

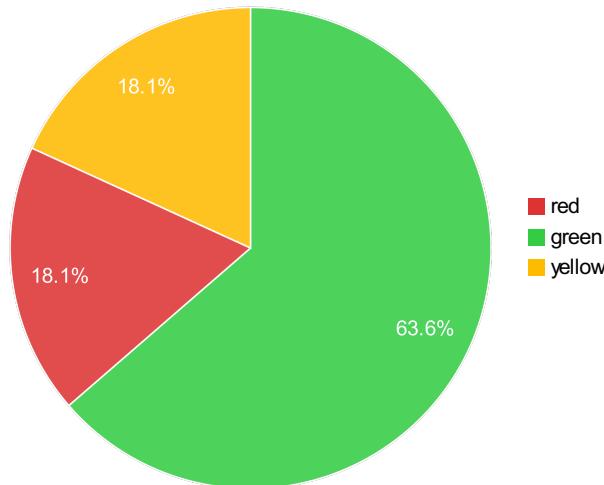
Revenue, Department of

Annual Performance Progress Report

Reporting Year 2017

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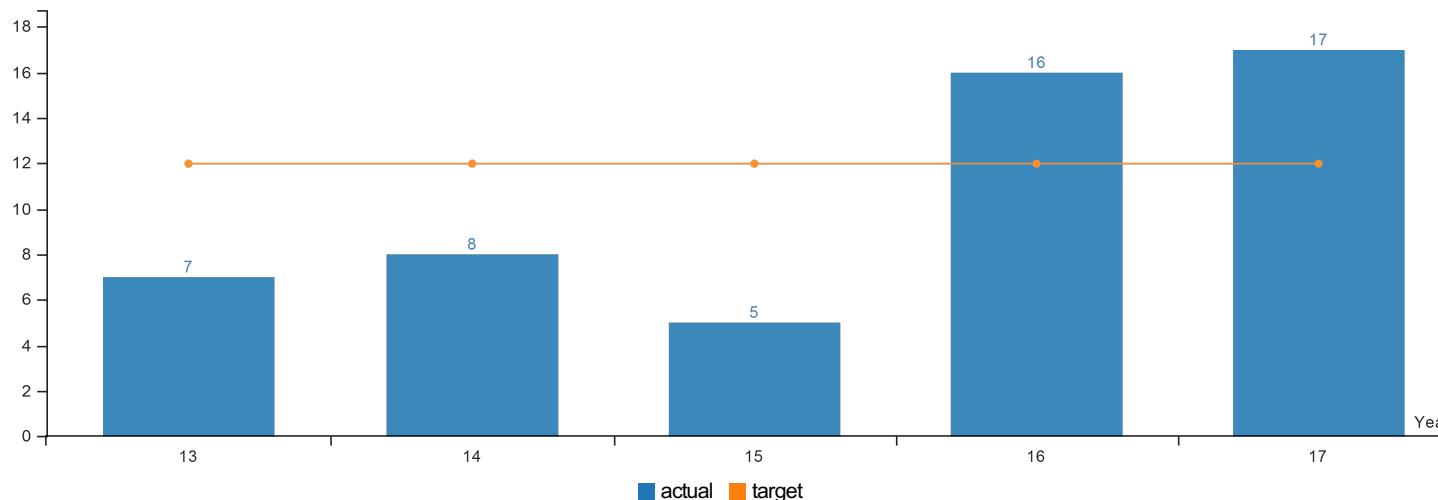
KPM #	Approved Key Performance Measures (KPMs)
1	Average Days to Process Personal Income Tax Refund. -
2	Percent of Personal Income Tax Returns Filed Electronically -
3	Employee Training Per Year (percent receiving 20 hours per year). -
4	Customer Service - Percent of customers rating their satisfaction with the agency's customer service as "good"; or "excellent" based on overall experience, timeliness, accuracy, helpfulness, expertise, and availability of information.
5	Effective Taxpayer Assistance - Provide effective taxpayer assistance through a combination of direct assistance and electronic self-help services.
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.
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.
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.
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.
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.
11	Employee Engagement - Index of employees considered actively engaged by a standardized survey.



Performance Summary		Green	Yellow	Red
Summary Stats:		= Target to -5%	= Target -5% to -15%	= Target > -15%
		63.64%	18.18%	18.18%

KPM #1	Average Days to Process Personal Income Tax Refund. - Data Collection Period: Jan 01 - Dec 31
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* Upward Trend = negative result



Report Year	2013	2014	2015	2016	2017
Average Days to Process Personal Income Tax Refund					
Actual	7	8	5	16	17
Target	12	12	12	12	12

How Are We Doing

Actual performance for 2017 was 17 days, five days longer than the target. This measurement is the average amount of time it takes from when we receive a return until the refund is issued. Of the more than 2 million returns received, 86.7 percent of those were filed electronically. The remainder were filed on paper, which require more manual work and take longer to process than e-filed returns.

