



Presentation to the
2017

Ways and Means Committee

March 2 and 13–16, 2017

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Who We Are

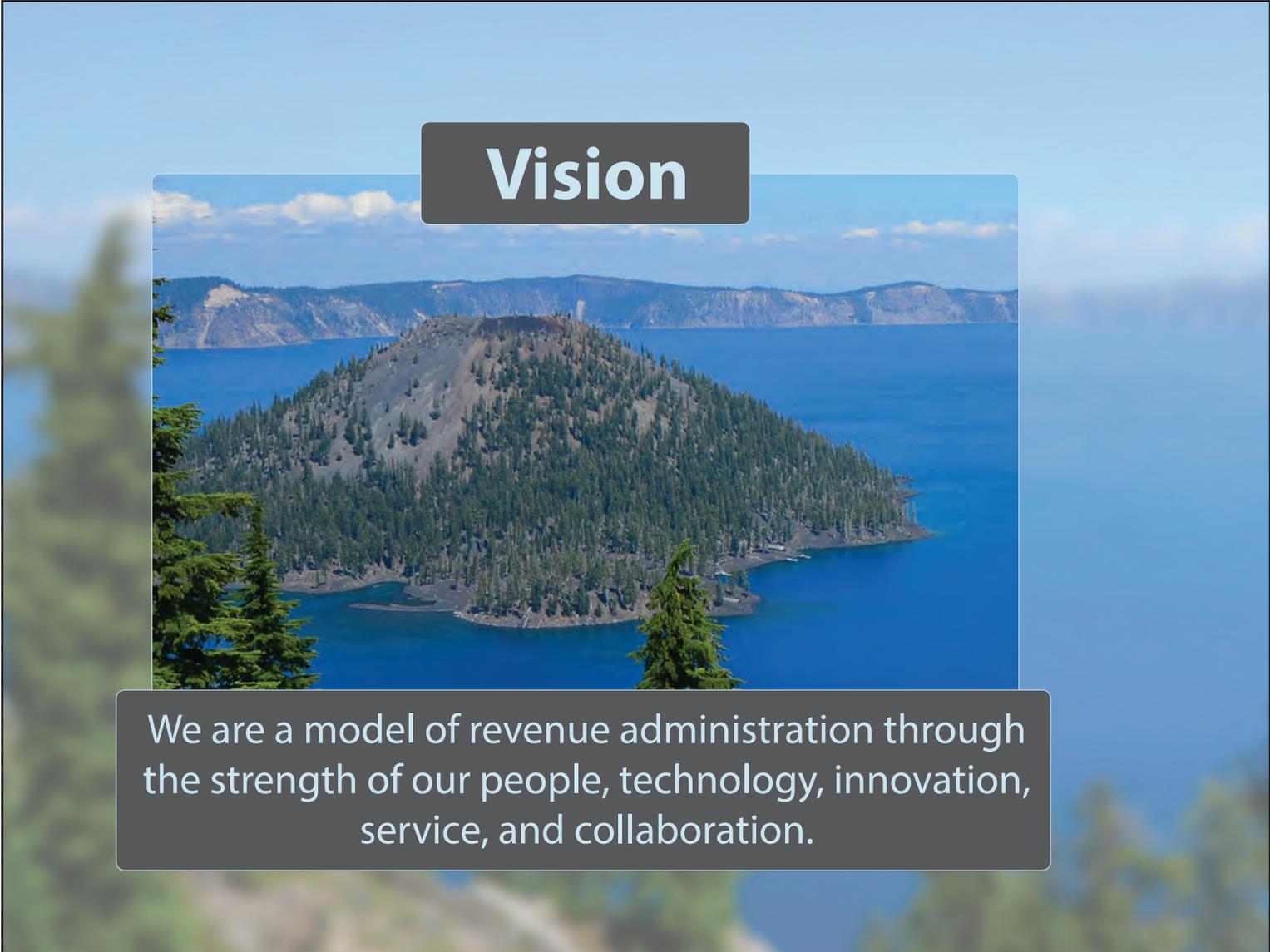
What Drives Us

Mission



We make revenue systems work to fund the public services that preserve and enhance the quality of life for all citizens.

What Drives Us



Vision

We are a model of revenue administration through the strength of our people, technology, innovation, service, and collaboration.

What Drives Us

Values



Highly ethical conduct.

Service and operational excellence.

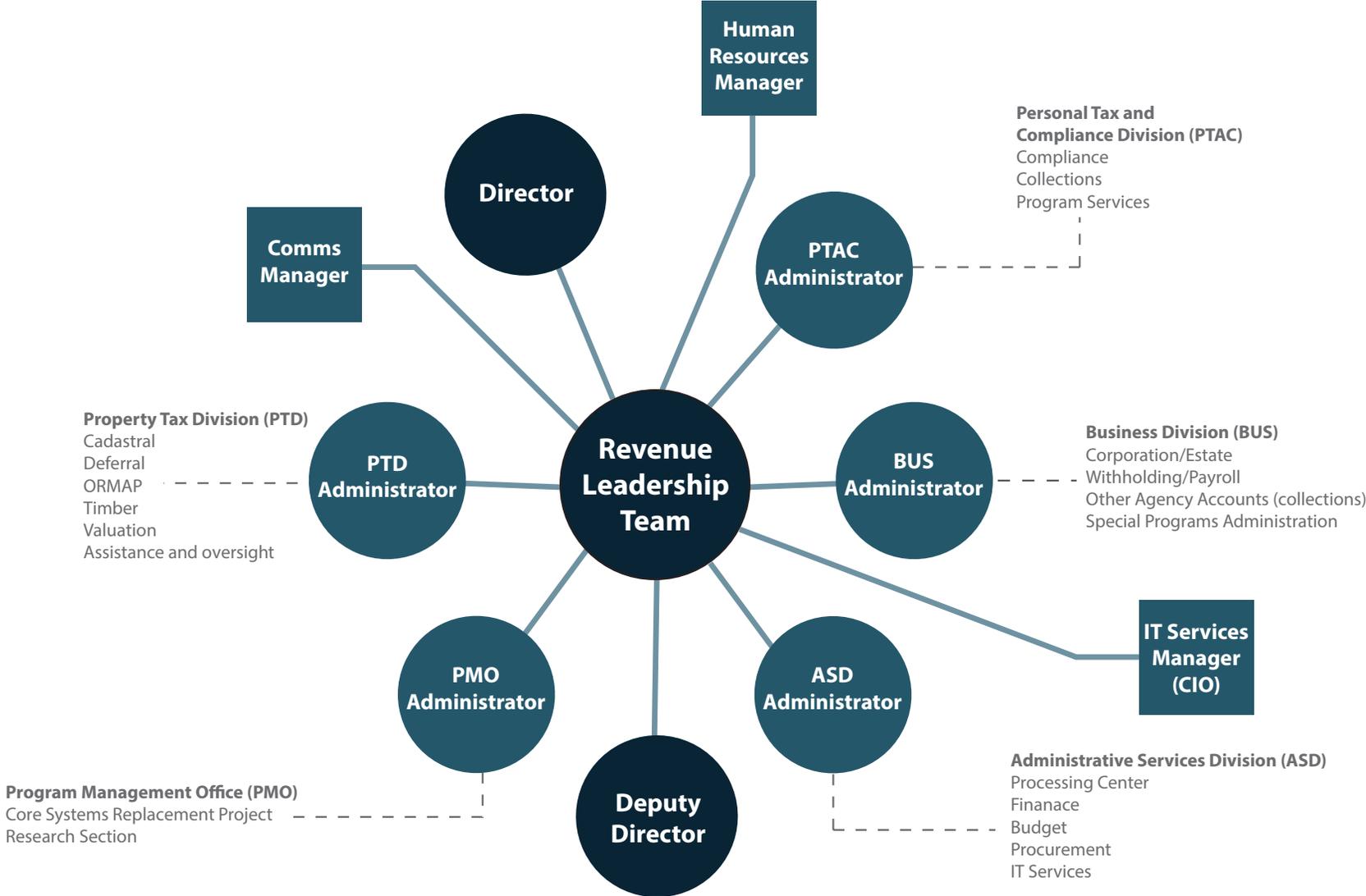
Fiscal responsibility.

Quality in relationships.

Accountability.

Continuous improvement.

Revenue Leadership





What We Do:

An Overview

Our Work

Department of Revenue's major tax programs

Income taxes—personal and corporate

- Voluntary compliance.
- Enforcement.

Property tax

- Assessment and taxation.
- Mapping.
- Industrial and centrally assessed property valuation.
- County grants.
- County training.
- Deferral programs.

Cigarette and other tobacco taxes

- Distributor, wholesaler, retailer, consumer compliance.

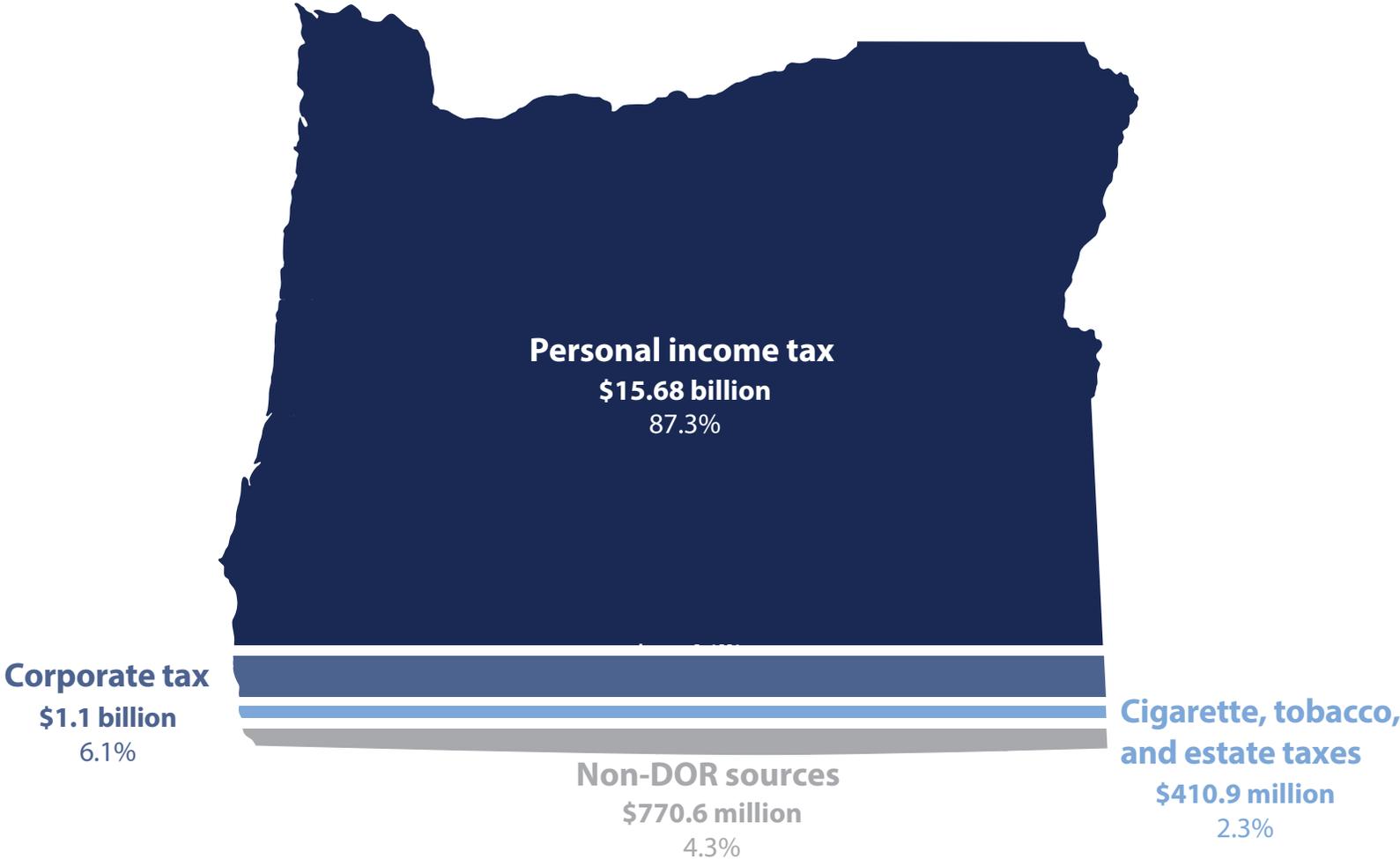
Marijuana tax

Other Taxes and Services

- Estate tax.
- Emergency communications tax (E-911).
- State lodging tax.
- Hazardous substance fee.
- Amusement device tax.
- Petroleum load fee.
- Forest products harvest tax.
- Small-tract forestland severance tax.
- Transit taxes.
- Court fines and assessments.
- Other agency collections.
- Senior and disabled citizens deferral programs.

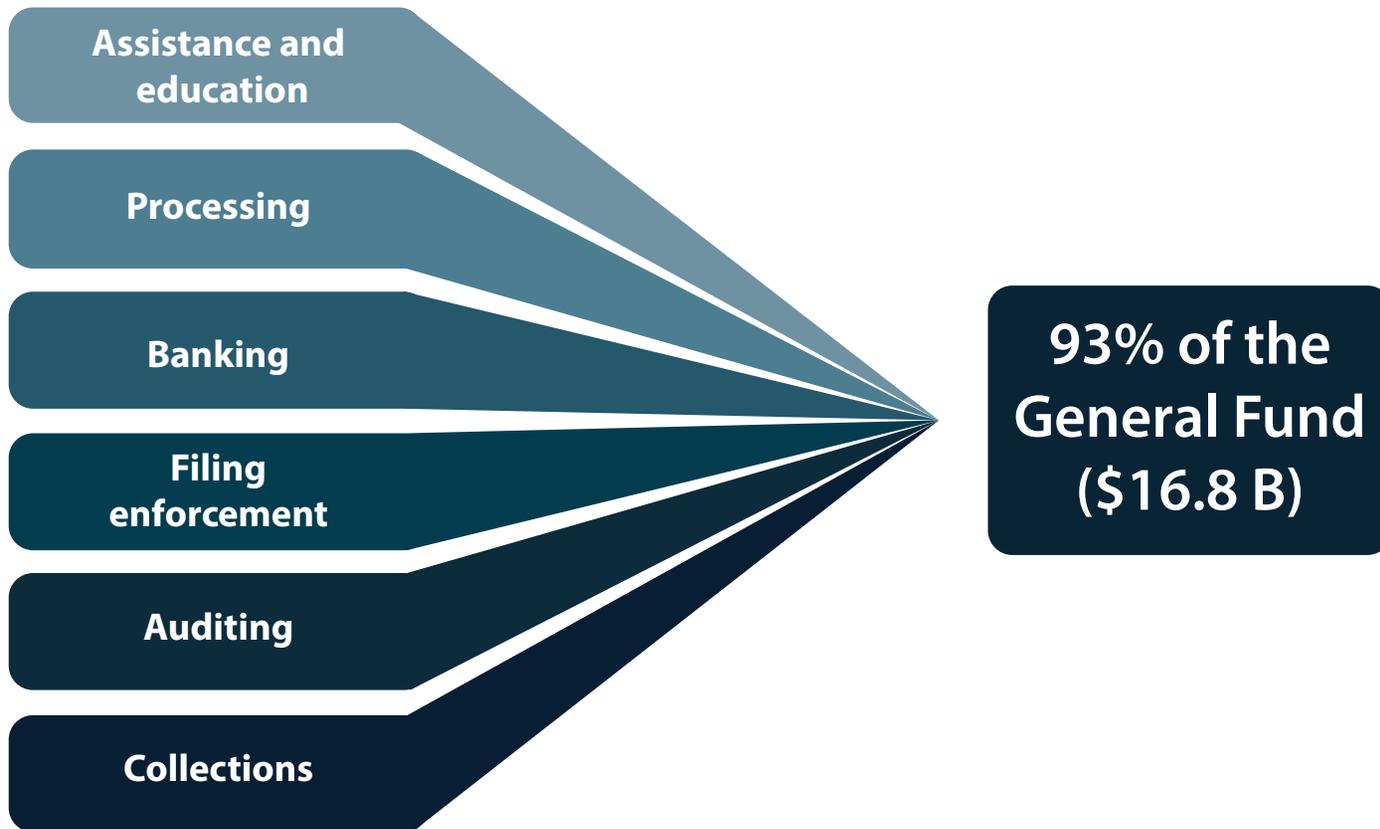
2015–17 General Fund

Net General Fund revenues: \$17.96 billion



2015–17 biennium
Source: Office of Economic Analysis, December 2016 forecast
150-800-550 (Rev. 02-17)

