 25 positions, or 2.2%, and 13.64 FTE, or 1.3%, from the 2021-23 legislatively approved budget. This is in part driven by the phase out of limited duration positions.

Policy Issues

The Electronic Valuation Information Systems or ELVIS replaces a 20 plus year system for the Property Tax Division's assessment and valuation programs. Phase 1, which is to improve DOR's central assessment work for communications, transportation, and utility company properties, was provided \$4.2 million in bonding authority and proceeds and is on schedule to be completed in the current biennium (2021-23). Phase 2 is directed at the appraisal of large industrial properties with over \$1 million of machinery and equipment which DOR is required to appraise. There are over 4,700 of these accounts statewide and they are generally the most complex to appraise. Phase 1 costs will likely be roughly \$2 million less than the original estimate.

In June 2022, the Emergency Board approved \$617,350 General Fund and \$154,377 Other Funds for the establishment of an Internal Controls Office whose purpose is to monitor and mitigate operational and cybersecurity risks. A similar request was not funded during the 2022 legislative session. There is a policy option package (package 081) included in the Governor's budget to continue these positions.

According to DOR, it has undertaken many new programs over the past without a corresponding increase in staff. Coupled with increases in the number of taxpayers, the agency asserts it requires additional staff across the agency to keep pace with these increases. The appropriate staffing levels have yet to be determined by DOR, so the agency is holding off until 2025-27 to request additional staff and resources. As with other agencies, DOR is having trouble finding employees in certain job classifications for the current authorized positions. Another area of concern is that DOR's current work force does not reflect the diversity of Oregon's population.

The mix of resources to pay for the administration of various programs currently is skewed to the General Fund which means other tax and fee programs are not paying their “fair-share”. This has been an issue for a few biennia and still needs to be further addressed which would free-up General Fund for use elsewhere in the state budget but would also result in less revenue available for the non-General Fund supported programs.

Governor’s Budget Summary

The total Governor’s budget for 2023-25 is \$236.6 million General Fund and \$166.5 million Other Funds. This represents an increase in General Fund resources of \$497,409, or 0.2%, increase from the 2023-25 CSL, and an increase in Other Funds of \$5.7 million, or 3.5%. The Governor’s budget includes the continuation of the new positions added at the June 2022 Emergency Board meeting and the following policy packages:

- **Phase 2 of the Electronic Valuation Information System or ELVIS (package 101)** -- adds \$11.6 million General Fund for the next phase of the ongoing ELVIS project which will modernize various outdated appraisal systems including manual processes used by the Valuation Section of the Property Tax Division. Phase 1 was funded with bond proceeds in 2021-23 and used to modernize the centrally assessed appraisal program’s core software. The request includes five positions (4.52 FTE) of which one is permanent and four are limited duration. The \$11.6 million is an estimate at this time and will likely be revised upward as more information becomes available. This package could mostly be funded with bond proceeds as an alternative.
- **Diversity, Equity, and Inclusion (package 103)** -- adds five positions (4.02 FTE) at a cost of \$775,105 General Fund and \$193,776 Other Funds to establish a community engagement program and adds human resource positions. This package is designed to address inequitable structures, barriers, and lack of access for people of color and those who have limited English language skills. A major agency priority is a commitment to diversity, equity, and inclusion. The additional human resources positions will assist in hiring employees from communities of color and increase resources for training.
- **Reliable Resources (package 104)** -- adds two positions (1.76 FTE) and an additional 2.55 FTE to existing positions at a cost of \$1.6 million General Fund and \$304,899 Other Funds for additional resources for the IT Division. The two new positions are for a GenTax trainer and a GenTax change management position. The additional FTE will increase the capacity of the processing center and help desk and addresses a grievance issue.
- **Cost allocation (package 107)** -- is a position neutral package which frees up \$5.2 million General Fund by more appropriately charging Other Funds programs for the costs of their administration. This is the result of a new administrative cost allocation methodology which would be implemented if this package is approved. This is the first phase of an overall cost allocation plan and the agency will return in 2025-27 with additional proposed changes.

Other Significant Issues and Background

An on-going issue for the agency is its customer service levels which the agency sees as the single most important factor in successful tax administration and its reliance on self-compliance. A budget note from the 2021 legislative session (SB 5537) instructed the agency to report on a plan to modernize and enhance its customer call centers. This plan was to identify and evaluate options for meeting projected demand, consider various technologies for enhanced service, consider offering 24-hour service, and develop strategies to optimize use of live assistance. The agency contracted with an outside consultant (Ernst and Young) to develop this plan and the agency reported to the General Government Subcommittee early in the 2023 session. DOR will return to the Subcommittee later in the session with updated pricing for implementing the various recommendations included in the consultant’s report.

Key Performance Measures

A copy of the Department of Revenue’s Annual Performance Progress Report can be found on the LFO website:

https://www.oregonlegislature.gov/lfo/APPR/APPR_DOR_2022-09-20.pdf