Factors Affecting Results

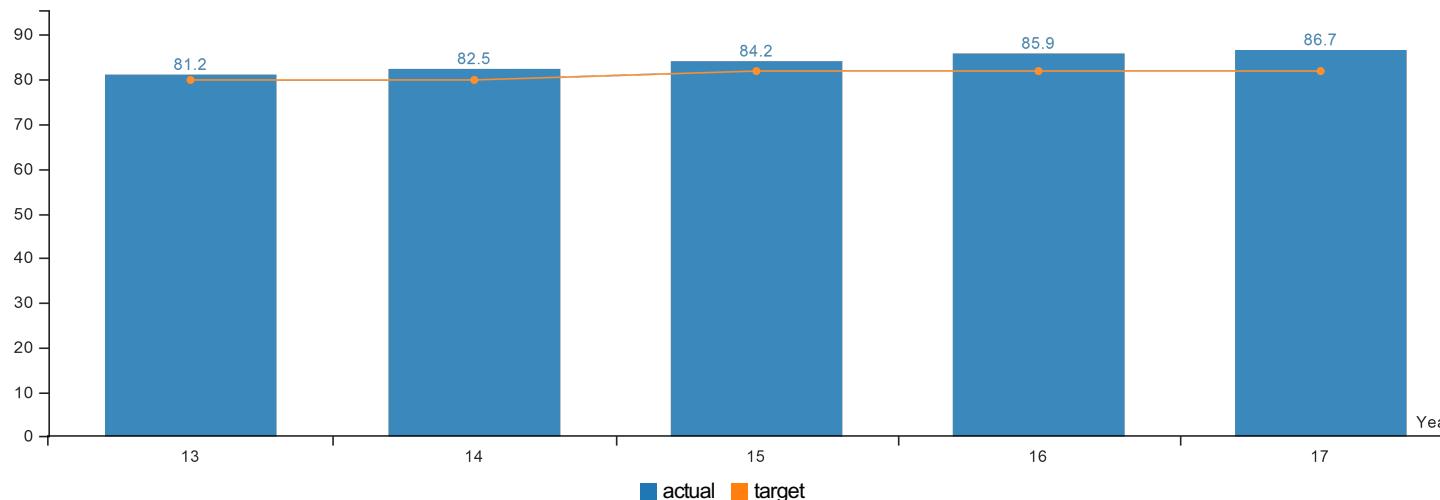
We converted to a new personal income tax administration system in December 2015. The new system has brought automation, new fraud detection tools, and major changes to work processes, which were major contributors to slower processing times.

For example, the fraud module in the new system adds a dimension of screening that wasn't available in the legacy system. The automated review process is more comprehensive and complex, leading to more returns being identified as potentially fraudulent. This increases the amount of manual review and taxpayer outreach required to verify taxpayer identities and the validity of the return. We're still learning and getting comfortable with this module, and we are actively working to find a balance between the need to identify and combat emerging and increasingly sophisticated fraud tactics and the need to promptly issue refunds. Getting pulled for additional identity verification adds several days to the return's processing time.

As in past years, refunds on electronically filed (e-filed) returns were issued sooner than paper returns. E-filed returns that didn't suspend for fraud, errors, missing information, or other processing issues averaged 16.5 days to process in 2017. This was three days slower than in 2016. Paper returns that didn't suspend averaged 22 days to process. This was 17 days faster than 2016.

KPM #2	Percent of Personal Income Tax Returns Filed Electronically - Data Collection Period: Jan 01 - Dec 31
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* Upward Trend = positive result



Report Year	2013	2014	2015	2016	2017
Percent of Personal Income Tax Returns Filed Electronically					
Actual	81.20%	82.50%	84.20%	85.90%	86.70%
Target	80%	80%	82%	82%	82%

How Are We Doing

We're above target with 86.7 percent of tax returns filed electronically, as of July 25, 2017. This compares to 84 percent in 2016. The number of e-filers has risen each year, but the rate of growth has slowed.

Factors Affecting Results

Oregon benefits when more taxpayers choose to file their tax returns electronically. We can process e-filed returns faster and they tend to have fewer errors, which saves the state time and money.

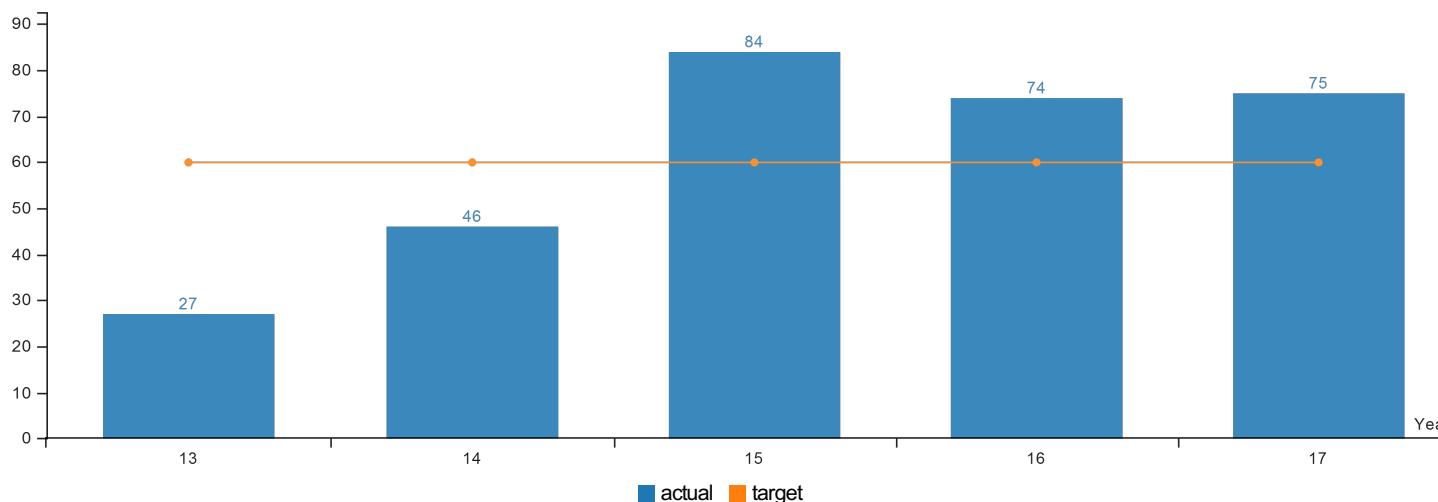
We've been seeing a slower rate of growth in the e-filing population. With more than 86 percent of taxpayers filing electronically, we predict continued slower growth in the future because the majority of people who want to file electronically are already doing so.

For individual taxpayers, filing electronically is a choice. There's no e-file mandate in place for individual taxpayers, but we attempt to increase the number of e-filers in multiple ways. We include information about refunds being issued faster for e-filed returns on all tax season news releases and in the filing information on our website. Taxpayers meeting certain income level, age, veteran status, and return-type criteria can e-file for free, and we post a list on our website of software companies offering free services. Oregon also has a direct e-file system that allows any full-year-resident taxpayer to enter their return information into an online form and file the return directly with us for free, regardless of income level or return type.