Income Tax Programs' Revenue



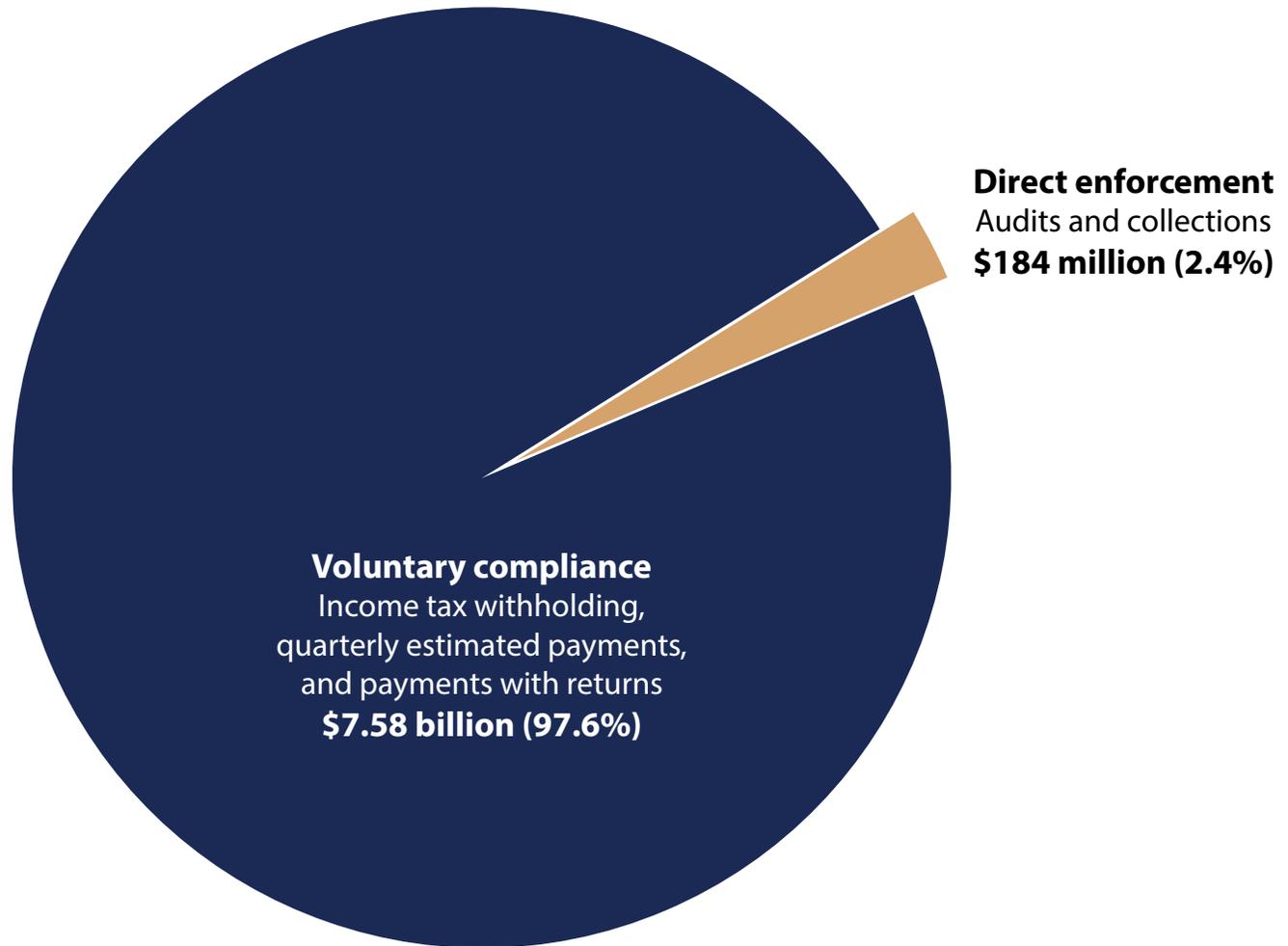
2015–17 biennium

Source: Office of Economic Analysis, December 2016 forecast

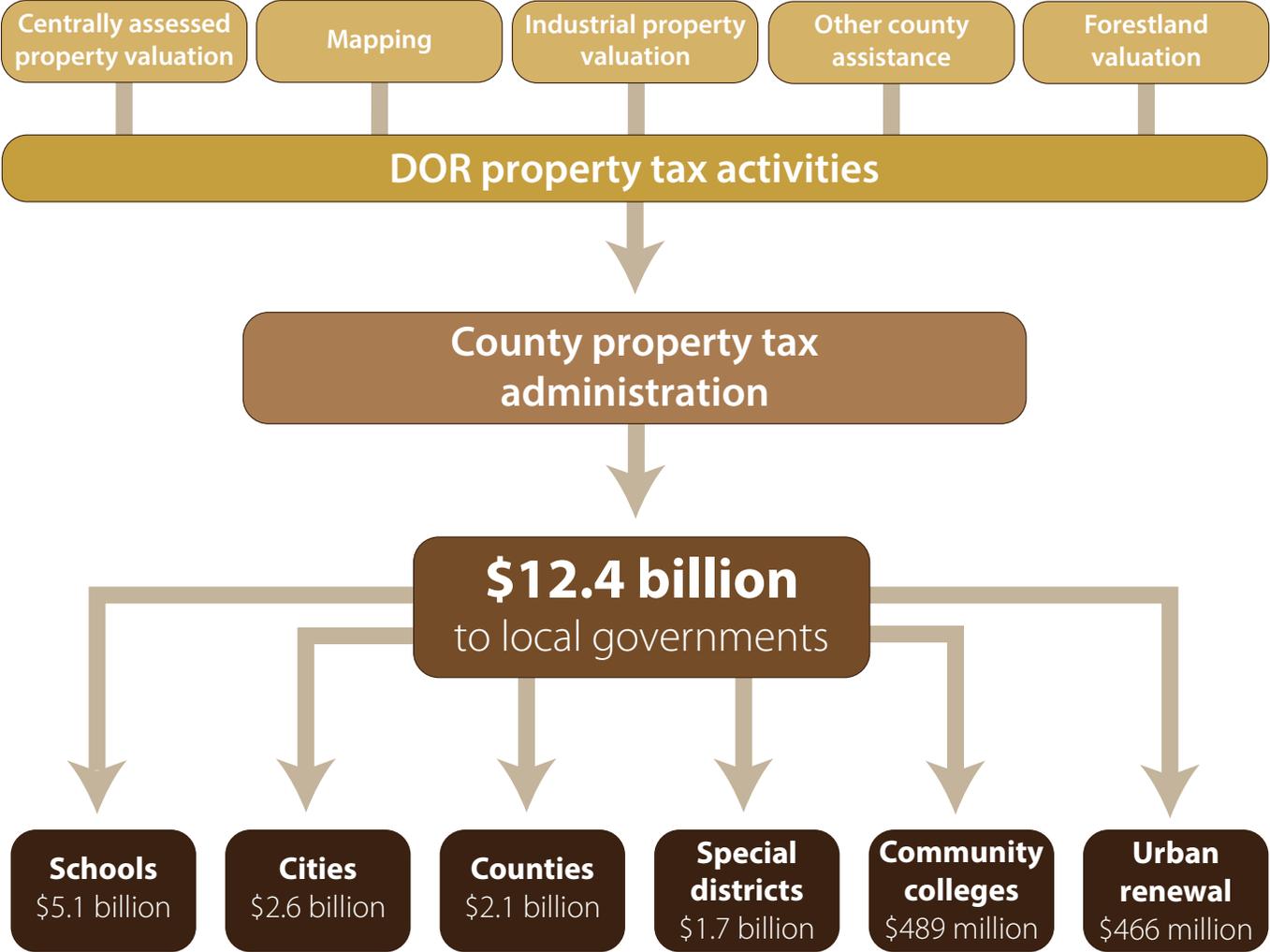
150-800-550 (Rev. 02-17)

Personal Income Tax Collections

How they're paid

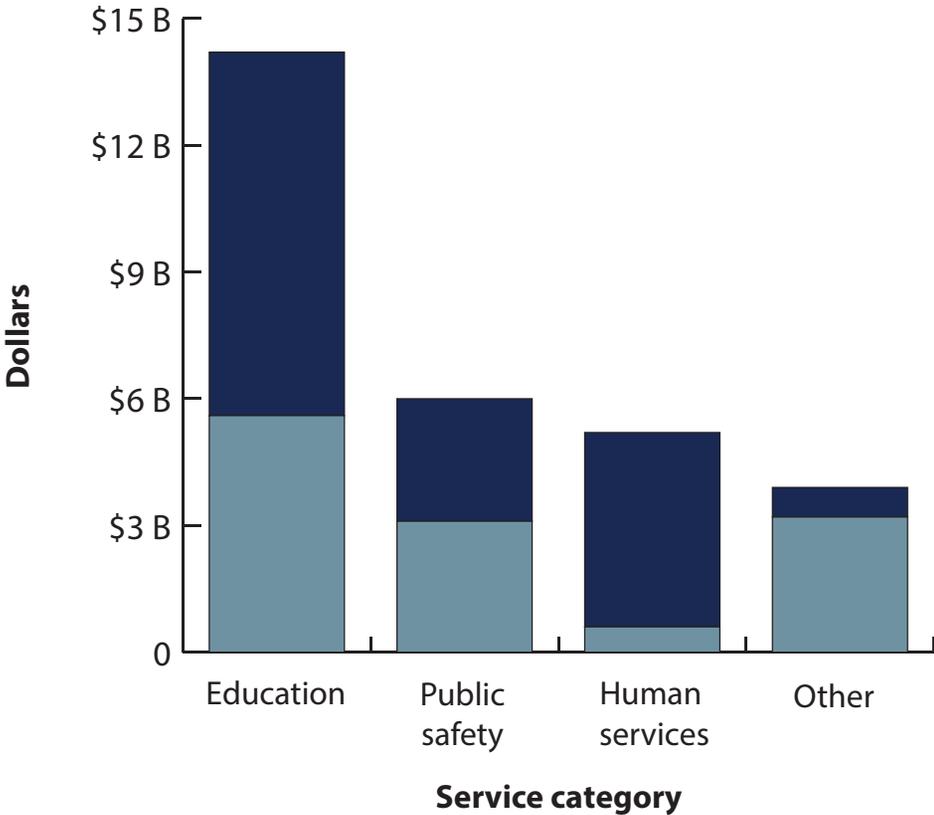


Property Tax Administration



2015–17 biennium
Source: DOR Research Section
150-800-550 (Rev. 02-17)

State and Local Funding of Services



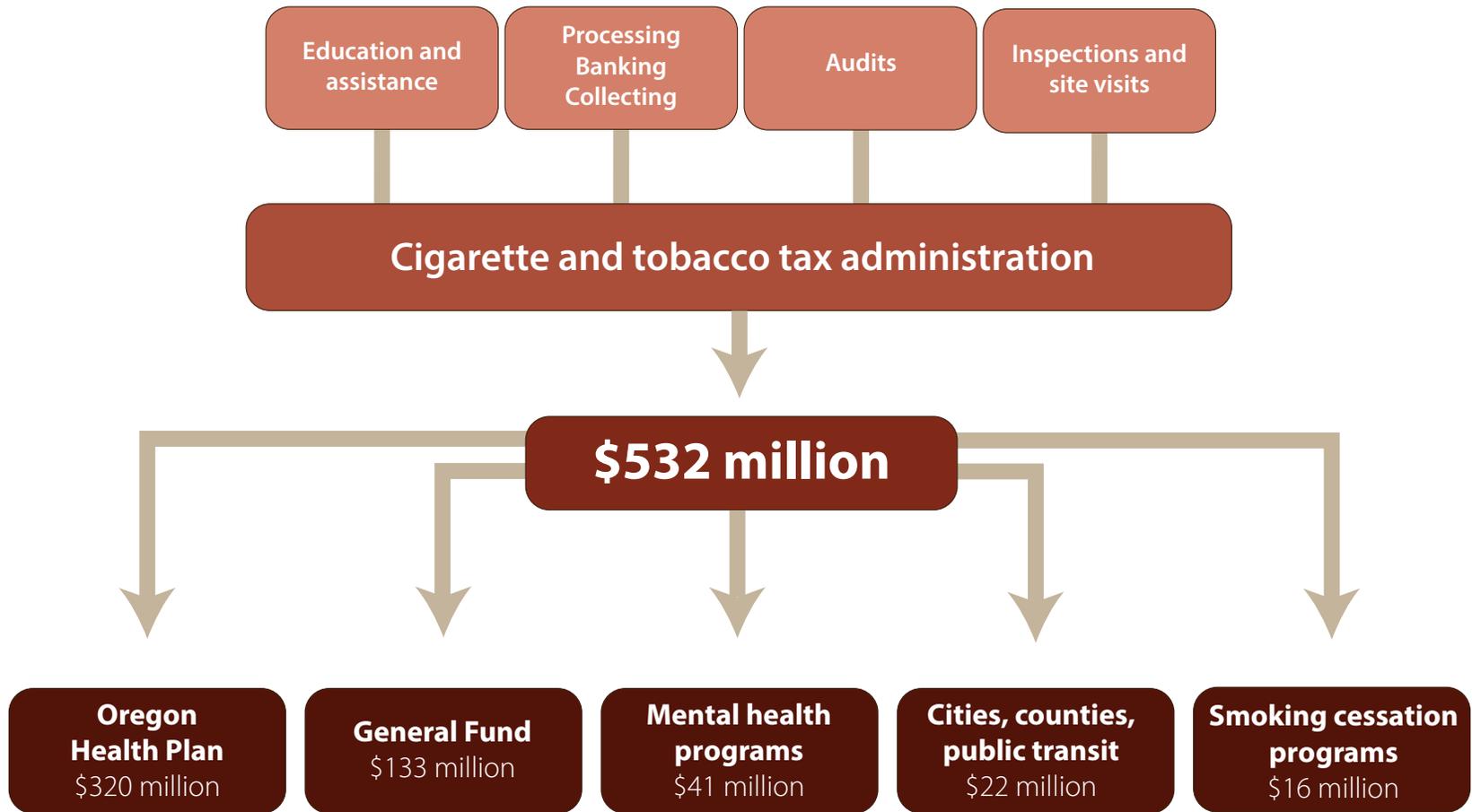
Income tax	\$16.8 billion
Property tax	\$12.4 billion
TOTAL	\$29.2 billion

■ Income taxes (state)
 ■ Property taxes (local)

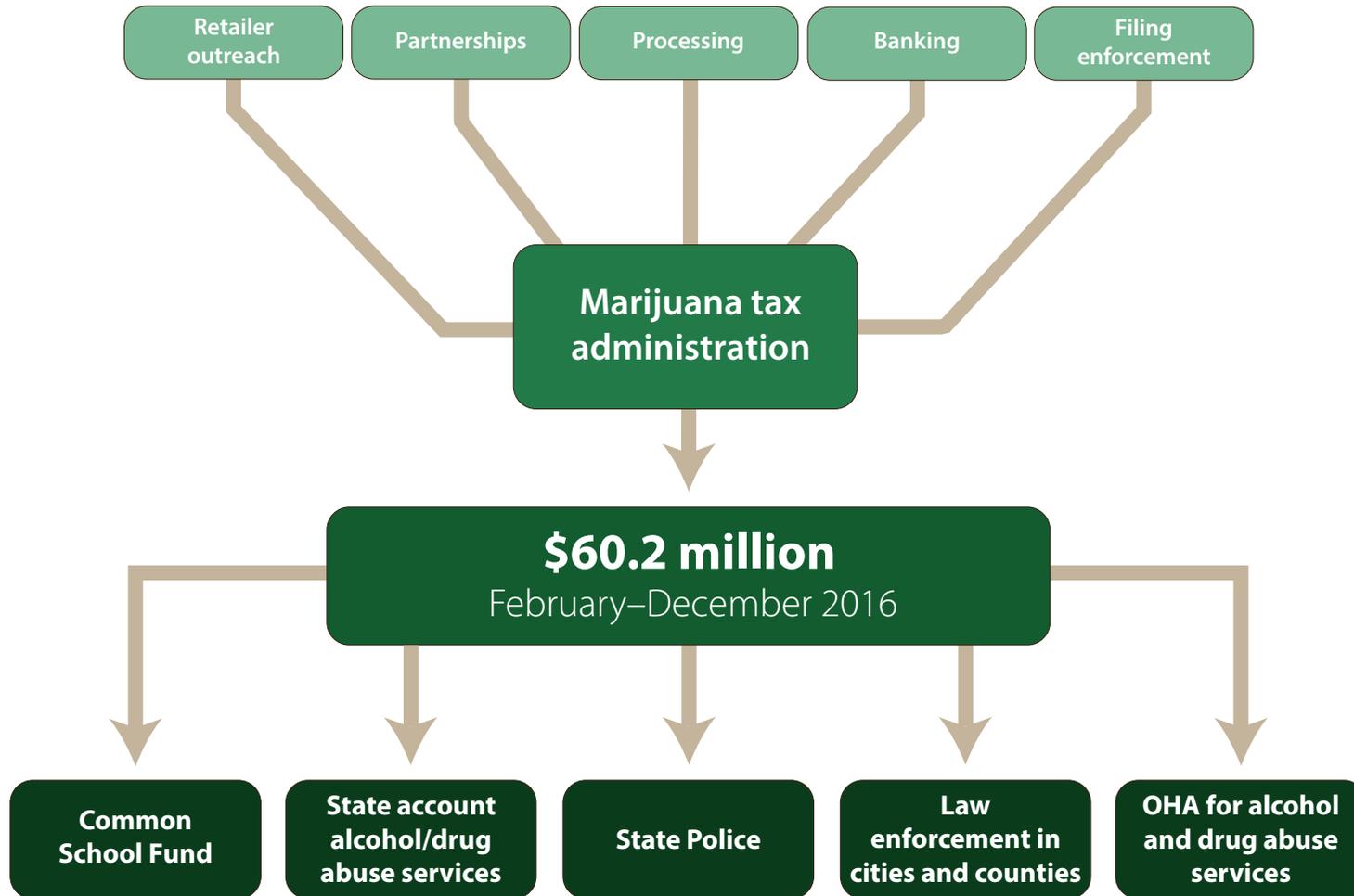
- | | | | |
|---|---|--|--|
| <p>Education
K-12 system
ESDs
Community colleges</p> | <p>Public Safety
Sheriffs
Jails
Police
District attorneys
Fire</p> | <p>Human Services
Public health
Senior citizens
Water
Sewer</p> | <p>Other
Libraries
Parks & recreation</p> |
|---|---|--|--|

2015-17 biennium
 Source: DOR Research Section
 150-800-550 (Rev. 02-17)

Cigarette & Tobacco Tax Administration



Marijuana Tax Administration





What We Do:

Income Tax Administration

Personal Tax and Compliance and Business Divisions

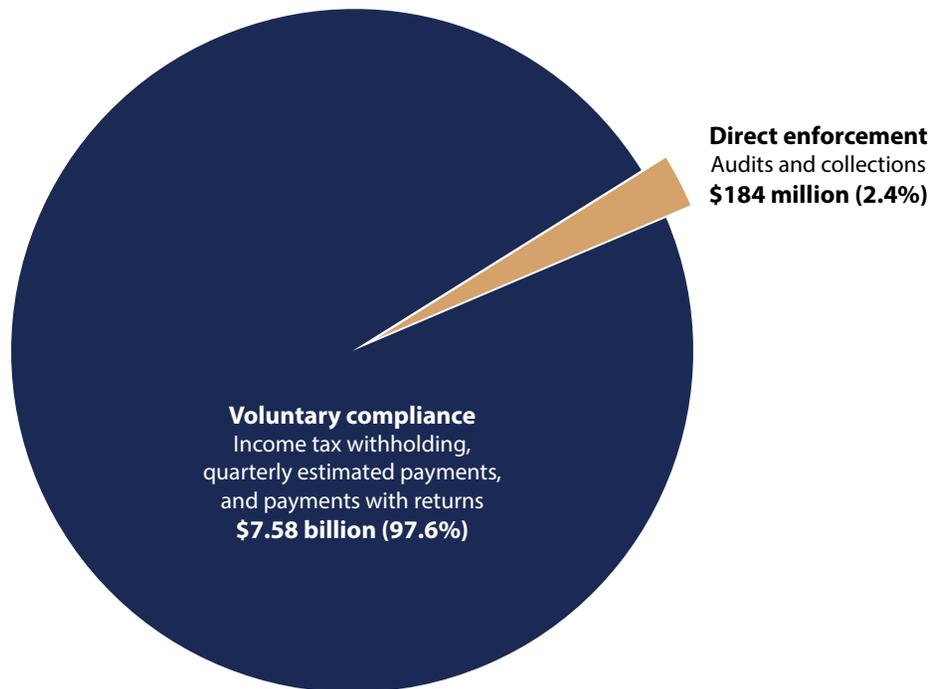
The Department of Revenue's income tax programs, personal income tax and corporation income and excise taxes, are responsible for most of the General Fund. Administration of these tax programs is divided between two divisions: the Business Division and the Personal Tax and Compliance Division. Both are responsible for taxpayer support, processing returns, auditing, and collections. These activities are guided by the department's five outcome areas: voluntary compliance, enforcement, employee engagement, customer experience, and equity and uniformity.

