

## 2025-27 Budget Review

### Department of Revenue

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	238,599,023	248,901,204	274,479,712	267,297,265
Other Funds	270,179,837	187,084,346	186,375,353	166,715,178
<b>Total Funds</b>	<b>508,778,860</b>	<b>435,985,550</b>	<b>460,855,065</b>	<b>434,012,443</b>
Positions	1,122	1,166	1,150	1,164
FTE	1,055.30	1,088.75	1,093.86	1,107.29

\* Includes legislative and administrative actions through December 2024.

### 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 2025-27 current service level (CSL) budget by division/program.

Department of Revenue -- 2025-27 Current Service Level by Division/Program					
<i>Millions of Dollars</i>					
Division/Program	General Fund	Other Funds	Total Funds	Positions	FTE
Administration	44.4	16.6	61.1	88	87.76
Property Tax Division	24.2	50.1	74.3	79	79.00
Personal Tax and Compliance Division	77.9	1.9	79.8	296	278.47
Business Division	27.2	17.8	45.0	141	140.00
Collections Division	39.8	21.4	61.2	248	247.25
Corporate Division	-	18.9	18.9	50	49.23
Information Technology Services Division	51.9	15.5	67.4	229	194.81
Marijuana Program	-	4.5	4.5	10	10.00
Non-Profit Housing for Elderly Persons	3.8	-	3.8	-	-
Senior Citizens Property Tax Deferral	-	38.7	38.7	9	7.34
Information Systems Projects	-	0.9	0.9	-	-
Capital Debt Service and Related Costs	5.2	-	5.2	-	-
<b>Agency Total</b>	<b>274.5</b>	<b>186.4</b>	<b>460.9</b>	<b>1,150</b>	<b>1,093.86</b>

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 prorated 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 costs 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.

## BUDGET ENVIRONMENT

The Electronic Valuation Information Systems (ELVIS) project replaces a 20 plus year system for the Property Tax Division's assessment and valuation programs. The first phase improved DOR's central assessment work for communications, transportation, and utility company properties. Phase 1 was implemented during the 2021-23 biennium and is fully operational. The total cost of Phase 1 was approximately \$2.7 million. DOR began Phase 2 during the 2023-25 biennium which focuses on the appraisal of large industrial properties with over \$1 million of machinery and equipment that DOR is required to appraise. There are over 4,700 accounts statewide and are generally the most complex to appraise. The estimated cost of Phase 2 is \$14 million Other Funds.

Initially, ELVIS was set to go live for the 2025 industrial property tax return (IPR) filing year, however; the agency opted to wait until the 2026 IPR filing year to ensure a clear and easy experience for industrial property tax customers and county partners. Of note, in recent discussions, the vendor notified the agency of potential issues delivering the planned modules that may impact the final cost and scope of the project.

The amount of resources to pay for the administration of various programs has shifted to the General Fund, which means other tax and fee programs are not paying their proportionate share. This has been an issue for several biennia and still needs to be further addressed, which would free up General Fund for use elsewhere in the state budget but result in less revenue for the non-General Fund supported programs. HB 5034 (2023) included a budget note that directed DOR to continue developing a modernized cost allocation methodology during the 2023-25 biennium. DOR recently hired an outside consultant to assist in modernizing the current cost allocation methodology, who is in the process of drafting recommendations and plans to complete this work by February 2025. Throughout the 2025-27 biennium, DOR and other state agencies with approved methodologies will review and evaluate the proposed changes. Once this work is complete, the agency anticipates proposing a policy option package during the 2027-29 budget development cycle to implement the modernized cost allocation methodology.

Additionally, DOR is experiencing the following revenue shortfalls:

- **Property Tax Division** - \$11.1 million Other Funds and 5.08 FTE reduction to address a revenue shortfall in recording fees and interest on delinquent accounts which fund the County Assessment Function Funding Account program and ORMAP.

- **Senior and Disabled Citizen Property Tax Deferral** - \$14 million Other Funds reduction to align budgeted limitation with actual expenditures.

## CURRENT SERVICE LEVEL

The 2025-27 current service level (CSL) for DOR is \$460.9 million total funds, of which \$274.5 million is General Fund and \$186.4 million is Other Funds. General Fund CSL is \$25.6 million, or 10.3%, more than the 2023-25 legislatively approved budget (LAB). Other Funds CSL is \$708,993, or 0.4%, less than the 2023-25 LAB. The increase in General Fund is primarily driven by statewide personal services growth and standard inflation for services and supplies expenditures. The Other Funds slight decrease is related to statewide personal services growth and standard inflation for services and supplies expenditures net of the phase-out of one-time resources for three system upgrades: the ELVIS IT system, the Child Tax Credit, and protections for debtors from garnishment and unlawful debt collection practices.

## GOVERNOR'S BUDGET SUMMARY

The Governor's budget for 2025-27 is \$267 million General Fund and \$166.7 million Other Funds. This represents a decrease in General Fund of \$7.2 million, or 2.6%, from the 2025-27 CSL and a decrease in Other Funds of \$19.6 million, or 10.6%. The Governor's budget includes the following packages:

- **ELVIS System Support** - an increase of \$1.3 million General Fund, \$397,736 Other Funds and four permanent positions (3.20 FTE) to provide system support and maintain the Electronic Valuation Information System and an increase of \$2.2 million Other Funds and 0.80 FTE to carryover bond proceeds from the 2023-25 biennium.
- **Paid Leave Oregon, Centralize Collections** - an increase of \$1.9 million Other Funds and 11 permanent positions (9.68 FTE) to manage the anticipated increase in accounts from the Oregon Employment Department related to Paid Leave Oregon payroll tax.
- **Property Tax Division Shortfall** - an increase of \$1.4 million General Fund and 5.08 FTE to address an Other Funds revenue shortfall in the Property Tax Division to restore reductions to the central assessment and industrial valuation programs.

The Governor's budget includes a \$3 million placeholder for divisions that will utilize an updated cost allocation methodology for administrative expenses related to specific tax programs. This will result in a decrease of \$1 million General Fund per division that will be replaced with an increase in Other Funds expenditure limitation. However, due to the timing of the study and recommendations from the outside consultant, there is concern that the placeholder may not accurately reflect administrative expenses for specific tax programs.

The Governor's budget also includes a \$1.8 million General Fund reduction for cost savings related to vacating the fifth floor of the Revenue building.

## OTHER SIGNIFICANT ISSUES

Another 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 tax 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. During 2023, DOR established the Customer Experience Center of Excellence (CxCOE) to modernize and enhance the agency's customer call centers and improve customer service. Additionally, DOR believes investing in customer service technology and internal infrastructure will reduce call transfers and wait times, standardize websites and information provided to taxpayers, provide 24-hour customer support, and reduce staff turnover.

According to DOR, the agency has undertaken many new programs without a corresponding increase in staff. Coupled with increases in the number of taxpayers and changes in administration, the agency believes additional staff are required to keep pace with these increases. As with other agencies, DOR is having trouble finding employees in certain job classifications for current authorized positions. Another agency area of concern is that DOR's current work force does not reflect the diversity of Oregon's population.

## KEY PERFORMANCE MEASURES

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

[https://www.oregonlegislature.gov/lfo/APPR/APPR\\_DOR\\_2024-09-30.pdf](https://www.oregonlegislature.gov/lfo/APPR/APPR_DOR_2024-09-30.pdf)

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