Revenue implemented an e-file mandate for tax practitioners in 2011 that matches the IRS mandate. There is no penalty for noncompliance, but we send a reminder letter each year to those practitioners who didn't file their client's returns electronically.

KPM #3	Employee Training Per Year (percent receiving 20 hours per year). -
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2013	2014	2015	2016	2017
Employee Training Per Year (percent receiving 20 hours per year)					
Actual	27%	46%	84%	74%	75%
Target	60%	60%	60%	60%	60%

How Are We Doing

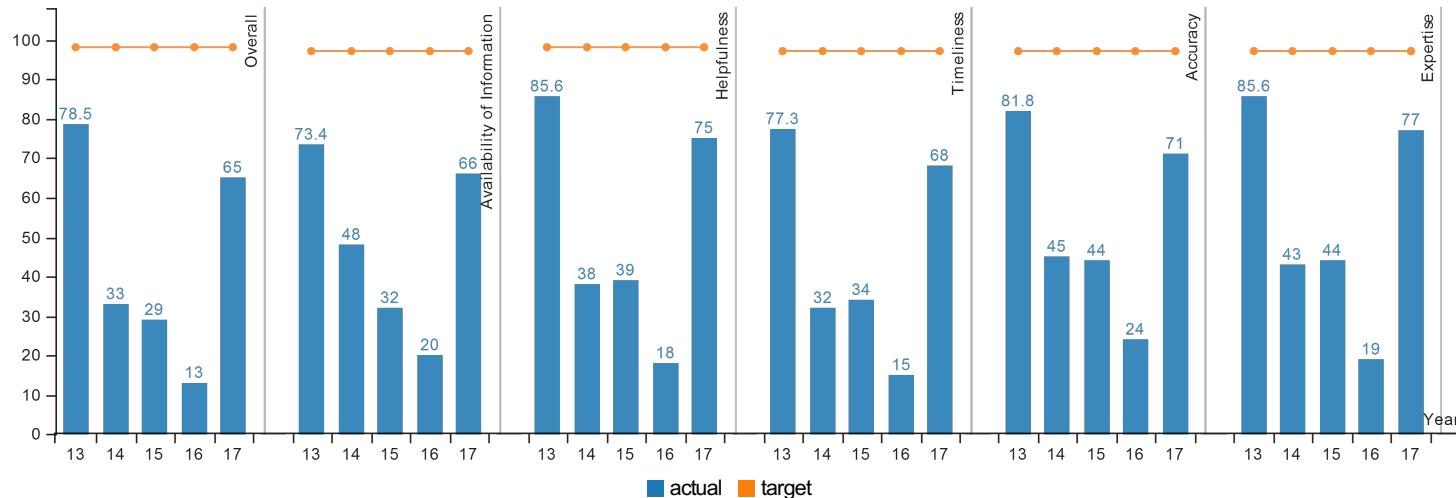
We exceeded the target with 75 percent of staff receiving at least 20 hours of training.

Factors Affecting Results

For the past four years, the majority of agency staff have been required to complete training on our new system. This requirement has heavily contributed to the agency exceeding the target for this KPM. After implementation of the new system is complete later this year, this training will end. However, we've been working on providing other training opportunities to staff to ensure they can continue to build their knowledge base and work on their professional development. The agency has entered into a contract to purchase licenses for unlimited training on a number of topics at a flat fee to leverage training dollars in the most effective way possible. Revenue has actively been working with local training providers to contract popular classroom trainings at a discounted price when there's enough employee interest.

We ensure agency training is captured in iLearn. We also encourage employees and managers to create a personal goal of completing a minimum of 20 hours of training per year. Employees have been actively encouraged to meet with Human Resources to discuss career-pathing and identify training that will assist the employee on that path.

KPM #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.
	Data Collection Period: Jul 01 - Jun 30



Report Year	2013	2014	2015	2016	2017
Overall					
Actual	78.50%	33%	29%	13%	65%
Target	98%	98%	98%	98%	98%
Availability of Information					
Actual	73.40%	48%	32%	20%	66%
Target	97%	97%	97%	97%	97%
Helpfulness					
Actual	85.60%	38%	39%	18%	75%
Target	98%	98%	98%	98%	98%
Timeliness					
Actual	77.30%	32%	34%	15%	68%
Target	97%	97%	97%	97%	97%
Accuracy					
Actual	81.80%	45%	44%	24%	71%
Target	97%	97%	97%	97%	97%
Expertise					
Actual	85.60%	43%	44%	19%	77%
Target	97%	97%	97%	97%	97%

How Are We Doing

Our customer service ratings were up in 2017. Our average score for the six categories is 70.2 percent, with our score for the “overall” question at 65 percent. For 2016, our average score was 18 percent and our score for the “overall” rating question was 13 percent.

These numbers represent a significant improvement over the past three years.

Factors Affecting Results

Internal processes

Over the past two years, we've changed our processes for reviewing refund returns to increase fraud detection. A new fraud module has slowed down refund processing for some taxpayers (see KPM #1 for more details). Contingency planning for the 2017 personal income tax processing season helped us avoid the processing issues that plagued the 2016 season and reduced our overall customer service rating by more than half. Better processing activities likely contributed to more calls answered with shorter waits, less time needed to issue refunds, and fewer appeals.