The Business Division administers income tax programs where the primary interaction is with businesses or commercial interests. These programs include corporation income and excise tax, personal income tax withholding, transit payroll taxes, transit self-employment tax, fiduciary tax, inheritance tax, and estate tax.

Because withholding and payroll taxes are paid by businesses, they are administered by the Business Division, but they are considered personal income taxes. Much of what is categorized as personal income tax first enters as withholding revenue paid by employers.

The Personal Tax and Compliance Division administers the state's personal income tax and partnership programs. The division commits its resources to strategies that enhance voluntary compliance, including those focused on education, assistance, and enforcement.

How income taxes are paid



Outcome Areas and Initiatives

Voluntary Compliance: Outreach

Voluntary compliance is the backbone of the tax system and produces the majority of revenue the department collects for the state. For that reason, the department supports voluntary compliance by providing ways for people to easily file and pay their taxes, like e-file and online payments. We also

Fiscal year 2016
Source: DOR Research Section

150-800-550 (Rev. 02-17)

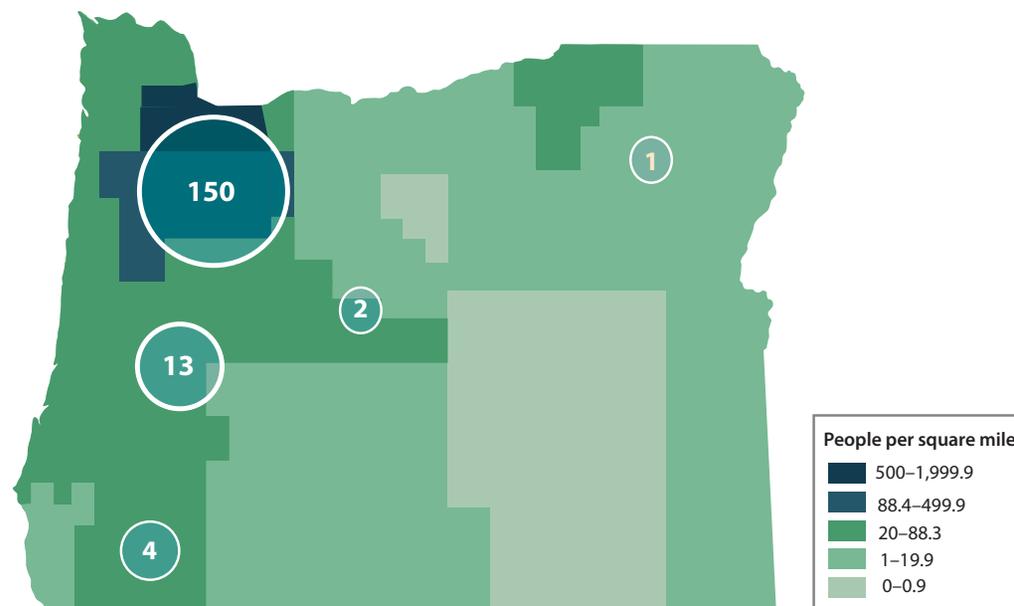
provide education and assistance to taxpayers and tax practitioners. These efforts are focused on increasing the number of taxpayers who voluntarily file and pay their taxes timely.

The majority of income taxes are paid voluntarily. The department received more than 2.1 million personal income tax returns in 2016. Dollars received due to enforcement actions are small in comparison, however, enforcement serves an important role. Without enforcement, taxpayers may fall into noncompliant behaviors if there are no consequences, or taxpayers believe there's no oversight.

Withholding program staff provide education and assistance to assist new employers and over 160,000 existing employers understand Oregon's tax laws. In the personal income and corporate tax programs, staff focus education efforts on making people aware of recent law changes. This is accomplished through outreach events held throughout the state and open invitation meetings with certified public accountants, licensed tax practitioners, and the Oregon State Bar. Each event reaches multiple employers, taxpayers, and tax practitioners.

The withholding and payroll tax program conducted 147 outreach events during the 2015–17 biennium (as of January 2017), with a total of more than 5,000 attendees. During the same time period, the personal income tax program presented 23 new law and general update presentations. Nearly 1,600 tax practitioners attended these sessions.

Outreach activities by geographic region, 2015–17 biennium



Sources: U.S. Census Bureau and DOR Personal Tax and Compliance and Business divisions

Enforcement staff also provide education and assistance directly to taxpayers and tax practitioners. They do this by providing information in a helpful, pleasant, and professional manner, whether taxpayers contact them for assistance or in response to an enforcement action, such as collections or an audit. Many employees' main activities are day-to-day enforcement actions. However, those are part of the overall goal of enhancing voluntary compliance. Providing useful information and good customer service to all taxpayers at every transaction helps us move closer to that goal.

Voluntary Compliance: Return Processing

Effectively processing tax returns is at the core of voluntary compliance. The return provides the evidence of compliance and reconciles the taxpayer's financial activities for the tax year. While there are some elements of enforcement work in this function, overall, the process is intended to support voluntary compliance. Taxpayers expect—and are more willing to comply with—a process that has easy-to-meet requirements, provides accurate information, and has a reasonable turn-around time. Our new system, GenTax, gave us this ability for our main income tax programs during Rollouts 1 and 2, and now we also have it for our smaller programs that previously did not have a processing system.

One of the first programs to move into GenTax was the corporation tax program in November 2014. Since they've been operating in GenTax the longest, they were also the first to see benefits from the system. The first year was challenging, as expected, because they were learning about the new system and how data imported from the legacy system behaved in GenTax, which temporarily slowed return processing.

As the corporation program moved into the 2016 return processing season, most of the transactions involving imported data were behind them. They found that returns moved through the new system more efficiently than in the previous year, thanks in part to improved procedures and staff's increased knowledge of the system. They also worked with their business rules to identify appropriate risks to determine which type of transactions needed review and when. Returns filed early in the season were processed by June 30, which is a decrease of several months from 2015's average processing time.

The personal income tax program has only one year of experience in GenTax. This program has made many adjustments ahead of the 2017 return processing season, including analysis of business and risk-based-review rules, realignment of staff, and system changes to enhance efficiencies and collection of useful data.

The new tax system brought the potential for efficiencies by matching data more effectively than they could in the past. Though they cast a wide net in the first year of the new system, this gave them a better understanding of how the system works and enabled them to refine the business rules around return processing. We are building a tax credit module that will match tax credit certifications from other agencies to what's claimed on the tax return. We are also seeking legislation to clarify our authority to match return information between taxpayers' returns (for example, to identify if a dependent is claimed on more than one return).

At this point, we're still trying to understand what this increase in efficiency means with respect to long-term resource needs. Some tasks are taking less time, while other tasks—sometimes brand new tasks—require additional time and different, higher-level skills.

Another benefit that we're seeing from GenTax is that smaller tax programs—which have fewer resources dedicated to them—now have a return processing system and can offer more online features for their taxpayers, which supports voluntary compliance. The limited staff of the smaller tax programs often serve dual roles in encouraging voluntary compliance and enforcing compliance. Voluntary compliance generally takes priority, but with the benefits listed above helping to support voluntary compliance, there may be more resources available for additional enforcement activities for these smaller programs in the future.

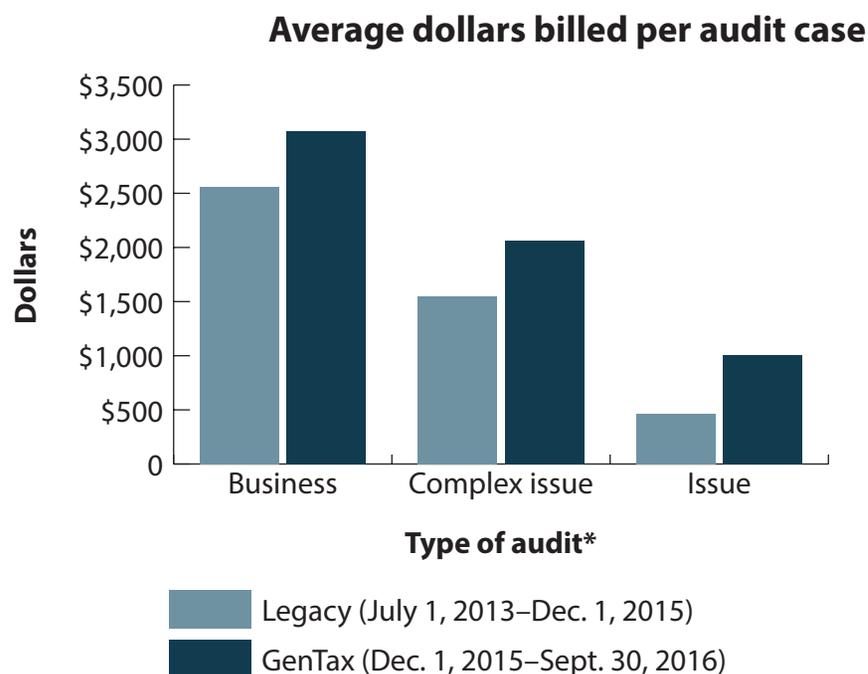
Outcome area: Enforcement

Enforcement and collection activities are intended to detect, correct, and deter noncompliance. All the department's activities are to enhance voluntary compliance. Enforcement will always be necessary in a system based on voluntary compliance. Individuals and businesses who might consider tax evasion or tax abuse are less likely to do so when they know laws are being enforced and they may face penalties. The awareness that the department acts on noncompliance and hearing that people they know have been audited often motivates taxpayers to comply.

Enforcement: Discovery

The GenTax discovery module is very important to our key enforcement functions: auditing, filing enforcement, and collections. The module uses a variety of information from other sources along with our information from previous tax years to identify potential compliance concerns. This information is used to prioritize our work and provide leads to staff.

We are also learning about our ability to balance the use of discovery with correction features in the processing system. For example, we used the system to send notifications to taxpayers who amended their 2014 tax return—thus affecting the surplus or



**"Issue" audits are those audits where there is generally only one issue with the return. "Complex issue" audits involve multiple issues on a return.*

Source: DOR personal income tax program

'kicker' refund—to not also amend their 2015 return. We used discovery to find 2014 returns that were changed and automatically update the kicker amount on the corresponding 2015 returns. The result was more than 6,000 system-generated notices and refund checks that cost us only the time it took to program the rule. In our old system we did not have this ability. Each return would have needed to be manually reviewed and adjusted. As we get more proficient, we will look more at the discovery tool and how it can further complement return processing.

Audits

This new functionality is improving the quality of audit leads. Audit leads are essentially a list of tax returns that contain potential issues that must be examined by department staff. Implementing lead scoring has been the biggest contributor to lead improvement. Audit leads can now be scored and prioritized based on different criteria, and all compliance issues on a return are identified using the discovery module, which reduces the amount of manual review required. We did not have these capabilities in our legacy system. In addition, we will be able to evaluate the success of our audit leads more efficiently once we have more data in the system. Our prior analysis process involved manually reviewing the results of audits.

We can also evaluate leads electronically. Now, our lead generation, case selection, audit, and evaluation cycles are shorter, allowing us to create and prioritize better leads. Initial results from the personal income tax program are showing that dollars billed per case have increased since we started using GenTax to identify leads.

Filing enforcement

The discovery module is also used to identify taxpayers who aren't filing returns. We have the ability to identify leads that, when combined with federal and other data sources, can be processed based on our established business rules, with no staff intervention necessary. This efficiency has allowed us to send over 57,000 demand-to-file notices to individual nonfilers during our first 10 months in GenTax. In the previous biennia, production was just over 71,000 notices sent. This allows us to address more issues of noncompliance using fewer resources to send notices.

A key point to remember about automation—in this and other business processes—is that while it does create efficiencies in one part of a process, it may increase demand for work in another area. For example, filing enforcement cases are identified and assessed automatically, but as notices are sent, some people will call and require assistance. Other people will call once we start collecting, which again requires assistance. Also, the goal of this activity is to get taxpayers to file true returns, which again impacts resources when those returns need to be processed. But, overall, there are fewer resources devoted to filing enforcement than in the past. We are tracking the level of resources needed so we can have the right number of people available as cases are created.

The additional resources now available have been repurposed towards other activities where scope and workload have increased due to GenTax. One example of this is fraud prevention and detection, which continues to be an area of emphasis in Oregon and

nationwide. During the 2015–17 biennium, we implemented new fraud detection measures using the tools available in GenTax, which require additional resources to monitor and review returns.

Another impact of automation is the effect on our accounts receivable. These billing notices are for taxes the department has estimated based on available information which often change when the taxpayer files a return. These filing enforcement cases are also more difficult to collect. About half of the department's accounts receivables are estimated assessments resulting from filing enforcement cases. However, we collect more money from balances that taxpayers have voluntarily reported because the taxpayer has shown they are trying to be compliant (by filing and reporting a tax due), and the amount owed is more accurately reflected.

Collections

We can now automatically issue liens when a collection case meets the specific criteria we set. These liens secure the state's interest in the debt and can set priority over other debts when recorded timely. Revenue agents no longer need to spend time doing the research required to issue a lien because the system can quickly review all available data to see if it meets the programmed requirements for issuing a lien. Since we're recording liens more quickly, and getting in higher priority order, we expect that as taxpayers sell their assets in the future we'll receive more payments we may have missed out on when we were manually issuing liens. Agents can also spend more time working with taxpayers on the phone. As we develop criteria to automate more processes in the future, we will continue to free up agents' time to assist more taxpayers and work accounts that need more manual intervention.

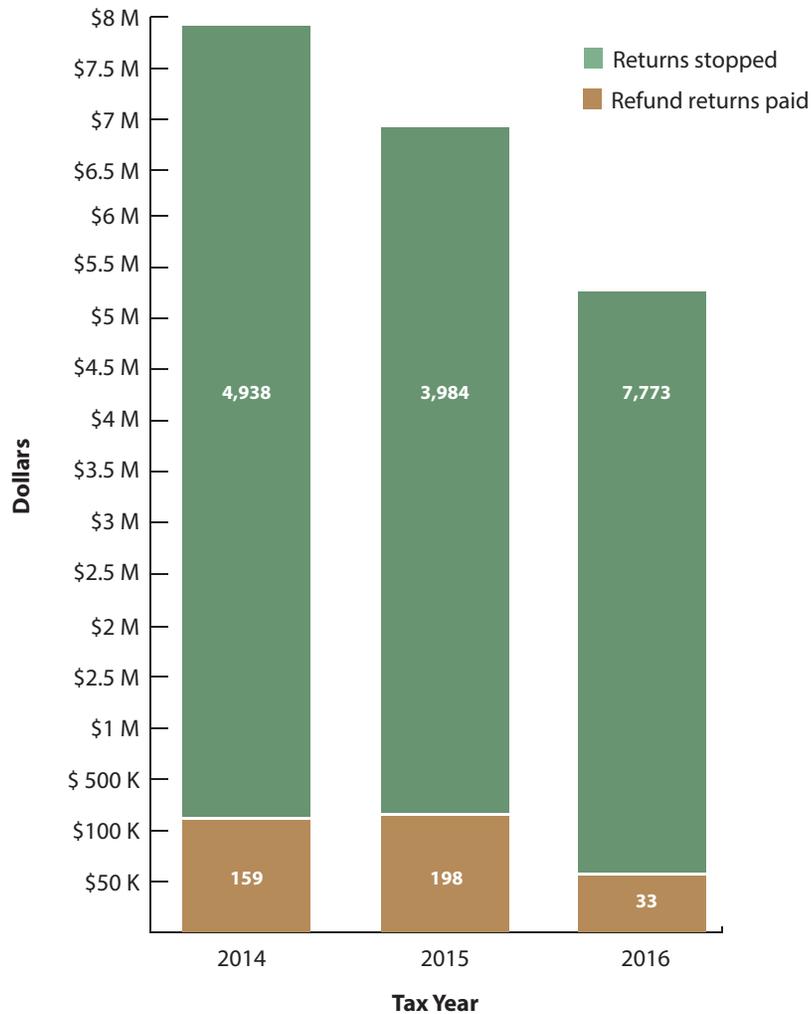
Another benefit of our new tools is a reduction in time to identify garnishment sources. This takes far less time than before because the data warehouse pushes new garnishment-source information when available. This means less research and follow-up time on older or nonproductive cases for the revenue agents. They can instead spend this time working new or more difficult collection cases.