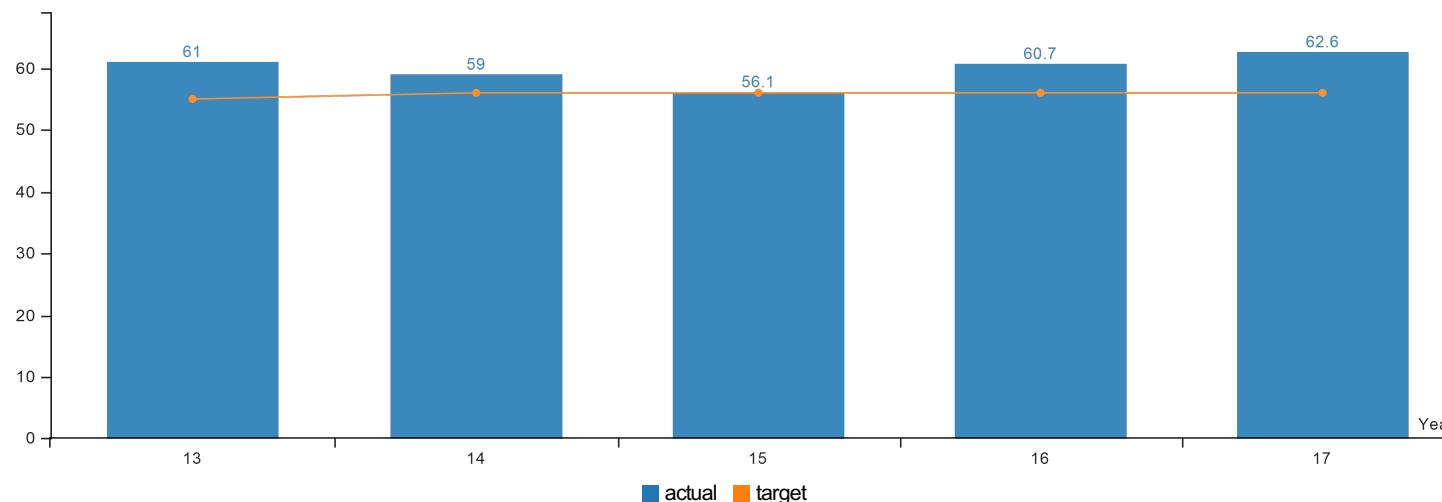
Survey methodology

Past survey methodology wasn't consistent year to year. In previous years, we conducted the surveys for short periods of time, only over the phone, and, as a result, didn't collect a large number of responses. In late 2016, we worked with an external contractor to analyze our data collection processes and identify ways to improve. We then made changes to administration of our survey but didn't change the core, statewide questions asked. We added an online survey option to give taxpayers another way to provide feedback. We also began asking taxpayers to take the survey at the end of each direct interaction with them. As a result of those changes, the number of responses jumped from 1,875 in 2016 to more than 7,800 in 2017. These steps also appear to be more successful in collecting data regarding all of our major tax program areas.

The survey was available throughout fiscal year 2017. The numbers reported represent the responses collected from both the telephone and online survey options. About 85 percent of the responses came from the telephone option. We also started collecting text responses to open-ended questions, which are helping us target our customer service improvement initiatives to addressing specific trends in taxpayer concerns and complaints.

KPM #5	Effective Taxpayer Assistance - Provide effective taxpayer assistance through a combination of direct assistance and electronic self-help services.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2013	2014	2015	2016	2017
Effective Taxpayer Assistance					
Actual	61	59	56.10	60.70	62.60
Target	55	56	56	56	56

How Are We Doing

Our overall score of 62.6 is a slight increase from our 2016 score of 60.7 and exceeded our target for 2017.

Factors Affecting Results

This year's increase was due to higher scores in each of the areas that contribute to the overall score: Call wait times, success rates for Where's My Refund?, and our overall customer service rating as reported in KPM #4.

Calls with less than five-minute wait times made up 34 percent of total calls, down from 51 percent in 2016. We increased the staff available to take calls by bringing on temporary help in January. Still, wait times were long, and that's most likely due to sheer call volume and the increased average length of each call. The average call length is increasing as we add more self-service options because taxpayers are getting answers to the more general questions and accomplishing the easier tasks online. Also, changes to our fraud review process for returns means refunds take longer and more returns are reviewed. This leads to increased call volume and customer dissatisfaction.

This number doesn't include callers who chose to be called back later via our "virtual hold" system. Additionally, we implemented a new phone system in November 2016, and the feature that tracks the data for this measure wasn't operational until May 2017, which means the 34 percent doesn't include the period from November 2016 through May 2017. The wait time to reach a Spanish-speaking representative continues to be longer than the average wait time for an English-speaking representative. We don't track call-wait data on other language requests.

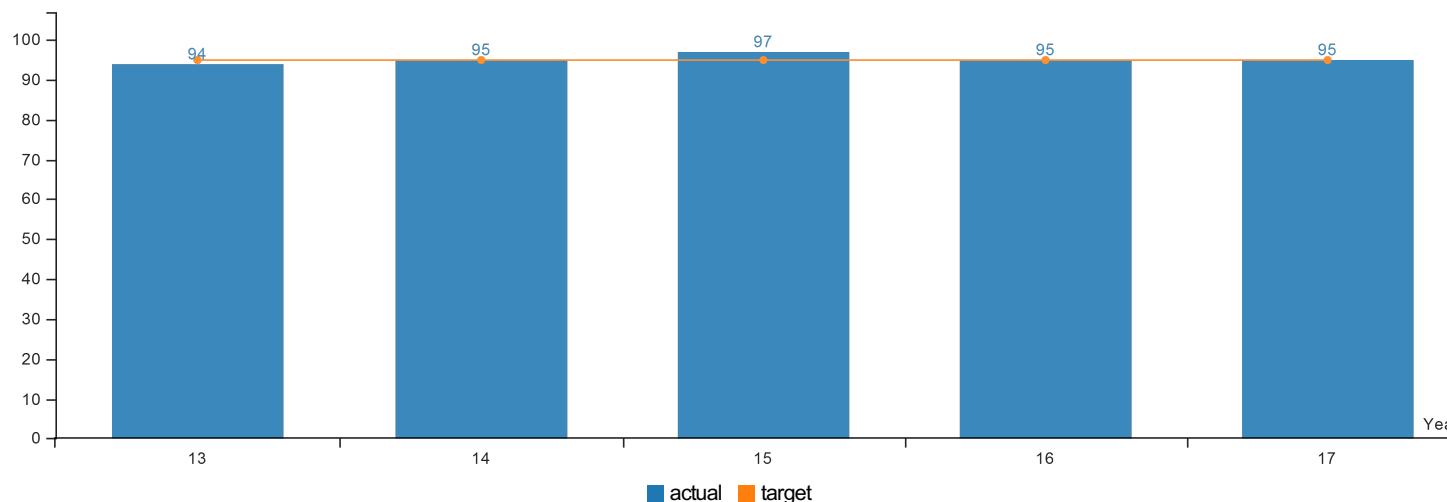
The percentage of successful "Where's My Refund?" inquiries made through phone or web applications was 84 percent, up from 77 percent in 2016. Successful inquiries are defined as any

response other than "not found." "Not found" means we haven't begun processing the return and it's not found in our system when the taxpayer asks. An unknown number of inquiries are unsuccessful ("not found") because taxpayers don't wait the suggested two weeks from when they file to allow us to begin processing the return. The jump in the number of successful inquiries can likely be attributed to our new, more efficient tax administration system.