Enforcement: Fraud

The new system came with a fraud module. We built business rules for the module that were aimed at detecting various types of fraud. We have increased our analytics by adding large sets of data to validate and authenticate against (2015 policy option package). The system scores each return on the validity of the filer's identity. Those that fall at either end (definitely valid to definitely fraud) continue for appropriate processing. Those with middle-range scores get either a manual review, or the system generates and sends the taxpayer a request to take an identity quiz. We are still analyzing the effectiveness of the ID quiz. We sent more than 21,000 letters in 2016; nearly half of them got no response. It's not clear if that meant they were fraud, didn't get to the taxpayer, or the taxpayer just didn't respond.

In addition, we partnered with other GenTax states, the IRS, and the tax software industry to exchange information—sometimes daily—about the fraud each of us were seeing. Our system allows us to enter tax return information that other GenTax states can

Tax fraud in Oregon



Note: Paid amounts reflect unrecovered refund amounts.

Source: DOR Personal Tax and Compliance Division

use in their fraud detection efforts. The IRS and software vendors send daily and weekly files with information on returns that appear suspicious. The banking industry also got on board to help stop direct-deposit refunds from going to suspicious bank accounts.

The dollar amount of fraudulent claims we identified was down this past season, but the number of fraudulent returns were up. We're still evaluating the results. This is in line with trends seen in other states and by the IRS. The IRS reported a significant drop in the number of fraudulent tax returns received in 2016. This is attributed to much stronger detection efforts—similar to what Oregon is doing—and information sharing between the states and software companies.

For the 2017 processing season, we revised our fraud business rules to be more precise in our selections and stop fewer legitimate returns, leading to fewer delays in processing all returns. Also, like the IRS and several other states, we held refunds until mid-February to give us time to match data between tax returns and W-2 information.

Enforcement: Partnering

Some of our enforcement areas also work closely with other government agencies, providing information and insight that benefits all agencies involved. The 2009 Legislature created the Interagency Compliance Network (ICN) to improve employers' and workers' compliance with Oregon's tax and employment laws by sharing information, collaborating on enforcement activities, and conducting educational outreach with the public. The ICN is made up of seven state agencies:

- Employment Department.
- Department of Consumer and Business Services.
- Department of Revenue.

- Department of Justice.
- Bureau of Labor and Industries.
- Construction Contractors Board.
- Landscape Contractors Board.

To improve compliance among employers, the ICN has cross-trained auditors to focus on determining if workers are inappropriately classified as independent contractors. With auditors from both the Department of Revenue and Employment Department able to address multiple issues, employers would be audited by only one auditor instead of two or more. Not only is this respectful of employers' time, it saves the state money and creates more positive relationships between auditors and employers.

We also build partnerships with other states' departments of revenue through organizations such as the Multistate Tax Commission (MTC) and the Federation of Tax Administrators (FTA). Participating states meet regularly to learn from each other and build uniformity in tax administration between states. The MTC also conducts corporate tax audits on behalf of their member states. Because Oregon participates in these audits, it allows us to focus our resources on other audits. A new partnership we are building is with the group of states that use GenTax software. These states meet regularly throughout the year to discuss new ways of using the software and new features.

Enforcement: Analytics

Another feature of GenTax we look forward to using is the analytics manager. We have not had the opportunity to use the analytics manager yet since it requires a greater volume of native data than we currently have in the system. Native data is information from original returns or reports that are processed directly into GenTax; not migrated data from legacy systems. Since we've just migrated tax programs into the new system, using analytics in the new system is not as useful as it will be in the future when multiple years of native data exist.

In the future, we will use the analytics manager to better understand noncompliance. We will be able to recognize patterns in the data, which will allow us to make predictions about future filing. When used in conjunction with GenTax discovery, the analytics manager will help us to improve audit and filing enforcement leads and more accurately score collection cases for prioritization based on projected ability to collect.

Employee Engagement

We continually work to ensure that we have a qualified, well-trained, and effective workforce. Over the past several years, we've invested greatly in system, technical, and soft-skills training. We have also focused on building employee skills. We also offer many temporary work assignments focused on developing employees for new career opportunities. We offer programs to support

employees and increase job satisfaction, including educational reimbursement, flexible scheduling, and teleworking where appropriate.

We have also focused on hiring people who have behaviors and decision-making skills that will improve the services we provide. One of our goals is to have a forward-looking workforce that is adaptive to change. Our other goals are for staff to clearly know what is expected of them, to give them the tools they need to accomplish that, and to recognize them for their performance.

Customer Experience

The two key ways we're working to improve customer experience is by improving self-service options and actively soliciting customer feedback on their experience. The implementation of Revenue Online is one of the most significant enhancements to taxpayers' customer experience. Revenue Online offers a variety of useful features, from viewing account balances, to filing some returns, and submitting direct communications.

With the new system, if the taxpayer needs assistance and calls us, an agent can walk them through the process in Revenue Online step-by-step. The new ability for our staff to see exactly what the taxpayer sees helps shorten the time to complete the task. It also familiarizes taxpayers with other online options and builds self-sufficiency in filing accurate returns, monitoring their account, and making payments.

Throughout the last several years, income tax programs have designed and built self-service features with the customer's experience in mind. This is evident with iWire, our W-2 and 1099 filing web application. We replaced a very basic system with a more sophisticated one that provides immediate feedback and more features focused on simplifying filing.

The Withholding and Payroll Tax Section has been monitoring the automated call system data. This allows them to monitor trends across the section and to identify employees who are performing exceptionally well and those who require additional assistance and training. That data is used to improve business operations and the efficiency of the call center.

The department's customer service measure (Key Performance Measure #4) has consistently shown less-than-positive ratings. To address this, we hired a customer service consultant. Their charge is three-fold: research and implement a survey delivery tool that helps reach more people for input, analyze survey results for areas of improvement, and make recommendations on how we can improve customer service. The new survey tool rolled out in December 2016, and analysis of the results began in February 2017. This effort also involves representatives from all agency program and central service areas who help analyze the results and develop the recommendations made to the Revenue Leadership Team for consideration and action.

Equity and Uniformity

By moving into a new system, we've had the opportunity to look at current and past practices and find ways to do things differently. With the phased implementations, each tax program has also been able to learn from those who already have experience

in GenTax. By progressing in this manner we've seen increasingly more efficient processes in many areas and more uniformity between programs with similar tasks or processes. We also meet with other states who use GenTax to develop best practices in using the system for tax administration.

One area where equity and uniformity need to improve is in electronic filing for corporate taxpayers. Although statute and administrative rules requires taxpayers who are required to file electronically with the IRS to also file electronically with us, we have a lack of compliance among some corporations who choose to only file electronically with the IRS. We recently adopted an additional administrative rule that allows us to reject returns from those who don't file electronically as required.

While there hasn't been a significant change to the way we audit income tax returns, we do have new tools that assist us. One tool is reporting. We have access to new reports that can help us identify areas for process improvement. With GenTax, some areas have been able to move to a paperless audit and review process that provides consistent and repeatable processes for staff. We also have access to more data about our audits, resulting in better case selection for auditors. Overall, this leads to more uniform treatment of taxpayers as well as a better and more consistent customer experience.

Challenges

Although we are optimistic about the long-term efficiency gains from GenTax, the new system represents a dramatic change in our business operations. It affects everything from collections to account management to enforcement and data analysis. Acclimating to the new system will take time.

Several areas have reorganized their unit structure and general flow of work. This served two purposes: First, it better aligned our workflow with our new business practices. Equally as important was the signal the change provided. Seeing changes within our operations let staff know that things will be different in the new system. These changes aren't necessarily final. However, they show we are using this opportunity to improve our business activities. We look forward to the future and stabilizing operations in the new GenTax environment and in the program areas as a whole.

Automation has created another challenge for the income tax programs. Our new system provides many capabilities, however we must balance these new tools with our ability to respond appropriately to the new work it creates. Sending notices, liens, and garnishments automatically is definitely a time saver, but those actions create follow up work. Follow up work includes additional return and payment processing, answering taxpayer questions, responding timely to appeals, additional collection accounts, and account maintenance. These are all activities that we currently perform, but larger volumes have strained existing resources. We plan to monitor this impact and adjust the amount of automation based on available resources for the additional follow-up work created.

As our return processing becomes more efficient, one expectation may be that refunds will be processed more quickly as well. However, due in large part to high levels of fraudulent return filing, we actually plan to slow refund timelines. This will allow us more time to review the riskiest refunds and match data from multiple sources to validate refund claims. We understand that

taxpayers want their refund quickly, but we must balance that with appropriate validation. We also know that when we increase the time to issue refunds it increases the number of taxpayers that call us about their refund, creating another strain on resources. We address this as best we can with public announcements and through our “Where’s My Refund?” web and phone services, but we are looking into other ways to improve taxpayer awareness of refund delays.

Conclusion

Overall, the move to GenTax has been positive for our business operations. We have found efficiencies and look forward to developing more over time. Depending on how long they have been using the new system, staff are generally feeling more comfortable with it and with their new job duties. The past several years have been a time of great opportunity for income tax programs and we anticipate more opportunity to come. However, we also know that business operations must stabilize so that we can truly identify the benefits.

As the CSR project nears its end, our investment has given us confidence in not only our new system and tools, but the processes we’ve developed and the capabilities of our staff to adapt to and operate in a changing environment. We’re also confident that our revised business processes protect our ability to deliver revenue to the state.



What We Do:

Property Tax Oversight and Valuation

Property Tax Division

Oregon's property tax system generated \$6 billion in fiscal year 2016 and \$6.4 billion in fiscal year 2017 that funds public schools, police and fire departments, and other local government services. The Property Tax Division (PTD) provides oversight for the statewide system of property tax administration. We do this by maintaining technical standards, providing assistance to counties, and performing complex appraisals of state-appraised industrial properties and centrally assessed companies. We also set and monitor statewide standards for the assessment and collection of property taxes, provide tax lot mapping and maintenance services for several counties, and collect payments in lieu of property taxes, such as electric co-op gross revenue taxes.

We work cooperatively with Oregon's 36 counties, who are responsible for administering the system at the local level, under the guidance and assistance the department provides.

Program description

There are five major areas of focus for PTD.

Support, Assistance, and Oversight (SAO)

The Oregon Constitution requires uniformity in the application and administration of property tax law. To accomplish this, the Legislature granted the department supervisory authority over the state's property tax system. However, that system is largely decentralized. It's administered by each of Oregon's 36 county assessment and taxation programs. To make for a more equitable system, we:

- Set statewide appraisal standards.
- Monitor county assessment and taxation programs.
- Provide training to county staff and taxing districts.
- Offer assistance to counties, taxing districts, other agencies, and taxpayers.

We work with counties to identify ways to improve productivity in their assessment and taxation programs and ways to maintain a healthy system. We also have a number of responsibilities regarding administration of local budget laws. These include:

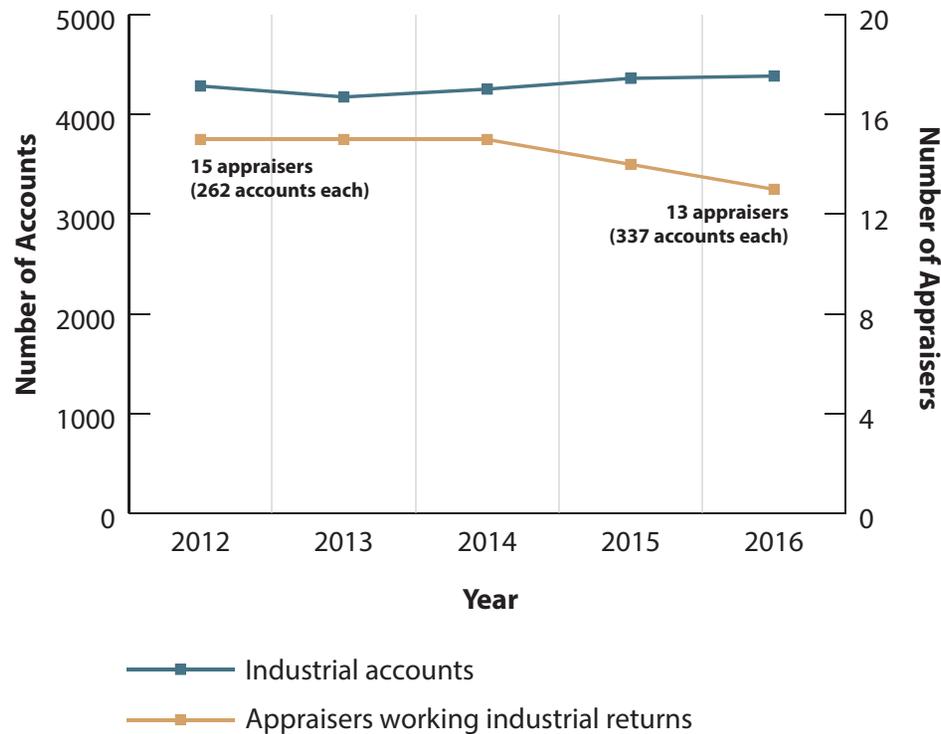
- Construing and interpreting those laws.
- Making rules and regulations.
- Developing and maintaining forms for local use.

Industrial valuation and central assessment

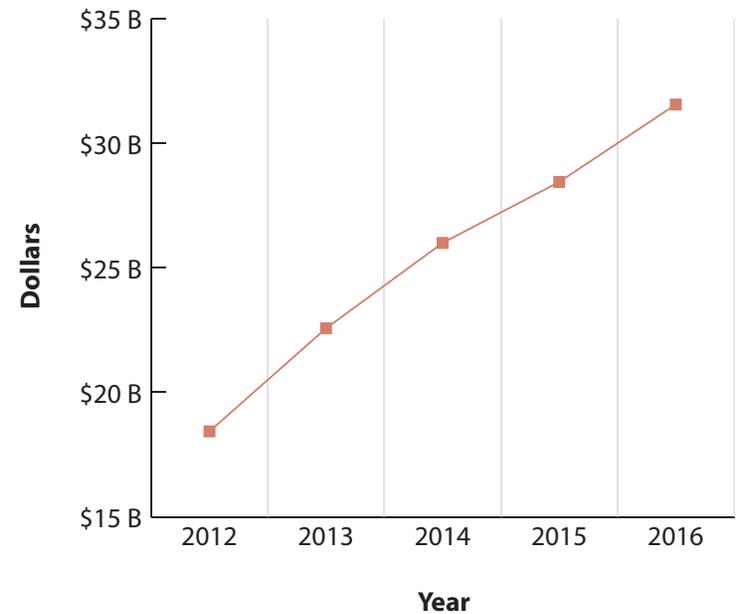
The Valuation section of the division assesses the value of state-appraised industrial properties and centrally assessed companies. Those industrial properties represent about 830 sites, more than 4,400 accounts, and approximately \$31.5 billion of real and personal property values in the state for the 2016–17 tax year. We also centrally assess \$22.5 billion of value for utility, energy transmission, communication, and transportation property annually, which includes approximately 500 companies for the 2016–17 tax year.

The combined total value of \$54 billion for properties and companies we appraise is added to county tax rolls. This represents approximately \$654 million in local tax revenue that goes to fund government services.

Workload and staffing for industrial returns 2012–2016



RMV of industrial valuation accounts 2012–2016



Source: Property Tax Division

Forestland valuation and timber taxes

The division establishes the specially-assessed value on more than 7.9 million acres of private forestland in Oregon. This ensures all private forestland in Oregon is valued uniformly. We also administer the Small Tract Forestland Severance Tax and Forest Products Harvest Tax programs, which generate approximately \$30 million per biennium to finance state and county programs such as community colleges, fire suppression, and the Oregon Forest Resources Institute.

Senior and disabled citizen property tax deferral

The division administers the senior and disabled citizen property tax deferral programs. These programs pay the property taxes for qualified senior or disabled citizens in exchange for a lien against the property for the estimated amount of the deferred taxes plus interest. The lien is released upon repayment of the debt when the property is sold. The state paid more than \$13.4 million in property taxes to counties in the 2016–17 tax year, helping nearly 6,200 participants stay in their homes.

The deferral programs are Other Fund programs, which means that expenses related to program administration are reimbursed from the program's Other Funds revolving account. As debts are repaid, that money goes back into the deferral account and enables the department to certify new program participants.

Cadastral information

The division is responsible for the cadastral mapping standards used to create county assessment maps. Accurate maps are important when describing property for assessment and taxation and identifying ownership. Mapping standards allow for consistent practices and encourage equity and uniformity in property mapping across Oregon's 36 counties.