The average percentage of customers rating our service as "good" or "excellent" was 70.2 percent, up from 18 percent in 2016. This sub-measure is up significantly from 2016. A likely contributing factor is that the 2017 personal income tax return processing season was much smoother than 2016. There have also been significant changes to how we collect the data for this and our other customer service measures. See KPM #4 for more information.

KPM #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.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2013	2014	2015	2016	2017
Appraisal Uniformity					
Actual	94%	95%	97%	95%	95%
Target	95%	95%	95%	95%	95%

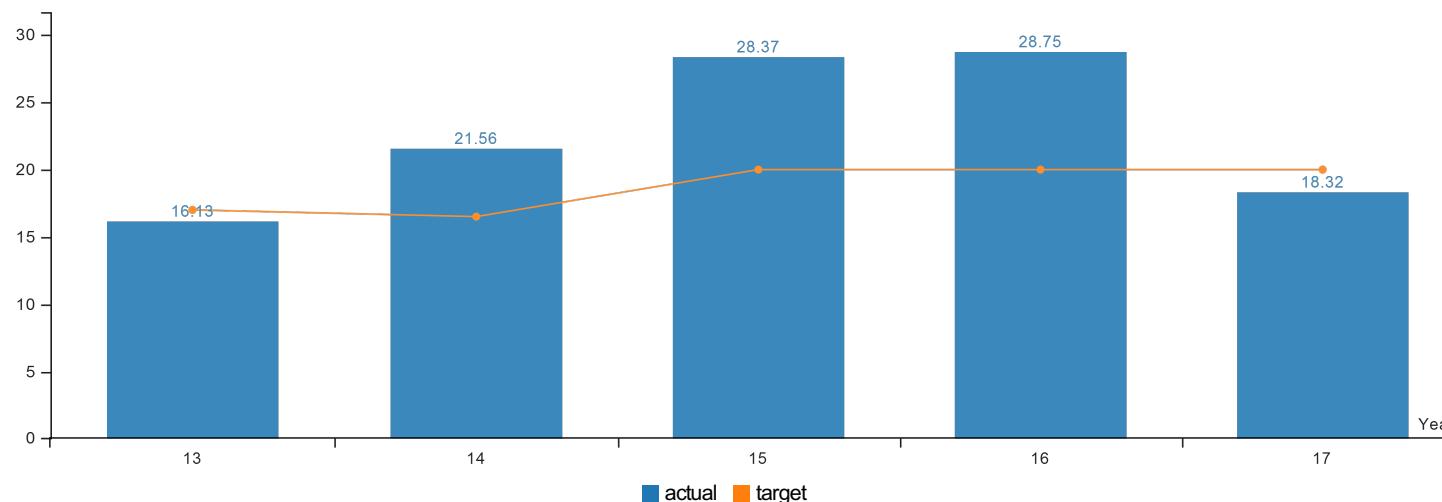
How Are We Doing

For the eight-year period from 2009 to 2016, the percentage of study areas statewide with real market values within accepted appraisal standards was between 89 (2011) and 97 percent (2015).

Factors Affecting Results

CODs are self-reported by the counties, so our ability to validate each county's methodology is limited at this time. Additionally, study areas can vary year-to-year, creating consistency and comparison issues. The 2016 Legislature provided funding to fill some existing department positions that work closely with counties on assessment and taxation. This includes analysis of the sales used by counties in determining whether their appraised values are compliant with appraisal standards. For 2017, results are meeting the target of 95 percent and we will continue working with counties to ensure appraisal processes are resulting in accurate real market values and accepted appraisal standards being met.

* Upward Trend = negative result



Report Year	2013	2014	2015	2016	2017
Appraisal Value Uniformity					
Actual	16.13%	21.56%	28.37%	28.75%	18.32%
Target	17%	16.50%	20%	20%	20%

How Are We Doing

In the last four years, we haven't had any usable sale transactions. Therefore, we've been using our recent site-specific appraisals to measure the COD. Our goal is for the measure of variance between the values from our recent site-specific appraisals and the values from our mass-appraisal process to be below the target benchmark (COD of 20). In 2017 we met our performance target for the first time since 2013.

We're in the early stages of reporting on this KPM. We're analyzing the data inputs every year and trying to determine the best method to determine which data points should be used and which shouldn't. Since we've been working with very few data points compared to typical COD analysis, inclusion or exclusion of data points can produce vastly different results. For example, the original COD data for 2014 used eight data points. By adding two valid data points, the revised 2014 COD increased from 16.15 to 21.56.

Factors Affecting Results

We're required to appraise Oregon's highly complex industrial properties that are engaged in processing and manufacturing activities. These properties don't sell often. When they do, there are many factors that make it difficult to compare the sales price to assessment roll values. Therefore, the limited number of sales transactions led to a decrease in the reliability of this indicator. In the past four years, we haven't identified any usable sales transactions for state-appraised industrial property. Therefore, all of our analysis is based on site-specific appraisals instead of market-based sales, which makes accuracy and consistency in our appraisal activities even more important.

Within the last five years, we instituted an appraisal process consisting of site visits followed by site-specific narrative appraisal reports to estimate value for state-appraised industrial properties. There are some industrial sites that we haven't visited in more than 20 years. The lack of a physical inspection contributes to a greater separation between real market value (RMV) and appraised

value, which increases the COD. To correct this for the future, we plan to visit every industrial site on a regular eight-year cycle. Once our first regular appraisal cycle is complete (goal of 2025), a more consistent COD trend should emerge.

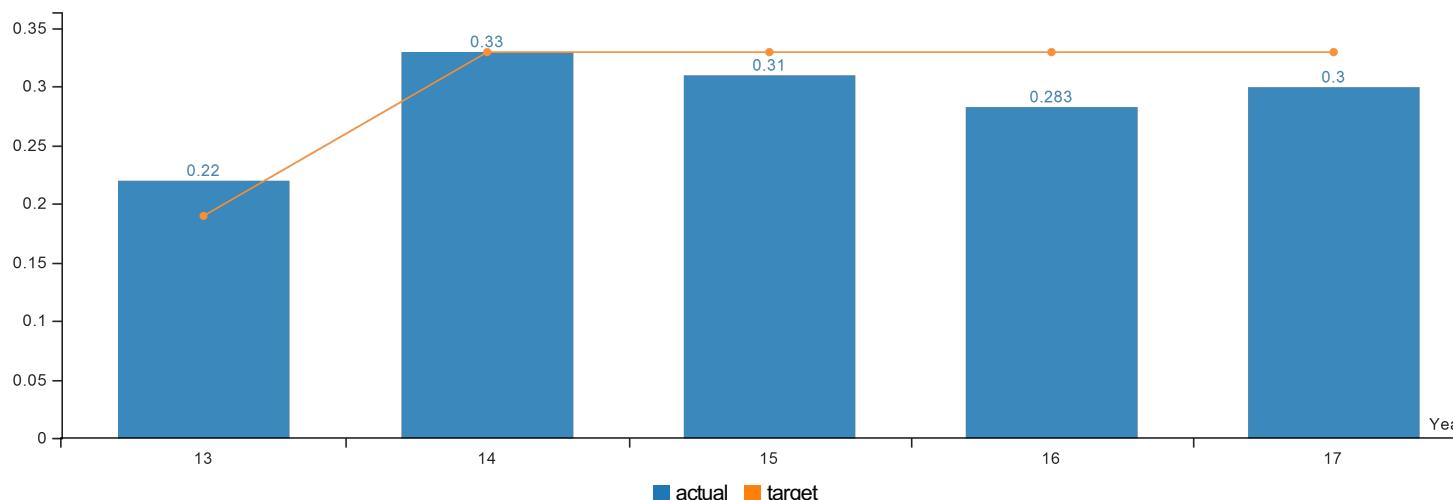
Some properties have known valuation issues or issues are found during the appraisal process. Valuation issues can include: omitted property, taxpayer reporting errors (duplicates, age of assets, failure to report), and reclassification of assets. These issues create a greater separation between the value determined via our mass appraisal process and the value determined via our site-specific appraisal process, resulting in higher COD.

Changes in the economy have more impact on certain property market sectors. Therefore, since 2014, we've concentrated on hot spots in an attempt to bring those values closer to RMV. Appraising these hot spots can contribute to an artificially high COD since the values in these areas have the potential to be the most non-reflective of RMV.

Although we met our benchmark this year, we will continue to address hot spots and known valuation issues, which may produce an outcome above our benchmark in the years ahead. As we continue to refine our processes, train new staff, and work through our eight-year appraisal cycle for site-specific appraisals, we anticipate seeing a consistent COD below our benchmark starting in 2025.

KPM #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.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2013	2014	2015	2016	2017
Cost of Direct Enforcement Funds					
Actual	\$0.22	\$0.33	\$0.31	\$0.28	\$0.30
Target	\$0.19	\$0.33	\$0.33	\$0.33	\$0.33

How Are We Doing

Our cost of funds (COF) for direct enforcement for fiscal year 2017 was 0.30. For this measure, lower performance is better. This represents a slight increase from the 2016 COF of 0.28. Dollars received decreased from \$269.7 million in 2016 to \$256.8 million in 2017. The enforcement function funding in our Legislatively Adopted Budget (LAB) remained constant at \$76.2 million.

Factors Affecting Results

There are many factors that impact cost of funds. Some of the external factors that affect our enforcement revenue include the health of the overall economy and the labor market participation rate; however, we don't have a way to measure the impact of those factors on our activities. Internal factors influencing our enforcement revenue include:

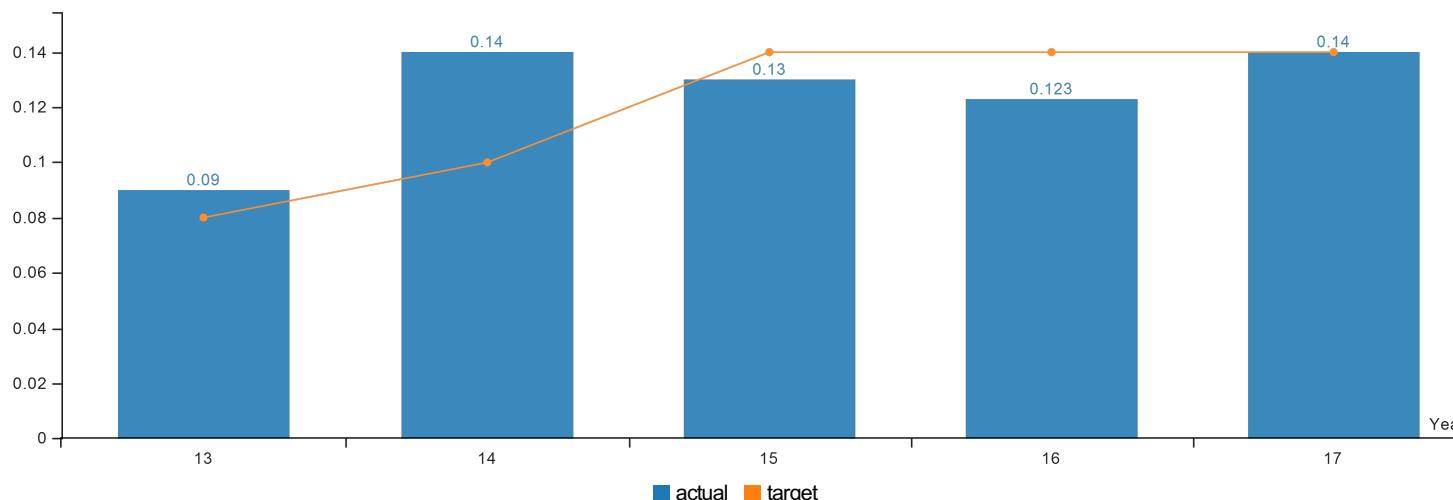
- Increases or decreases to our LAB.
- One abnormally large payment received by the Business Division, which skewed the division's total payments last year. The absence of that anomaly led to an expected decrease in 2017 payments as compared to 2016.
- The Withholding and Payroll Tax Section played a significant role in Rollout 3 of the agency's Core Systems Replacement (CSR) Project. Many functions and workflows that worked for the Personal Tax and Compliance and other Business Division users needed to be modified slightly for withholding staff. Withholding staff spent many hours addressing very unique situations, developing and testing solutions, and then helping with implementation of those solutions.
- The Personal Tax and Compliance Division, along with the parts of the Business Division other than the Withholding Section, also played major roles in Rollout 3. Changes to the system during Rollout 3 had to be tested to ensure they would work for all users. This resulted in additional training and testing requirements for staff, which decreased their production.