Nine county assessors' offices contract with the division to maintain cadastral maps for offices without the resources to appropriately maintain maps themselves. The review and approval of taxing district boundary changes is also handled by the division.

The division also administers the Oregon Map (ORMAP) program. The goal of ORMAP is to develop a seamless digital tax lot base map of the entire state. This project will improve property tax administration and aid the development of GIS applications for all levels of government and the private sector.

Division cost drivers

Program diversity and complexity

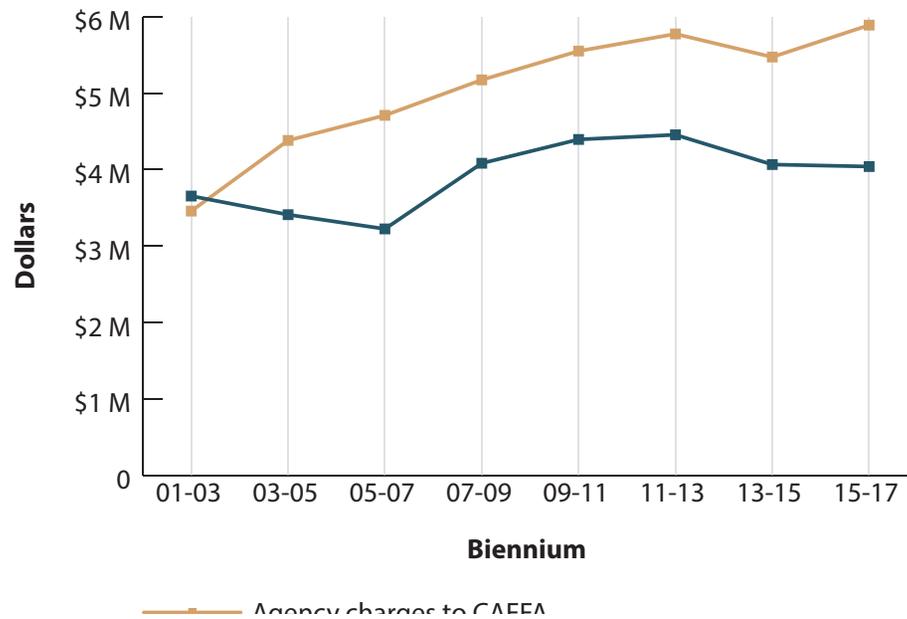
Within Oregon's property tax system, there are dozens of special assessment programs, more than one hundred different types of exemptions, and more than 1,600 taxing districts, all of which have different requirements for operation and administration. The division must maintain the knowledge, expertise, and staffing to appropriately handle these and engage a variety of stakeholders

throughout the state. For example, past property tax limitation measures (Measures 5 and 50) and complex programs such as urban renewal and enterprise zones, significantly increase the work connected with determining values and calculating property taxes.

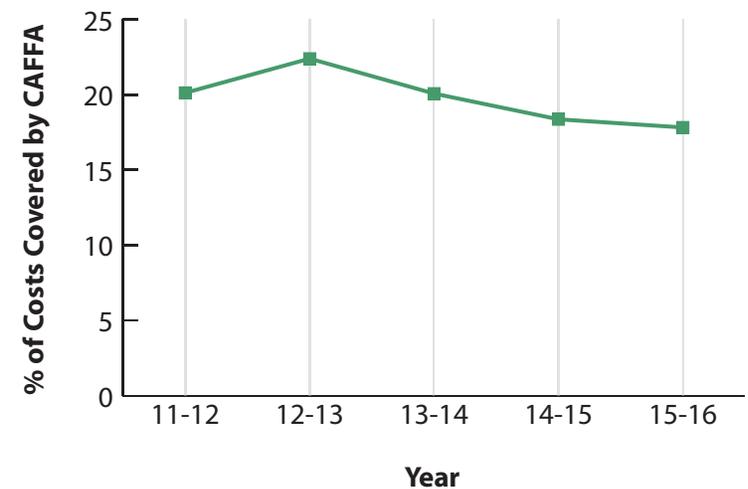
Funding streams

Another complex component of Oregon’s property tax administration is how, and to what degree, various functions and programs are funded. More than 60 percent of the funding for positions in PTD comes from the General Fund, and the balance is through Other Funds sources. One of those Other Funds sources is the County Assessment Function Funding Assistance (CAFFA) account. Established under ORS 294.184, CAFFA provides Other Funds supporting the appraisal of industrial property and centrally assessed companies for which the state is responsible. This funding stream supports more than 23 FTE—almost all of which are in the industrial valuation and centrally assessed areas. Funds from the CAFFA account are from delinquent property tax interest and document recording fees.

Department CAFFA receipts and charges



Percent of county costs covered by CAFFA



We distribute 90 percent of the CAFFA money to counties through a grant process and retain up to 10 percent to fund the appraisal work described above and to administer the grant program.

While the CAFFA funding stream has been relatively stable for the past 12 years, the costs of performing appraisals has increased significantly. The 2016 Legislature approved additional funding for the 2015–17 biennium, but the gap between available CAFFA revenue and the cost of performing appraisal work is expected to grow each biennium.

This gap between available CAFFA funding and increasing costs also exists at the county level. Counties receive the CAFFA money to help offset the costs of performing assessment and taxation functions. They must rely on separate revenue sources to pay for the increasing cost to perform these functions in their counties, reduce the quality of the work being performed, or find other ways to reduce costs.

Mapping activities are also partially supported by Other Funds. Expenses related to maintaining cadastral maps for nine counties are reimbursed under contract. This Other Funds stream partially supports nine FTE. Expenses related to administration of the ORMAP program are reimbursed from Other Funds provided by document recording fees and supports a portion of 1 FTE.

Outdated systems

Another aspect that increases our work is the lack of a modern, flexible software solution for valuing industrial properties and centrally assessed companies. Current reliance on manual processes increases the risk of error and extends response times for customers. Most of the applications we use for industrial valuation and central assessment have been built by appraisal staff and have limited adaptability. Maintenance is cumbersome and costly.

Environmental Factors

There are several environmental factors that impact our ability to provide the services necessary to maintain an equitable and uniform property tax system in Oregon. Overall, our funding has decreased, which has resulted in a reduction in FTE from 135 in 2001 to 98 today. As we are losing positions, the volume and difficulty of the work required is increasing.

The complexity and depth of the industries we appraise has increased and new industries have emerged, resulting in increased appraisal costs. At the same time, we are facing challenges in recruiting appraisers with prior experience. Many of our positions are being underfilled, meaning that we bring in people with less experience than necessary for the position because appropriately qualified people aren't available. This means more time and resources are needed to train and mentor these new employees so they're capable of appropriately conducting these more complex appraisals.

There are also workload components unrelated to our appraisal activities. For example, as county staffing levels decline, we're seeing more requests for assistance in property tax administration activities from counties. We also spend a considerable amount of time and effort researching and preparing the real market value estimates for companies considering large property investments

in Oregon. Before making a decision, companies want a reliable estimate of value to forecast the associated property taxes. Some of these investments don't materialize.

Achievements and efficiencies

We are committed to supporting our county partners and developing efficiencies in property tax administration processes and procedures. For example, in 2016, we completed a new web-based CAFFA grant application that offers increased compatibility and automation for the application process. This streamlined process benefits the division and the counties.

Appraiser training

New appraisers are required to have 60 hours of continuing education in their first two years and 30 hours every two subsequent years. Between 2010 and 2015, we increased the number of online courses for appraiser continuing education credit from three to 27. We also anticipate completing a new web-based application in 2017 that will give counties direct access to their appraisers' training records, generate reports, and allow counties to perform their own record maintenance. This automation will take advantage of current technology and eliminate the existing manual processes handled by division staff while improving one of the support components we offer our county partners.

Property Valuation System Project

In 2015, we started a project to consolidate and replace the current computer software and systems used to value industrial and centrally assessed properties. We have received tentative legislative approval for the purchase of a computer-assisted mass appraisal (CAMA) software system, which is the industry standard for assessment and taxation. A request for proposals (RFP) was published and the evaluation and selection process is underway.

We have approval to sell \$445,120 in bond funds in February 2017 to cover the cost incurred in the 2015–17 biennium for initiation and planning activities. We have submitted a \$3.4 million policy option package with the understanding the number may be adjusted as we learn more about the total cost of the implementation effort. Any bond sale that would correlate with the total cost of the implementation may occur in the fall of 2017.

This new system, referred to as the Property Valuation System (PVS), will give appraisers in the Valuation Section a comprehensive system that will integrate our appraisal processes and consolidate our data. Additionally, we will be able to accept electronically-filed returns and send property value information electronically to taxpayers and counties. Some benefits of this technology investment are:

- The addition of an e-filing option for returns.
- Improved customer service to counties and taxpayers.
- A long-term, stable IT platform for appraisal activities.
- Increased data analytics and reporting capabilities.
- The ability to send information electronically to taxpayers and counties.
- Staff spending less time on manual processes and more time on appraising properties.
- Faster, more accurate responses to information requests from stakeholders.

Core Systems Replacement Project impacts to PTD

PVS is an investment in our appraisal function, but our other programs are also seeing improvements from another technology investment. The modernization of agency systems through the Core Systems Replacement Project has brought about a number of benefits to the deferral program. We are able to more quickly locate taxpayer information, including application and recertification documents, liens, and links to property addresses. This allows us to provide faster and more accurate customer service. Data consolidation and digitization in the new system has increased our operational efficiency. As a result, we brought on fewer seasonal staff this deferral-processing season compared to last season.

During Rollout 4 (late 2017), we'll migrate more property tax programs—including the timber tax programs, electric co-ops, gas and oil tax, and small private rail car programs—into the new computer system and expect to see some increases in efficiencies. However, the exact magnitude is yet to be determined.



What We Do:

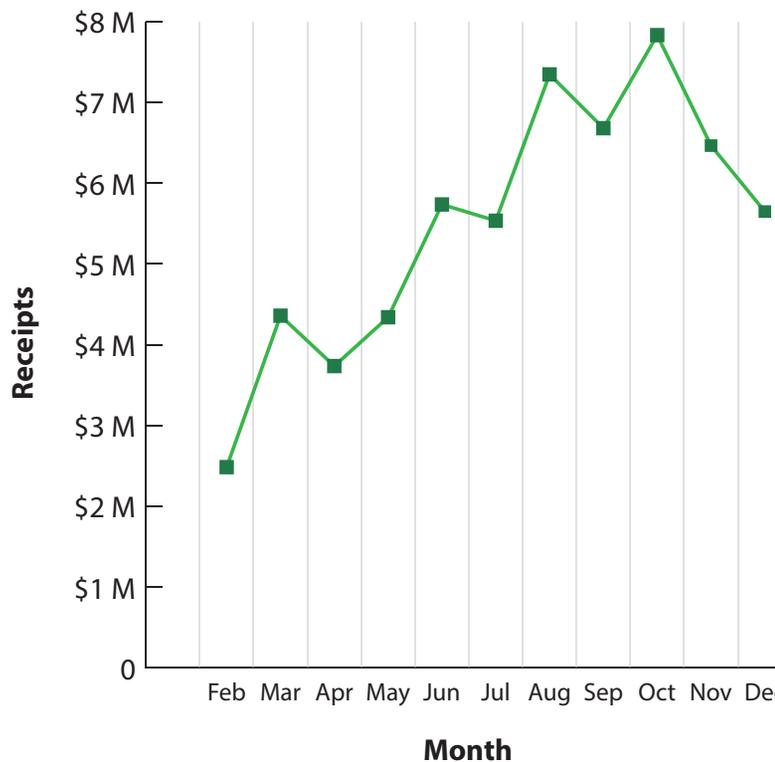
Oregon's Recreational Marijuana Tax

Marijuana Tax Program

The Marijuana Tax Program administers the department's newest tax. Oregon voters legalized regulated recreational marijuana in 2014. In 2015, the Legislature replaced the harvest tax that the ballot measure prescribed with a direct tax on the consumer at the point of retail sale. The Legislature also moved administration of marijuana taxes and distributions of tax revenue from the lead regulatory agency, the Oregon Liquor Control Commission (OLCC), to the Department of Revenue. There are two separate taxes on the sale of recreational marijuana that the department administered during the 2015–17 biennium: the temporary, 25-percent "early start" tax on recreational sales by medical marijuana dispensaries (January to December 2016) and the permanent, 17-percent tax on sales by OLCC-licensed retailers. The Withholding and Payroll Tax Section (WPTS) administers the Marijuana Tax Program, which has been operating by using WPTS' existing resources.

The tax revenues have exceeded initial forecasts. A June 2015 forecast from the Legislative Revenue Office estimated \$2 to \$3 million in revenues under "early start." Forecast numbers were net, or after repayment of expenses incurred by the department and OLCC to establish the regulatory environment. Through September 2016, "early start" sales had generated over \$40 million in tax revenue. Revenues for the first full fiscal year under the retail tax (FY 2018) were estimated at just over \$30 million, but it would not be surprising if substantially more than that is collected. However, while initial revenues have been strong, the overall tax revenue potential of marijuana is likely limited by the size of the consumer base. OLCC assumes that there are approximately 500,000 current or prospective marijuana customers in Oregon.

Marijuana tax receipts by month (2016)



Source: DOR Research Section

Tax base

OLCC issued 310 retail licenses in 2016. Comparatively, during the last quarter of the “early start” period, there were 383 registered marijuana taxpayers—most of which were medical marijuana dispensaries. As of January 1, 2017, medical marijuana dispensaries could no longer sell recreational marijuana. Over the next several months—as medical marijuana dispensaries determine if they’ll become licensed retailers, navigate the licensure process, and as businesses consolidate—our tax base could conceivably shrink.

While the tax is collected from the consumer at the time of the sale, businesses are responsible for holding it in trust and remitting it to the department. Ultimately, the responsibility for ensuring the appropriate tax is paid based on sales falls to the business, regardless of whether they collect the appropriate amount from the consumer.

Program resources

The WPTS provides resources for the program’s enforcement and collection activities. There are three dedicated positions housed in the section’s Program Coordination Unit. The Administrative Services Division’s Cash Transaction Unit has nine positions dedicated to scheduling appointments and collecting tax payments. The Human Resources Section has hired a Safety and Security Officer that is responsible for managing the Oregon State Police security contract and overseeing any safety issues related to the program.

Challenges

As a new and complicated program, marijuana taxation has presented quite a few challenges in the past year.

Payment issues

Due to this industry being primarily cash-based, the department has been working to address the increase in large cash transactions. The focus has been on ensuring the safety and security of our staff and marijuana businesses, while still allowing for quick and accurate processing of the cash payments. The department is building a new payment center that will be located on the first floor of the Salem building. This new construction will be a centralized tax payment center that will provide a secure setting for taxpayers making payments for a variety of tax programs, including marijuana, withholding, personal income, and other taxes. The initial funding for this project was approved by the 2015 Legislature. We’ve been working with the Department of Administrative Services’ facilities staff to complete a Request for Proposals and execute a contract for a general contractor. We have better cost estimates than in 2015, and there will be an additional funding request during the 2017 Legislative Session to cover the costs associated with construction.

Distribution issues

Following reimbursement for our own expenses, we're responsible for making distributions in accordance with a formula in Oregon Laws 2015, Chapter 1, Section 44. However, we can't make those payments, by law, until OLCC's loan from its liquor fund is fully repaid from marijuana tax revenues. Some potential distribution beneficiaries have expressed concern and disagreement with this interpretation of law. We anticipate that this will be discussed by the 2017 Legislature.

Business inexperience and complexity

Some of the businesses selling recreational marijuana have proved to be unfamiliar with certain requirements that are viewed as standard by most traditional businesses. Others have discussed the challenges of operating in such a highly-regulated market. We believe that this has led to confusion about and issues with complying with routine requirements, including quarterly return filing. We have done a great deal of outreach to educate businesses of their tax obligations, but there's still an issue with noncompliance.

Novelty and public interest

There is immense interest in all things marijuana from parties including: the media, the public, researchers, the marijuana industry, marijuana advocates, Oregon state and local government, and politicians and government representatives from other states. Both the department's Communications Section and the Marijuana Tax Program have dealt with unprecedented levels of media attention and public inquiries on issues ranging from compliance to data on specific businesses to revenues.

Local taxes

ORS 475B.345 allows municipalities to charge a tax of up to 3 percent on recreational marijuana items with voter consent, and ORS 305.620 authorizes the department to enter into intergovernmental agreements to collect those taxes. In the interest of efficiency, standardization, and uniformity, we partnered with the League of Oregon Cities to design a model intergovernmental agreement. The marijuana tax return filing and remittance processes are designed in a way that allows the department to handle local taxes on par with the state taxes, which will provide a seamless, streamlined process for taxpayers. The department started administration of those taxes in January 2017 for more than 65 municipalities.

Localities that enter into agreements with the department for the collection of their local marijuana tax benefit from the department having developed solutions to some complex issues. Localities also benefit from the department's enforcement resources. Businesses benefit because they only have to file one return and make one payment per month, rather than having to deal with two separate taxing entities.



What We Do:

Other Tax and Revenue Programs

Special Programs Administration

The Special Programs Section administers several smaller tax and revenue programs. These tax programs have unique laws of varying complexity. The department's small team strives to make it easy for taxpayers to understand and pay the correct amount of tax timely and efficiently. The revenue collected by these programs has specific, designated uses.

Programs administered by this team include:

- Cigarette and other tobacco products taxes.
- Emergency communications (E-911) tax.
- State transient lodging tax.
- Petroleum load fee.
- Hazardous substance fee.
- Amusement device tax.

Cigarette and other tobacco products taxes

The cigarette and other tobacco products tax programs anticipate approximately \$532 million in revenue during the 2015–17 biennium. This revenue supports the Oregon Health Plan, the General Fund, state mental health programs, cities, counties, public transit, and smoking cessation education.

During the last biennium, these tax programs moved into the agency's new tax administration computer system, GenTax, as part of the Core Systems Replacement (CSR) Project. This resulted in a number of improvements in the way we administer these tax programs. By adopting a direct-to-distributor system for stamp orders, we removed agency risks and reduced the manual workloads associated with keeping and managing an inventory of cigarette stamps. The new system also makes it easier for cigarette distributors to order stamps, track their orders, and receive stamps at their convenience.

Through the direct-to-distributor system distributors order and pay for stamps online. Then a file is sent to our cigarette stamp manufacturer, and the stamps are shipped directly to the distributor. Previous to this change, all ordering was done on paper, the payment process was complicated, and we managed the inventory and shipment of stamps. Today, all of our distributors order their stamps through Revenue Online, our secure self-service site. Return filing is also now done through Revenue Online.

We are working with a nationwide group of both industry representatives and other state governments toward developing uniform reporting requirements. Oregon plans to implement the agreed upon solution in the next biennium. Uniform reporting

requirements would streamline the reporting process for businesses that operate in multiple states, making compliance easier for those taxpayers.

Staff from the cigarette and other tobacco products tax programs also work closely with Oregon’s tribal nations. Eight of Oregon’s nine recognized tribes have cigarette agreements with Revenue. We also have one other tobacco products agreement, with two more being discussed. Under these agreements, the tribes agree to sell taxed products and we share the revenue with them based on an established formula. These agreements are a benefit for both the state of Oregon and the tribes. Fewer compliance issues exist because tribes are selling taxed product. Tribes also assist the monitoring of retail outlets to ensure everyone is meeting the terms of the agreements. Retail outlets on tribal ground can also purchase product from distributors.

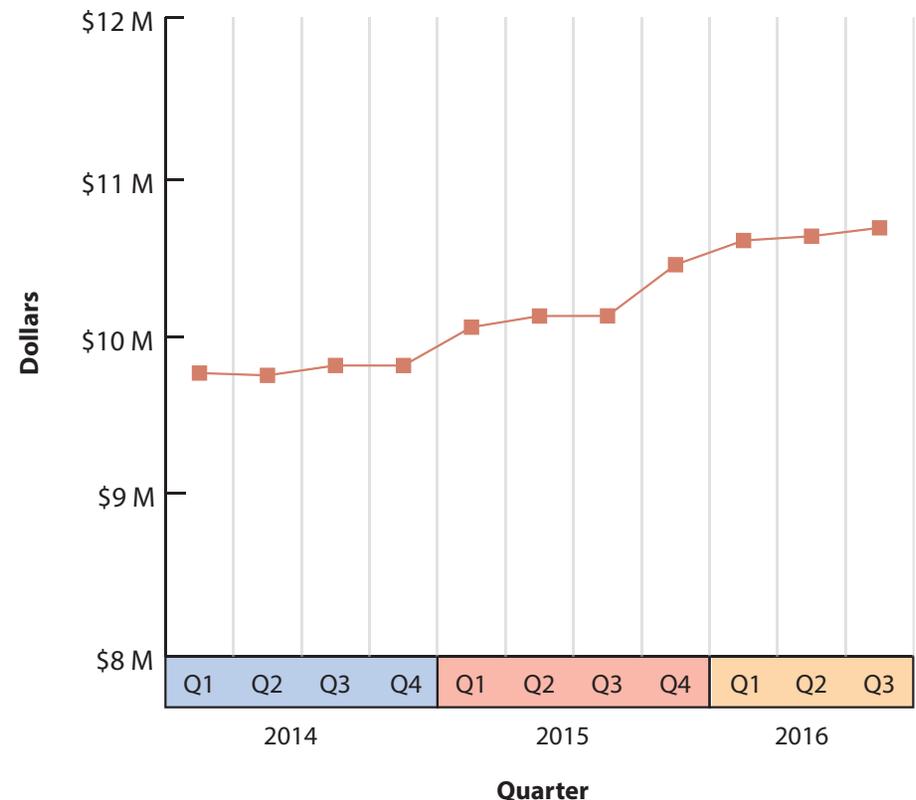
Emergency Communications Tax

The emergency communications (E-911) tax funds the statewide enhanced 9-1-1 system. The program collected \$78.6 million in the 2013–15 biennium and is projected to collect \$83.9 million in the 2015–17 biennium, according to the 2017–19 Tax Expenditure Report.

There are two different methods for collecting the E-911 tax. For subscription telecommunication and VoIP services, the providers collect the tax from their subscribers and remit the tax collected to us. For prepaid wireless services, the 2014 Legislature imposed a point-of-sale tax on all prepaid wireless services purchased on or after October 1, 2015. This point-of-sale tax is remitted to us by retailers who sell prepaid wireless service.

In November 2015, the emergency communications tax was added to GenTax, allowing for automation of filing returns and payment processing. This eliminated many of the manual processes related to filing paper returns for both staff and taxpayers. For staff, GenTax also added improved compliance tools and research capabilities. For taxpayers, they can manage their accounts, file returns, and pay their tax online. Currently, 98 percent of our emergency communications taxpayers are taking advantage of these new online services.

Emergency Communications Tax receipts



Source: DOR Special Programs Section

State Lodging Tax

The State Transient Lodging Tax was established in 2004 at 1 percent of the lodging's sales price and increased to 1.8 percent on sales occurring on or after July 1, 2016. The net revenue, minus our expenses, is distributed to Travel Oregon and allocated to their tourism regions. Our expenses are limited to 2 percent of revenues collected.

The 2013 Legislature amended the law to clarify that transient lodging intermediaries (TLIs), such as online travel companies are subject to the tax. This change meant that the fees charged by TLIs are also taxable at the same rate. This component of the tax is challenging for us to administer and for taxpayers to comply with. For taxpayers, either the lodging facility or the TLI are subject to the tax, but the filing requirement is dependent on which party books and takes compensation for the lodging.

We made significant changes and automated many of our business processes when implementing GenTax. For example, prior to November 2016, taxpayers were required to file a separate return for each of the 10 tourism regions where they did business. Today, taxpayers can file one return for all the regions where they conduct business.

Other Agency Accounts (OAA) collection services

OAA is the state's collection unit, formed by the 1971 Legislature (ORS 293.250). OAA collects delinquent debt for more than 180 separate entities in the state, including educational and regulatory agencies. OAA's mission is to achieve maximum recovery of debts owed to the state of Oregon while providing quality customer service. OAA offers two collection services: refund offsets only and full collection services. These services accounted for approximately \$100 million in debt collections last biennium.

We anticipate greater improvements in collections and account resolution as we get more familiar with the tools and functionality in GenTax. Benefits and features of the new system include:

- Debtors can set-up payment plans, monitor their accounts, or pay their debt in full through Revenue Online without talking to an agent.
- Access to data for collection analytics. Instead of working debt on a first in, first out basis, we can prioritize debt based on collectability for quicker, higher value resolutions.
- Debtors can make payments toward their debt electronically at any time through Revenue Online.
- Employers can submit garnishment payments online and for multiple employees.
- Our partner agencies can now monitor, make changes, communicate with us, and get reports through Revenue Online.
- Increased program performance management and reporting capabilities that include more data than previously available.



What We Do:

Supporting Tax Programs

Administrative Services Division

The Administrative Services Division (ASD) provides a broad range of services through its three sections: Information Technology Services (ITS), Processing Center, and Budget and Finance.

ASD supports and contributes to implementing the agency's strategic objectives. Our fundamental task is to provide high-quality and effective administrative, financial, and logistic services while developing and adopting strategies and programs for information technology, return processing, and financial management.

ASD's mission consists of:

- Drawing financial plans and annual budgets.
- Managing information technology resources and ensuring system readiness for agency functions.
- Making purchases and providing administrative services for the agency.
- Developing policies and systems that align with global best practices.

We support program areas in achieving their strategic goals, developing their employees, and supporting GenTax functionality and reporting.

Information Technology Services Section

Revenue's Information Technology Services Section (ITS) has five units, each with a separate focus, and 69 full-time positions. Each unit has its own area of expertise and emphasis to provide support and solutions to Revenue's business and other support areas. ITS is managed by the chief information officer, who is supported by the deputy chief information officer and four unit managers.

In alignment with Oregon's IT direction, ITS partners closely with the Office of the State Chief Information Officer (OSCIO) and its Enterprise Technology Services (ETS) division. This partnership provides much of the infrastructure and enterprise application presence needed for Revenue's IT services. Revenue's entire inventory of computing capacity is housed in ETS' State Data Center, and we use their enterprise email core service for email and calendaring. In addition to state partners, ITS works with commercial vendors like Microsoft for professional services, consulting, and some turn-key products that fulfill our objectives.

ITS is committed to implementing a highly standardized and practiced IT service-management framework based on the Information Technology Infrastructure Library (ITIL). This allows us to manage operations in ways that provide a reliable, consistent, and predictable level of service for their entire catalog offering. Although ITS has not fully implemented all areas of the ITIL framework, they have successfully implemented several key components such as change management, release management, and incident management.

In addition to service management, ITS has put great effort towards standardizing and maturing thorough project management, portfolio management, and IT-governance processes. Moreover, ITS has shared its approach with other state agency IT departments to help them develop their methods, and is working with Revenue's Project Management Office (PMO) to standardize governance and portfolio management for the entire agency.

Stabilization period

Currently, ITS is going through a stabilization period. ITS and PMO continue working together to finish implementing the Core Systems Replacement (CSR) Project, which replaces existing agency tax administration systems with a commercial, off-the-shelf product, GenTax. This modernization effort is not only changing the way that Revenue does business, but it's also modernizing the technology stack that supports this new system.

One key point we've recognized during the GenTax implementation, is that its automation and technological improvements have indirectly shifted workloads from business units within Revenue to ITS. GenTax continues to make core business areas more efficient. However, maintaining the system that allows for these efficiencies comes with a demand for additional IT staff and skills that some existing staff do not yet possess.

Lastly, while the GenTax system is an industry-leading product, there are some ancillary legacy applications and systems that it cannot replace. Many of these legacy applications have reached the end-of-life from a technology standpoint. Some are built-upon technologies that will be replaced after GenTax implementation, while others are deprecated and difficult to find employees with the skills necessary to maintain them properly.

Greatest challenges

As the need to control costs continues to change in business, government, and education, organizations across all sectors look to increase efficiency by automating through technology. This perpetual effort to increase efficiency through technology creates an ever-increasing demand for IT services. Revenue's ITS is no exception. The introduction of GenTax, the addition of more and more mobile devices, and a new voice-over-internet (VOIP) phone system are examples of what increases the demand for a larger number of higher-skilled IT staff. They are working to balance this ever-growing demand with the need to control costs.

A second significant challenge for Revenue's ITS, and IT organizations everywhere, is the dynamic nature of technology solutions. Providing robust, reliable, and secure IT systems is a moving target—it always will be. Thus, addressing all these challenges is continuous. ITS faces significant challenges in training and preparing staff to continually maintain devices, upgrade applications and the underlying infrastructure supporting them.

IT organizations cannot control the pace of change in the IT world. Vendors, consumers, and security concerns tend to drive the continually changing technology needs. In this dynamic environment, IT organizations are fighting to keep their businesses' data

secure. This dynamic environment combined with the increasing rate at which security concerns add risk and threat, makes it continually more difficult for IT organizations such as ITS to maintain a reliable and safe computing environment for Revenue.

Security

Recently, Governor Brown issued Executive Order 16–13 titled Unifying Cyber Security in Oregon. This order placed the IT security effort for all state agencies under the OSCIO and its Enterprise Security Officer (ESO). This effort will help provide the economy of scale necessary for all agencies to meet a minimum threshold of IT security.

However, some agencies like Revenue have unique security concerns. We must adhere to IRS Publication 1075 (Pub-1075) standards by law since we use federal tax information (FTI) to conduct much of our business. Dealing with FTI requires several significant efforts, some of these are IT-related and others are not. Revenue maintains a compliance office to oversee its adherence to Pub-1075. ITS works with this office for requirements specific to dealing with FTI in technical systems.

In addition to the strenuous effort for complying with Pub-1075, ITS and other state agency IT organizations will maintain responsibility for the “doing” part of providing a secure IT environment. The state ESO and its security team will produce findings and make recommendations for the work necessary to raise the state’s security threshold. However, the agency IT organizations will be responsible for executing those plans and recommendations. Thus, the requirement for trained staff that can implement the recommendations and mandates of the state ESO will likely increase.

Processing Center Section

The Processing Center is made up of seven major functional units: Mail Processing, Information Transcription, Error Resolution, Banking, Cash Transactions, Files, and Operations. These units process all of the agency’s incoming mail, transcribe information from tax returns, correct errors made on tax returns, process and bank payments made in the form of check and cash, maintain paper files of tax returns and documents, and ensure our front-end paper return processing and banking systems operate properly. These activities are carried out in a high-volume environment that is evolving from mechanical production to one that relies heavily on technology and automation.

Implementing GenTax has created efficiencies in business areas by automating processes like mailing letters, processing data, and managing electronic workflows. The Processing Center is now facing an increase in workload based on the increased production of business areas. In response, staff use new scanning equipment and creating new streamlined and efficient approaches to their work.

For example, the department has increased the volume of outgoing mail at each rollout of GenTax. This, in turn, has increased the amount of mail received, either in direct response to the outgoing mail or simply because mail was not delivered successfully. The Mail Processing Unit opens, sorts, and routes mail for further processing. This recent increase in mail volume has caused them to

seek a more efficient way to manage mail that is returned as undeliverable. An internal audit was conducted and confirmed their findings on the volume of returned mail, and recommended changes to processes.

GenTax allows the agency better access to data and a greater capacity to analyze and process it. To take full advantage of this capability, the Processing Center has been asked to capture more information than ever before from tax returns and payment vouchers. They are responding through the implementation of high-speed scanners, and seek to further automate data capture through additional technology investments with the Processing Center Modernization project outlined below.

The department has historically relied on the physical movement of paper documents for different processes and workflow management. The advent of electronic return filing has reduced much of this work, but they still receive and process more than 450,000 paper tax returns annually. GenTax and our new high-speed scanners have allowed them to make even more progress in reducing and managing the agency's paper workflows.

For example, corporate tax returns filed on paper are processed and scanned through an electronic management system. Other paper returns and high priority documents are scanned and uploaded into GenTax as needed. This allows various business areas to access documents originally filed on paper in a quick and secure manner.

During return processing, Processing Center staff can electronically track error resolution items through new functionality provided by GenTax. These items occur when taxpayers make errors filing their returns, or there are other errors in data entry or data capture during return processing. Managers can access reports in real time that provide valuable information to make workflow decisions. This gives them the ability to easily change the priority of different types of work within each staff member's work queue as the need arises.

The vision for the Processing Center is a future where all paper tax returns and payments are commingled, scanned, converted to electronic information, and managed electronically. There are varied levels of functionality and features that can be used in GenTax and with other return processing software applications to achieve this vision. In addition to allowing the section to process paper documents more efficiently, track work better, and provide better information to other parts of the agency, this vision:

- Puts better controls on confidential tax information and payment documents.
- Reduces floor space and resources needed to retain and archive paper returns and other documents.
- Creates opportunities for staff to have flexible work schedules.
- Reduces the number of seasonal employees needed around tax return due dates.
- Improves the quality of data captured from paper documents.

Processing Center Modernization

Processing tax returns and payments is integral to the agency's business. The front-end data capture systems have not evolved to keep pace with the needs of the agency or its other technology investments. Five different systems are used to process tax returns and payments. Most of these systems are nearing the end of their useful life. Some are no longer supported by the vendor that created them and operate on computer platforms that are also unsupported. This creates the risk of instability in processing systems. Additionally, the machines used to process check payments are nearing the end of their useful life.

The first steps in achieving the future vision of the Processing Center are being taken in the form of the Processing Center Modernization (PCM) project. PCM hopes to identify and implement a single, integrated solution for processing both paper tax returns and payments. This solution will allow the agency to take advantage of large technical advancements that are the current industry-standard. Advancements such as optical character recognition would allow the processing systems to read and capture information directly from a document, reducing the amount of time to process paper returns and payments.

A modernized processing system will greatly increase the stability of the Processing Center's systems and their ability to complete tasks. They will no longer be reliant on outdated systems and vendor goodwill to help them keep those systems limping along. They will employ the agency's current scanning equipment in conjunction with a new system, to feed GenTax more data than ever before. Overall, this project will bring the agency into alignment with industry best practices for tax return and payment processing.

This system is intended to be scalable to meet the growing needs of the agency and over time, perhaps the whole state enterprise. Once the system has been successfully implemented to meet agency needs, it may potentially be used to capture data and process payments for other agencies. This presents the possibility for the system to become an enterprise service for state agencies, with potential cost savings for the state.

To achieve this goal of modernization, the agency is taking many steps. First, we are partnering with the Office of the State Chief Information Officer (OSCIO). We are readily engaging their stage gate process to make sure the project stays on track, and has proper project management discipline meeting all OSCIO requirements for a project of this nature. Second, we have established a steering committee and core team with representatives from throughout the agency. Third, we have completed a formal request for information to further refine solution requirements to meet our needs. We believe that this project is critical to the state and are taking every step to ensure its success.

Budget and Finance Section

The Budget and Finance Section performs accounting, budget, payroll, procurement, and contract functions for the agency. This section serves the agency as an internal service provider, supporting other parts of the agency in carrying out the mission and meeting its outcome areas of employee engagement and customer experience. This is accomplished by sustaining internal

business relationships through consistent practices and customer satisfaction. The unit also maintains transparent and ethical practices in all procurement and financial activities that demonstrate integrity, fairness, and professionalism. The section is committed to improvement and investment in staff training and development to ensure compliance with the Oregon rules and statutes. This is carried out by promoting an atmosphere where staff may do their job in an innovative manner, and by finding learning opportunities both inside and outside of formal training.