For fiscal year 2017, the programs included in this measure were administered in two different computer environments. The data series constructed in GenTax are different from the data series

constructed in our legacy system. Due to these system differences, the calculation of enforcement revenue has changed over time. Therefore, recent changes in results for this measure are primarily attributable to changes in data collection and compilation rather than changes in the agency's performance in this area. As this is the final year of our new system implementation, our calculation of enforcement revenue should stabilize in the near future. We will continue to evaluate it to ensure what we're measuring is in alignment with the original concept behind this KPM.

KPM #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.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = negative result



Report Year	2013	2014	2015	2016	2017
Cost of Collections Funds					
Actual	\$0.09	\$0.14	\$0.13	\$0.12	\$0.14
Target	\$0.08	\$0.10	\$0.14	\$0.14	\$0.14

How Are We Doing

Our cost of funds (COF) for collections for fiscal year 2017 was 0.135. For this measure, lower performance is better. This represents a slight increase from the fiscal year 2016 COF of 0.129. Dollars collected decreased from \$269.7 million in 2016 to \$256.8 million in 2017. The collection function funding in our Legislatively Adopted Budget (LAB) remained constant at \$34.7 million.

Factors Affecting Results

There are many factors that impact cost of funds. Some of the external factors that affect our enforcement revenue include the health of the overall economy and the labor market participation rate; however, we don't have a way to measure the impact of those factors on our activities. Internal factors influencing our enforcement revenue include:

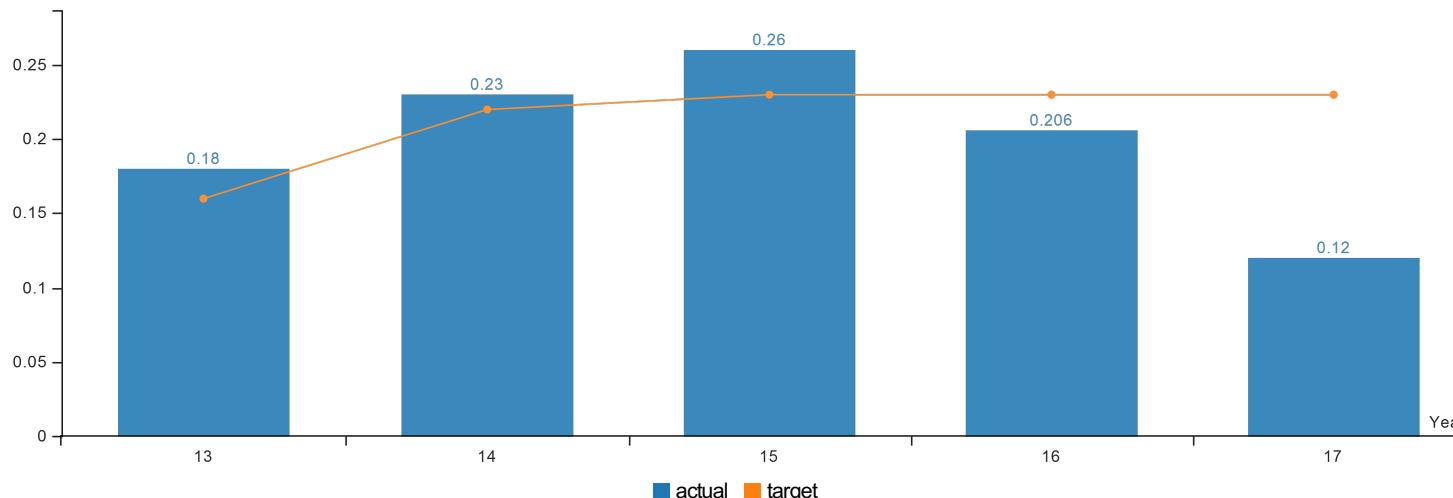
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- The Withholding and Payroll Tax Section played a significant role in Rollout 3 of the agency's Core Systems Replacement (CSR) Project. Many functions and workflows that worked for the Personal Tax and Compliance and other Business Division users needed to be modified slightly for withholding staff. Withholding staff spent many hours addressing very unique situations, developing and testing solutions, and then helping with implementation of those solutions.
- The Personal Tax and Compliance Division, along with the parts of the Business Division other than the Withholding Section, also played major roles in Rollout 3. Changes to the system during Rollout 3 had to be tested to ensure they would work for all users. This resulted in additional training and testing requirements for staff, which decreased their production.

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KPM #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.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = negative result



Report Year	2013	2014	2015	2016	2017
Cost of Assessments					
Actual	0.18%	0.23%	0.26%	0.21%	0.12%
Target	0.16%	0.22%	0.23%	0.23%	0.23%

How Are We Doing

In 2017, our cost of assessments (COA) decreased to 0.12. For this measure, lower performance is better. This represents a large decrease from the fiscal year 2016 COA of 0.21. This was due, in large part, to increased assessments in both the personal income tax and withholding programs. Assessed dollars increased from \$201.1 million in 2016 to \$349.4 million in 2017. The enforcement function funding in our Legislatively Adopted Budget (LAB) remained constant at \$41.5 million.

Factors Affecting Results

There are many factors that impact the cost of assessments. The largest contributing factor to the decrease in cost of assessments was an increase in failure to file assessments. Upon moving into the new system, both personal income tax and withholding were able to automate much of their filing enforcement work. This enabled us to issue many more assessments for taxpayers who failed to file returns than we have in the past because we no longer had to manually create these billings.

In addition, the withholding program changed the method of calculating tax due for taxpayers who failed to file their tax return, which increased the value of the estimated returns and dollars assessed. This increase in tax due on estimated returns is intended to incentivize businesses to file their true returns instead of accepting the estimated value because it's less than they'd actually owe.

Other factors that impact the cost of assessments include:

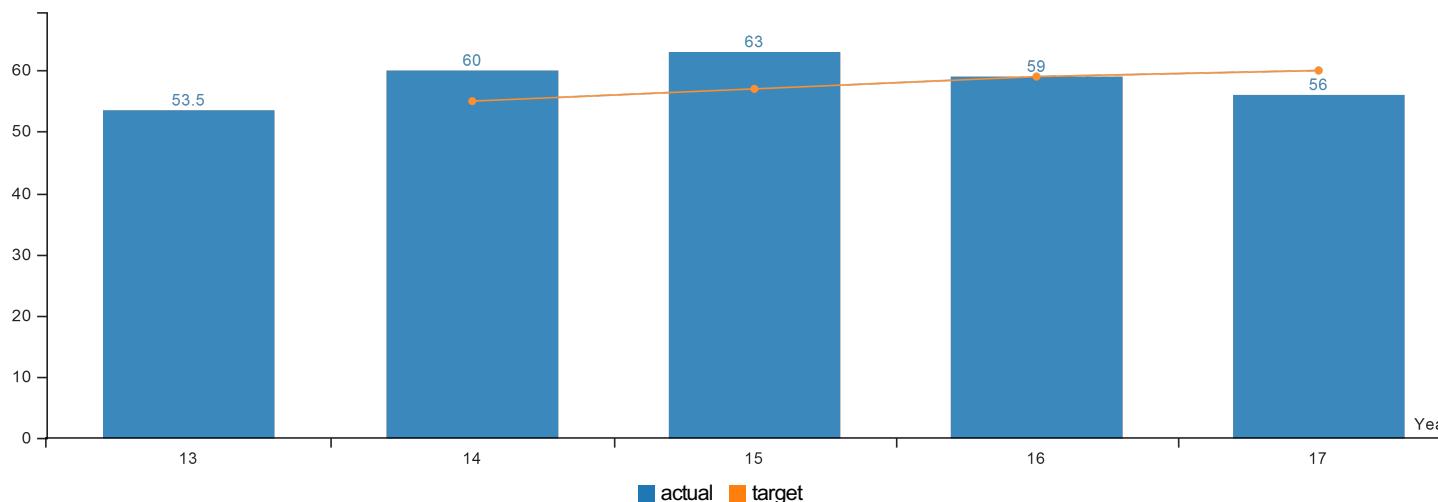
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- The Withholding and Payroll Tax Section played a significant role in Rollout 3 of the agency's Core Systems Replacement (CSR) Project. Many functions and workflows that worked for the Personal Tax and Compliance and other Business Division users needed to be modified slightly for withholding staff. Withholding staff spent many hours addressing very unique situations, developing and testing solutions, and then helping with implementation of those solutions.
- The Personal Tax and Compliance Division, along with the parts of the Business Division other than the Withholding Section, also played major roles in Rollout 3. Changes to the system during Rollout 3 had to be tested to ensure they would work for all users. This resulted in additional training and testing requirements for staff, which decreased their production.

For fiscal year 2017, the programs included in this measure were administered in two different computer environments. The data series constructed in GenTax are different from the data series constructed in our legacy system. Due to these system differences, the calculation of enforcement revenue has changed over time. As this is the final year of our new system implementation, our calculation of enforcement revenue should stabilize in the near future. We will continue to evaluate it to ensure what we're measuring is in alignment with the original concept behind this KPM.

KPM #11	Employee Engagement - Index of employees considered actively engaged by a standardized survey.
	Data Collection Period: Jul 01 - Jun 30

* Upward Trend = positive result



Report Year	2013	2014	2015	2016	2017
Employee Engagement					
Actual	53.50	60	63	59	56
Target	TBD	55	57	59	60

How Are We Doing

We initiated the standardized employee engagement survey in February 2013. The results established our baseline index of 53. Our highest index since we started taking the survey was 63 in 2015. The 2017 survey results put our index at 56, and the target was set at 60. The data indicates that the index score was most impacted by whether employees felt they could identify career growth opportunities in the agency. We believe that addressing this driver will have the highest impact in increasing employee engagement.

Factors Affecting Results

The main factor that contributed to the decrease in our engagement index appears to be centered around employees' desire for career development and growth opportunities. We were pleased to see that the response rate went up 3 percent this year over last year to 55 percent, but is still lower than the agency's highest response rate of 71 percent from our first survey in February 2013. We chose to again report the results down to the unit or section level (depending on minimum response rate requirements to maintain employee anonymity) in an effort to make the specific feedback and data more applicable and actionable. This change in reporting may have caused some employees to feel less free to answer the survey or provide text responses because of worries about anonymity.

It is clear from the 2017 results that the agency's hard chill on hiring to forego potential budgetary lay-offs in the 2017-19 biennium impacted employees' ability to have and/or see career development and growth opportunities in the agency. Since the conclusion of the 2017 Session, the agency has been actively recruiting and hiring for vacant positions and will do so according to availability of funds and program needs over the course of the biennium. The agency will also continue to provide other opportunities for employee growth, such as work-out-of-class assignments and developmental opportunities to help them learn about different positions around the organization and state government and gain relevant experience. Hopefully these changes will allow employees to pursue their career goals more actively in the next couple of years.