The accounting, budget, and payroll areas are responsible for tracking, monitoring, reporting, and accounting for all revenues and expenditures for more than 30 programs administered by the department and for processing employee payroll. The work areas develop and monitor all phases of the budget process, prepare the Statewide Financial Report (SFR) and distribute millions of dollars to county and local partners annually.

The Procurement and Contracts Unit conducts all procurements and writes all contracts under \$150,000 for the agency. This unit places a high value on professional certification. The unit has set and maintained the standard of being fully certified by the Universal Public Procurement Certification Council and by the Department of Administrative Services through the Oregon Public Basic Certification. These certifications, and the knowledge and skills gained from the continuing education required for certification, provide staff with industry best practices that allow them to better partner with customers and procure the goods and services the department needs to carry out its mission.

Agency debt service costs

The department's debt service costs for 2017–19 are \$25,027,346 General Fund and \$471,835 Other Fund. The debt service is associated with bond proceeds that were issued for the replacement of our core systems with GenTax and a small portion for the Property Valuation System.

The total cost of GenTax implementation will be \$78 million. We have completed three of the four rollouts successfully. The fourth rollout is scheduled for November 2017. The total remaining project implementation cost for the 2017–19 biennium, excluding debt service, is \$10.5 million. The funding needs are based on assumptions that may change between now and the 2017 Legislative Session, particularly in regards to the use of 2015–17 contingency funds, which could reduce the amount of bond funds carried over to 2017–19. We will continue to update Legislative Fiscal Office (LFO) and the Department of Administrative Services Chief Financial Office (CFO) representatives on these items' variables, which may impact the final debt service amount.

During the 2015–17 biennium, \$445,120 in bond proceeds were issued for the Property Valuation System. Given the timing of the bond sale, there were no debt service costs incurred in 2015–17 for this project.

We intend to purchase a commercial, off-the-shelf, computer-assisted mass appraisal (CAMA) software system. Legislative approval was given for debt financing through Article XI-Q bonds for \$1.8 million. We have now determined that this amount will be insufficient and are requesting an additional \$3.44 million.



What We Do:

Core Systems Replacement Project

Core Systems Replacement Update

Replacing our core systems

The Department of Revenue is in the final year of replacing the majority of its core tax systems through the Core Systems Replacement (CSR) Project. This replacement serves to mitigate the growing risks of not being able to support its aging legacy systems and maintain current service levels.

We sought and received approval in 2013 to implement a new commercial, off-the-shelf (COTS), integrated tax system and data warehouse (GenTax) through Fast Enterprises, LLC. To date, the department has successfully completed three of the four project rollouts on time and under budget.

As the agency responsible for providing over \$16 billion each biennium to the General Fund, replacing our core tax systems ensures we can continue to achieve our mission of making revenue systems work to fund the public services that preserve and enhance the quality of life for all citizens. It helps demonstrate that the government is trustworthy, responsive, and solves problems in a financially sustainable way through its information technology projects. Replacing our core tax systems also supports our vision of becoming a model of revenue administration through the strength of our people, technology, innovation, service, and collaboration. This solution ensures that the agency will be able to keep up with technology changes in the future.

CSR project costs (in millions), as of September 2016

	2009–13	2013–15	2015–17*	2017–19**	Totals
DOR contribution					
Ongoing agency operating costs	\$7.3	\$0.6	\$0.6	\$0.2	\$8.7
General Fund					
Non-bond eligible general services/supplies		\$0.2	\$0.1	\$0.1	\$0.4
Project costs		\$2.1	\$4.5	\$1.0	\$7.6
Total General Fund		\$2.3	\$4.6	\$1.1	\$8.0
Other Funds (bonds)					
Debt financed project costs		\$18.7	\$23.6	\$9.5	\$51.8
Other Funds					
Marijuana tax			\$0.5	\$0.1	\$0.6
Project totals (excluding debt service)	\$7.3	\$21.6	\$29.4	\$10.9	\$69.1

Note: Component figures may not total accurately due to rounding.

**2015–17 projected costs*

***Agency Requested Budget (2017–19)*

The department is requesting funding to finish implementing the CSR Project, which includes:

- \$2.8 million in General Fund appropriation for 2017–19. Of that, \$60,000 is for estimated non-bond-fund eligible general services and supplies and \$1 million is for annual maintenance and support. New debt service costs are projected to be \$1.7 million for 2017–19.
- \$9.6 million in Other Funds limitation for 2017–19. Of that, \$8.3 million is for the debt-financed costs of continuing installation, Rollout 4 vendor payments, developer and project management staffing, hardware, quality assurance/IV&V costs, and the cost of debt issuance. The remaining \$1 million is for contingency, assuming that any of the unused \$3 million 2015–17 contingency would be made available for use in 2017–19. An additional \$100,000 in Other Funds limitation for 2017–19 covers the final vendor payment for the implementation of the Marijuana Tax Program in GenTax and its additional annual maintenance.

Overall, the resource requests for staff and funding for contractors has tracked very close to initial plans. Updated project costs will be provided by the 2017 Legislature.

Staffing

Thirty-three positions have been previously approved for the life of the project. These positions are being used to back-fill behind current staff who moved to the project to ensure current operational levels and commitments are maintained. In addition, three positions from the agency’s Program Management Office (PMO) are dedicated to the project until completion and then the positions will return to agency PMO functions of governance and project management for ongoing agency initiatives.

CSR project team FTE

	2017–19
Core Systems Replacement Project	
DOR project team:	
Project management team (.75 from the Program Management Office)	2
Technical team	3.25
Business team	3
Production support team	1
Total FTE	9.25

Note: Does not include testing and training activities, which will involve most agency staff at certain times.

For an initiative of this size and scope, we need to temporarily augment certain staff functions in both business areas and in IT Services, as well as acquire skills that we currently don't have in the department. During implementation, we are back-filling certain positions or contracting out for services to satisfy project and current system needs.

The FTE for the project management team reflects the addition of a project scheduler. This role was previously fulfilled by a services contact. These tasks and activities were transitioned from a contractor to agency staff in the fall of 2015.

Planned number of FTE required for the remainder of the initiative, including the one additional position requested is shown in the table above.

We will likely be coming to the 2019 Legislature with information about the type and amount of resources necessary to operate in our new environment after implementation is complete.

Project implementation

To maximize the opportunity for successful implementation, the agency has been using a phased approach.

Planning phase

- **2009–11 biennium:** Planning and preparation.
- **2011–13 biennium:** Agency readiness and procurement.

Implementation phases*

2013–15 biennium

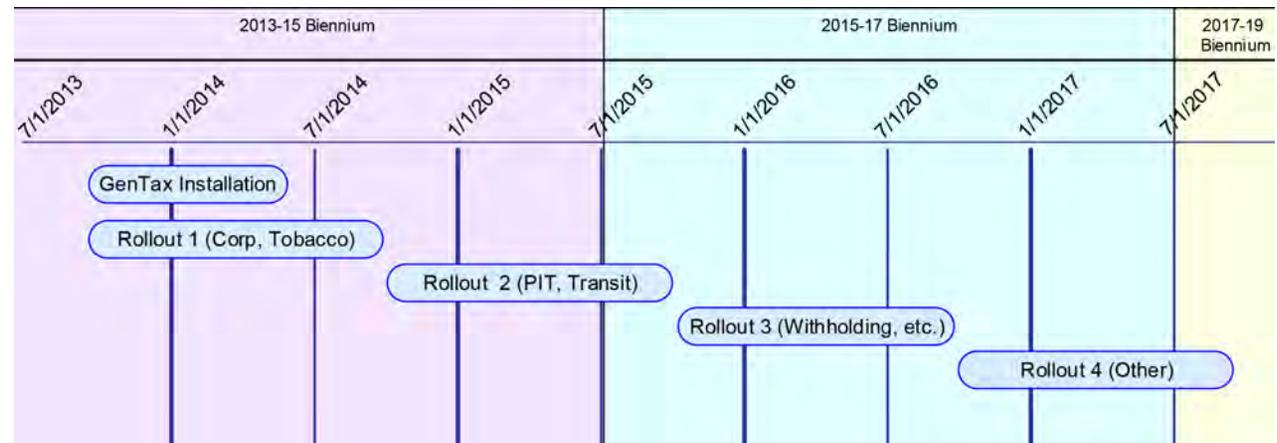
Fall 2014 – Rollout 1: Corporate and tobacco tax programs.

2015–17 biennium

Fall 2015 – Rollout 2: Personal income tax, transit self-employment, deferral, emergency communications (911 Tax), and estate tax programs.

Fall 2016 – Rollout 3: Withholding, transit payroll, Other Agency Accounts, and small programs.

Project implementation roadmap



2017–19 biennium

Fall 2017 – Rollout 4: Other remaining programs.

*Rollouts include additional tax and revenue programs that are not listed here.

Benefits

The primary business drivers for replacing our core tax systems are risk avoidance and improved performance.

Risk avoidance

The primary benefit to replacing our core tax systems is continued support of existing revenue streams by reinvestment in core infrastructure, which reduces the risk of revenue loss.

Improved performance

An integrated system and data warehouse provides a single view of taxpayer information, broader access to data analytics and management tools, more consistent business processes, better tools for employees to conduct their work, improved capabilities for sharing resources and data, and increased ability to respond timely to changes in laws and regulations.

States that have implemented a similar system have realized benefits such as:

- Enhanced compliance and revenue.
- Improved customer service.
- Increased overall efficiency.
- Increased flexibility in tax administration.

In addition, the agency will have ongoing membership in the community of system users, sharing data and best practices, as well as providing input regarding the content and reliability of future product releases.

Rollouts 2 and 3 update

Several key activities have contributed to successful implementations to date, including:

- Attention to detail in all aspects of the project.

- A competent system vendor with significant experience working with tax administration agencies.
- A fully functioning, pre-production, technical “staging” environment where conversion activities could be thoroughly planned and multiple mock conversions could validate data migration would succeed.
- Full utilization of the benefits of a COTS solution, including ongoing monitoring after conversion to verify that interfaces to other systems and other agencies are working appropriately.

During Rollout 2, Oregon’s personal income, transit self-employment, senior and disabled deferral, fiduciary, estate, and E-911 tax programs were added to GenTax and went live on December 1, 2015.

During Rollout 3, withholding, transit payroll, Other Agency Accounts, marijuana, and special programs were added to GenTax and went live on November 15, 2016.

Examples of capabilities gained from Rollouts 2 and 3 include:

- Additional taxpayer self-service options through Revenue Online.
- Additional fraud detection tools, such as an identity verification quiz and the ability to dynamically score fraud returns based on risk factors.
- For audit and filing enforcement, GenTax’s discovery feature provides a more cohesive method for identifying leads, which help prioritize highest risks.
- Personal income tax collections have been enhanced with the implementation of the auto-lien process and the automated exchange of information with private collection firms.
- While the deferral program does not have the same compliance needs as other programs such as personal income tax, there is a need to identify misrepresentation or fraud on applications and recertifications for deferral. GenTax has improved our ability to recognize errors on these forms and in the data reported to us.

Rollout 4 update

Planning is now underway for programs in Rollout 4 which will include the remaining programs in scope as well as the remaining revenue accounting functions. Some of the programs included in Rollout 4 are criminal fines, private rail car tax, electric co-op tax, western and eastern Oregon privilege tax, and forest products harvest tax.

Once enough information is available to detail the resource requirements, operational impacts, and project needs for Rollout 4 programs (sometime in early spring of 2017), the project schedule will be baselined for the final rollout.

Agency-wide, expanded team effort

Transitioning to a new core system is an agency-wide effort; a major undertaking that uses many of our resources.

- Programs are providing subject matter experts to help configure GenTax.
- Programs also provide staff to thoroughly test the configuration of the system to be sure it will meet their business needs, and provide trainers to create training materials and conduct classes.
- Programs cleanse their data to prepare it for conversion from our legacy systems into GenTax.
- Our IT Services staff is making and testing modifications to our legacy systems before and throughout each rollout.

Project funding, including Article XI-Q bonds

The CSR Project is being financed each biennium through three sources:

- The agency's budget.
- An additional General Fund appropriation for ETS fees, contracted maintenance and support, non-bond eligible general services and supplies, and bond debt service.
- Article XI-Q general obligation bonds.

State project bonds are being sequentially issued by the state, acting by and through the State Treasurer, pursuant to Article XI-Q of the Oregon Constitution.

Bond issuance costs and interest expense to date have been less than originally estimated. DAS provides updated bonding costs throughout the project.

Summary

The Department of Revenue is seeking:

- \$2.8 million in General Fund appropriation for 2017–19.
- \$1 million for contract maintenance.
- \$60,000 is for estimated non-bond fund eligible general services and supplies.
- Projected \$1.7 million in new debt service costs for the project for 2017–19.

- \$9.6 million in Other Fund limitation for 2017–19 for the debt-financed costs of continuing installation, Rollout 4 vendor payments, developer and project management staffing, hardware, Quality Assurance/IV&V costs, and the cost of debt issuance. This request includes one additional FTE for a project scheduler. Also, \$100,000 in Other Fund limitation for 2017-19 for the final vendor payment for the implementation of the Marijuana Tax Program in GenTax and its additional annual maintenance.

Updated project costs will be provided during the 2017 Legislative Session.

Looking to 2019–21

The agency is undergoing substantial transformation as we change our business processes to take advantage of the tools available in GenTax. As described in the income tax narrative, the agency is realizing a number of benefits from these new tools, including improved detection of nonfilers, better audit-case selection, and becoming part of the GenTax user community.

These improved processes and tools require different skill sets and shifts in resources to be most effective for us. We will likely present the 2019 Legislature with a package that will true-up our resource needs based on our process improvements to ensure we have staff working in the correct classifications and to best position ourselves to fulfill our mission and vision.

There will also be annual maintenance and support costs after implementation and ongoing ETS server and storage costs for the new system. Estimated cost for these items beginning in Fall 2018 is approximately \$8 million per biennium. This cost includes providing the agency with system upgrades as new versions of the system are released. Upgrades ensure that, for example, 10 years after GenTax is first installed, the agency will be using the most current version and will always have access to the newest tax administration tools available in the system. System enhancements, if necessary, may require additional funds.

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Appendix A

Reductions included in Governor's Recommended Budget

The Governor's Recommended Budget eliminates 31 positions representing 24.1 FTE within the department's Processing Center. Eliminating these positions will compromise the section's ability to process paper tax returns and process check payments. The most significant impact of the reductions will be to our Operations Unit (OPA3, OPA2, and OPA1) and banking units (ISS3 and OS2). The positions in the Operations Unit plan, coordinate, and assist in developing, implementing, and testing the agency's paper return processing systems and banking remittance system. Each year these systems process approximately 450,000 paper tax returns and nearly two million payment documents to bank more than \$3 billion. Without our personal income tax processing system, the section would be required to spend approximately 13,000 hours of additional work to key paper tax returns for the personal income tax program. Without the necessary personnel to maintain our payment systems and the personnel in our banking units to prepare and process payments, the agency would be unable to meet the requirements of ORS 293.265 to remit funds to the State Treasurer within one business day.

The section plans to devote a portion of the staff in the Operations Unit to the implementation of our Processing Center Modernization Project, which will replace our front-end return and payment processing systems. We will not be able to modernize successfully without these positions. The other recommended reductions will slow our ability to process incoming mail and tax returns and maintain our archived paper tax files.

The Governor's budget also eliminates an Accountant 2 position from the Finance Section of the Administrative Services Division. Eliminating this position would result in the inability for the department to resolve a Secretary of State audit finding relating to the completion of cash reconciliations. There is also a staff member dedicated to the CSR project who would have no permanent position to return to if we take the reductions.

A reduction of six positions from the Corporation Section will impact the number of corporate tax audits we would be able to complete. The impact of this would be a decline in direct enforcement revenue as well as an overall erosion of the voluntary tax base. Additionally, there will be fewer resources to support return processing, appeal monitoring, and responding to taxpayer questions in a timely manner.

A reduction of eight positions from the Withholding and Payroll Tax Section would impact the number of field investigations completed and decrease our ability to identify and correct noncompliance for withholding, transit, and marijuana taxes. A reduction will also effect the timeliness of refund review, return suspense, and would impact our ability to maintain the same level of customer service.

All positions identified in the Property Tax Division reductions would impact either the ability to assess values on certain industrial and centrally assessed properties or other responsibilities within the property tax system.

The agency is required to value industrial properties that exceed \$1 million in real market value and all centrally assessed properties (utility properties). These values are then provided to the counties to place on their tax roll. The 2016 Legislature approved additional funding for several appraiser positions so we can complete the valuation work we are required to perform.

This valuation work directly benefits from modernizing our systems used to value these properties (Property Valuation System). The section needs sufficient resources to support development of the new system. When the Valuation Section did not have funding for all positions, they tried to keep the appraisal positions filled that are responsible for valuing these properties to minimize impact on counties and other taxing districts. Eliminating appraisal positions in the Valuation Section will put at risk our ability to appraise industrial and centrally assessed properties.

The other positions in the reduction plan are in our Support, Assistance, and Oversight Section that provides support to counties, administers the senior and disabled citizen deferral program, and supports the work of the division. Elimination of the administrative staff would shift required clerical work to other support staff and appraisers.

The Executive Division has five positions identified in the Governor's budget: two in the Director's Office and three in the Human Resources Section. These reductions impact internal audits, support services, and facilities. For Human Resources, it eliminates the receptionist who greets employees and applicants, impacting customer service and timeliness of work. Without Special Services, higher level positions will have to take on clerical functions, creating workload issues. Reducing internal audit resources and the Office Specialist 2 in Human Resources impacts our ability to address internal control functions that ensure compliance with various oversight agencies.

The Personal Tax and Compliance Division (PTAC) reductions consist of enforcement positions, which generate revenue and positions that support taxpayers' ability to voluntarily file and pay income tax. The recommended budget cuts 65 PTAC positions (64.25 FTE) and is generally an across-the-board cut. Some of these positions are those where work has been automated in our new system, but are currently being used in areas with increased workload. In general, these cuts will impact audit and collections, as well as policy development and direct customer service. We would also likely see slower review times for suspended returns and a decreased ability to maintain the same level of customer service (longer call-wait times, etc.).

Reductions in the Information Technology Services (ITS) Section would directly impact agency operations. One position is from ITS' support services area. Since introducing GenTax and the state's new VoIP phone system, the number of incidents/tickets coming into this area has increased by more than 50 percent. With this increase, the time to resolve requests has steadily increased to the point where support services has more than 100 tickets that have been open for more than three days. The unit's normal service level is resolving requests in one day.

The other two reductions in ITS are application developer/support positions. These vacancies would cause further delays in the effort to migrate non-GenTax applications from obsolete, unsecure, or unsupported platforms. These positions are also critical for absorbing the production support work of the new system when the project is complete. The CSR Project has now released more than three-fourths of its milestones into production. Currently, a combination of agency and vendor staff are providing most of the production support. Combined with the proposed reduction in level of contracted maintenance (level-1 to level-2 support) with the GenTax vendor (Fast Enterprises, LLC), the ongoing ability to support GenTax post implementation is jeopardized.

The Attorney General Services and Supplies was reduced by \$416,814. This reduction may result in the agency not pursuing cases that normally would be either appealed by the department or defended due to appeal by the taxpayer.

Appendix B

15-percent reduction options requested by LFO

Agency Name REVENUE													
2017 - 2019 Biennium													
Detail of Reductions to 2017-19 Current Service Level Budget													
1	2	4	5	6	7	8	9	10	11	12	13	14	15
Priority (ranked with highest priority first)	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Impact of Reduction on Services and Outcomes	
Dept	Prgm/ Div		First 5%										
Revenue	ADMIN/ASD	003	Central Services/Administration/Finance	99,960		8,692				\$ 108,652	1	0.50	There is no impact to the Finance FA2 position . This is a 0.5 FTE that has been left vacant.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	174,593		15,182				\$ 189,775	1	1.00	The current duties of this position were eliminated or changed significantly with the implementation of GenTax. We are in the processes of moving the position to another section where we have work for the classification. This reduction will have minimal impact.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	147,156		15,989				\$ 163,145	1	1.00	This position assists in planning, coordinating, implementing, and testing our paper return processing system and banking and remittance system. This reduction will have minimal impact.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	100,922		8,775				\$ 109,697	1	1.00	This position sorts, files, and retrieves banking documents among other clerical tasks. This reduction will cause the remaining staff in the unit to absorb the work and the impact is minimal.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	100,922		8,775				\$ 109,697	1	1.00	This position maintains paper tax records. It sorts, files, retrieves, and prepares paper tax return documents for imaging. This reduction will slow the unit's ability to file and image tax returns. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	267,696		23,277				\$ 290,973	3	2.50	Two of these positions open, sort, and sequence agency mail, including all paper filed tax returns. One of these positions maintains paper tax records. It sorts, files, retrieves, and prepares paper tax return documents for imaging. This reduction will slow the section's ability to process mail and file and image tax returns. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	67,083		5,834				\$ 72,917	1	0.50	This position corrects potential data anomalies in our systems from information provided in tax returns and payments. It also registers customers and sets up applicable tax accounts. This reduction will cause the remaining staff to absorb the workload and will slow our ability to post tax information and payments. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.

Agency Name REVENUE													
2017 - 2019 Biennium													
Detail of Reductions to 2017-19 Current Service Level Budget													
1	2	4	5	6	7	8	9	10	11	12	13	14	15
Priority (ranked with highest priority first)	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Impact of Reduction on Services and Outcomes	
Dept	Prgm/ Div												
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	344,005		29,913				\$ 373,918	5	2.60	These positions correct potential data anomalies in our systems from information provided in tax returns and payments. They also register customers and set up applicable tax accounts. This reduction will cause the remaining staff to absorb the workload and will slow our ability to post tax information and payments. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.
Revenue	BUS	006	Withholding Tax/CP/UI/WC	322,115		6,575				\$ 328,690	2	2.00	The Administrative Specialists in Withholding and Payroll Tax research employers filing status and if appropriate, issue failure to file assessments. Throughout the current biennium, they have assessed a combined \$21,657,952.89 of Withholding, TriMet Transit and Lane Transit Tax of which \$5,488,760.35 has been collected. It is difficult to estimate the direct impact to the section as the majority of the work historically completed by these positions was automated with the implementation of GenTax in November, 2016. The automation of their previous work produces different work including an increase in phone calls, suspended payments and suspended returns.
Revenue	BUS	006	Withholding Tax/CP/UI/WC	311,635		6,361				\$ 317,996	2	2.00	The Administrative Specialists in Withholding and Payroll Tax research employers filing status and if appropriate, issue failure to file assessments. Throughout the current biennium, they have assessed a combined \$21,657,952.89 of Withholding, TriMet Transit and Lane Transit Tax of which \$5,488,760.35 has been collected. It is difficult to estimate the direct impact to the section as the majority of the work historically completed by these positions was automated with the implementation of GenTax in November, 2016. The automation of their previous work produces different work including an increase in phone calls, suspended payments and suspended returns.
Revenue	BUS	006	Corp Excise/Income Tax	531,743		0				\$ 531,743	2	2.00	Tax Auditor 2s in the Corporation Income Tax Program conduct complex audits of multi-state corporations doing business in Oregon. They also may be called on as an expert witness to defend audit adjustments in Tax Court. While the dollar range of tax adjustments varies widely, on average, a TA2's audit work results in \$53,000 of revenue generation each month. This is based on historical results using legacy data. Even though the Corporation program has been in Gentax for a couple of years, it will take another few years to build new historical data to fully analyze the impact on Corporation auditing.

Agency Name REVENUE													
2017 - 2019 Biennium													
Detail of Reductions to 2017-19 Current Service Level Budget													
1	2	4	5	6	7	8	9	10	11	12	13	14	15
Priority (ranked with highest priority first)	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Impact of Reduction on Services and Outcomes	
Dept	Prgm/ Div												
Revenue	BUS	006	Special Programs	0		175,713				\$ 175,713	1	1.00	The Public Service Representative 4 conducts a variety of duties for several smaller tax programs in the Special Programs Administration unit. They assist taxpayers with filing returns, understanding processes, and educating them on their responsibilities as a taxpayer. They also assist tax preparers and our beneficiary agencies with correcting transaction errors. They perform some minor compliance functions, filing enforcement and billings for taxpayer errors in filing and paying tax.
Revenue	BUS	006	Special Programs	0		166,916				\$ 166,916	1	1.00	The Accountant Technician 3 completes financial transaction maintenance. They correct accounting errors due to misapplied payments, posting errors, and corrections given to us by our client agencies that we do collection of debt. There is no revenue impact associated directly with these positions. This will push that work to other positions which may or may not be revenue generating positions which may cause a potential unknown loss of revenue.
Revenue	BUS	006	Special Programs	0		224,741				\$ 224,741	2	2.00	The Office Specialist 1 provides basic administrative support for revenue agents, audit and return processing/suspense activities in the section. Duties include handling and directing incoming correspondence, scanning voluminous documents for appeals and retention purposes, overseeing maintenance of office equipment, keeping office supplies stocked, and assisting as needed in return processing/suspense work. Although there is no direct revenue loss, the loss of support staff would push work to our revenue generating positions and would reduce their revenue generation to an unknown extent
Revenue	BUS	006	Other Agency Accounts	0		163,245				\$ 163,245	1	1.00	Revenue Agent 1s in Other Agency Accounts collect debt for all state agencies. They locate debtors, use 3rd party database tools to locate and find sources that may be garnished to collect money owed to the State of Oregon. Based upon historical results using legacy data and processes, the revenue generation loss for these agents would be approximately \$54,000/month (this is pure agent collection and doesn't count money paid through offset of a debt). With the recent implementation of a new system and processes, it will take a while to stabilize and identify our new production levels.

Agency Name REVENUE															
2017 - 2019 Biennium															
Detail of Reductions to 2017-19 Current Service Level Budget															
1	2	4	5	6	7	8	9	10	11	12	13	14	15		
Priority (ranked with highest priority first)	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Impact of Reduction on Services and Outcomes			
Dept	Prgm/ Div														
Revenue	BUS	006	Other Agency Accounts	0		816,224				\$ 816,224	5	5.00	Revenue Agent 1s in Other Agency Accounts collect debt for all state agencies. They locate debtors, use 3rd party database tools to locate and find sources that may be garnished to collect money owed to the State of Oregon. Based upon historical results using legacy data and processes, the revenue generation loss for these agents would be approximately \$54,000/month (this is pure agent collection and doesn't count money paid through offset of a debt). With the recent implementation of a new system and processes, it will take a while to stabilize and identify our new production levels.		
Revenue	ADMIN/PMO	002	Central Services/Administration	371,539		32,308				\$ 403,847	1	1.00	Reclassification of this position from a PEMG to a PEME will have minimal impact. With the CSR project coming to an end, there is not a need for the PEMG level of management post project, but there is a need for the level of management that a PEME would provide for the section.		
Revenue	ADMIN/PMO	002	Central Services/Administration	-302,925		-26,342				\$ (329,267)	-1	-1.00	Reclassification of this position from a PEMG to a PEME will have minimal impact. With the CSR project coming to an end, there is not a need for the PEMG level of management post project, but there is a need for the level of management that a PEME would provide for the section.		
Revenue	ADMIN/PMO	002	Central Services/Administration	174,346		19,372				\$ 193,718	1	1.00	The elimination of a Research Analyst 3 reduces the department's information and analytical support for both external needs and program operations. This research analyst develops revenue-related data sources and makes them available for reporting and analysis. The analyst produces statistical reports relating to the Department's primary tax programs through published material and in response to requests. Loss of this position reduces the availability and reliability of the revenue-related data used by others including OEA, LRO, and other external stakeholders; resulting in slower or incomplete responses to internal and external requests for information; and shifts some of the lower-level data work to higher level economists, reducing the department's analytical capacity at a time the department is trying to fully utilize and expand such capability. Much of the information developed and reported by this position is required by statute.		
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	1,052,987		21,493				\$ 1,074,480	7	7.00	AS1's - these positions did Non-Filer work, which was mostly automated with GenTax. They have been moved to Suspende to help with return processing		
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	258,373		5,408				\$ 263,781	2	2.00	2 OS2's - support for the PTAC Division. Would slow down processes like noting when appeal was received, processing lien responses, etc.		

Agency Name REVENUE													
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Dept	Prgm/ Div												
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	168,090		3,431				\$ 171,521	1	1.00	PEMA - this position manages and supervises a unit of debt collecting revenue agents. Without this position the oversight and supervisor to staff ratio will be negatively balanced and the collection function would have a negative revenue impact.
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	644,230		13,149				\$ 657,379	4	4.00	AS2's - these positions did Non-Filed work, which was mostly automated with GenTax. They have been moved to Suspend to help with return processing
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	110,124		2,247				\$ 112,371	1	1.00	OS1 - this position performs a clerical function for bankruptcy staff. Without this position the work would be absorbed by other staff members.
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	529,913		10,816				\$ 540,729	4	4.00	AS1's - these positions did Non-Filed work, which was mostly automated with GenTax. They were moved to Fraud to help review returns. Returns will be held up longer in Fraud without these positions.
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	1,501,298		30,634				\$ 1,531,932	10	10.00	RA3's - these positions are tax collecting field agents that perform duties from phone calls to onsite advanced collections such as till taps and license suspensions. These positions are responsible to collect from our most difficult collection cases. This is a revenue generating position.
Revenue	ADMIN/EXEC/DO	001	Central Services/Administration/IA	235,090		51,605				\$ 286,695	1	1.00	Eliminates one of two internal auditor positions. Result will be less internal audit reports, consultation and resources to address internal control issues.
Revenue	PTD	004	Timber	140,181		0				\$ 140,181	1	1.00	position processes permit data from forestry and mails out tax return if warranted.
Revenue	PTD	004	A & T Standards	0		152,654				\$ 152,654	1	1.00	position provides administrative support to SAO and Valuation sections.
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	180,889		3,692				\$ 184,581	1	1.00	PEMA - this position manages and supervises a unit of administrative support positions who are responsible for billings based on IRS reports. Though some of these positions are part of this reduction, cutting this position will increase supervisor to staff ratio (already at 12 to 1). This will have an impact on production.
Revenue	PTAC/PIT	005	Personal Income Tax (Infrastructure)	644,230		13,149				\$ 657,379	4	4.00	AS2's - these positions do billings from IRS reports and simple issue desk audits. Cutting these positions will slow down the time it takes to do the billings. It will also reduce the number of desk audits (and associated revenue) performed each year.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	109,360		2,232				\$ 111,592	4	1.46	These seasonal positions number paper tax returns during the major processing season. This reduction will slow the section's ability to process tax returns during the major season including our ability to post tax, payments, and issue refunds.

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Dept	Prgm/ Div												
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	104,505		7,866				\$ 112,371	1	1.00	This position transcribes information from paper tax returns and captures data from 2-D barcodes to upload tax and payment information into our central accounting system. This reduction will slow the section's ability to process tax returns including our ability to post tax, payments, and issue refunds. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	121,278		10,545				\$ 131,823	1	1.00	This position prepares and processes payments made by check and registers customers who initiate contact through electronic funds transfer. This reduction will slow our ability to bank and post funds. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.
Revenue	PTD	004	Industrial Property Tax	0		238,310				\$ 238,310	1	1.00	position provides policy and operational analysis to the Valuation Section.
Revenue	ADMIN/GSD	002	Central Services/Administration/AG	250,000		0				\$ 250,000			Cuts to the AG budget will result in the agency deciding not to litigate some of the smaller cases and impact the long-term stability of our tax programs.
			Second 5%							\$ 11,030,119	75	68.56	
Revenue	ADMIN/GSD	002	Central Services/Administration/AG	300,000		0				\$ 300,000			Cuts to the AG budget will result in the agency deciding not to litigate some of the smaller cases and impact the long-term stability of our tax programs.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	176,931		3,610				\$ 180,541	2	1.25	OS2s- These positions staff the front desk at field offices and work with taxpayers to resolve issues and receive payments among other duties. With these staff gone responses at the front desk will be slower and other Revenue producing positions in the field offices will need to help staff the front desks.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	300,260		6,127				\$ 306,387	2	2.00	RA3's - these positions are tax collecting field agents that perform duties from phone calls to onsite advanced collections such as till taps and license suspensions. These positions are responsible to collect from our most difficult collection cases. This is a revenue generating position.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	172,980		3,530				\$ 176,510	1	1.00	TA1s- These are personal income tax auditors that conduct field and correspondence audits on both businesses and individual. These are revenue producing positions and without them conducting audits less revenue will be produced.

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Dept	Prgm/ Div														
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	168,476		13,660				\$ 182,136	1	1.00	This position plans, coordinates, assists in development and implementation, and tests our paper return processing systems and banking remittance system. This reduction will compromise our ability to process paper tax returns and process payments made by check. At a minimum, our processing season will see delays in the time it takes to process returns and issue refunds.		
Revenue	BUS	006	Corp Excise/Income Tax	129,407		6,810				\$ 136,217	1	1.00	The Office Specialist 1 provides basic administrative support for audit and return processing/suspense activities in the section. Duties include handling and directing incoming correspondence, scanning voluminous documents for appeals and retention purposes, overseeing maintenance of office equipment, keeping office supplies stocked, and assisting as needed in return processing/suspense work. Although there is no direct revenue loss, the loss of support staff would push work to our revenue generating positions and would reduce their revenue generation to an unknown extent.		
Revenue	ADMIN/PMO	002	Central Services/Administration	186,439		18,438				\$ 204,877	1	1.00	The elimination of the Operations and Policy Analyst 3 (OPA3) reduces the Department's information and analytical support for strategic initiatives that span the agency or state enterprise. The OPA3 manages and conducts research and analysis to evaluate agency policy and operations, programs, functions, systems and effectiveness. This position often establishes new studies or data that was previously non-existent to document and communicate findings and recommendations. Examples include the Core Systems Replacement (CSR) business case and total cost of ownership analysis that provided Revenue Leadership and external policymakers the information they needed to make decisions. Ongoing monitoring and reporting of the CSR project through documents such as the CSR Operational Metrics Report assist internal and external stakeholders as they evaluate the success of the CSR project. This work will continue to be required and impact other agency priorities if not performed by the OPA3. The Department anticipates continuous improvements efforts will continue well beyond the CSR project and this position will lead the research and analysis of future strategic initiatives that span the agency.		

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Revenue	BUS	006	Corp Excise/Income Tax	757,731		39,882				\$ 797,613	3	3.00	Tax Auditor 2s in the Corporation Income Tax Program conduct complex audits of multi-state corporations doing business in Oregon. They also may be called on as an expert witness to defend audit adjustments in Tax Court. While the dollar range of tax adjustments varies widely, on average, a TA2's audit work results in \$53,000 of revenue generation each month. This is based on historical results using legacy data. Even though the Corporation program has been in Gentax for a couple of years, it will take another few years to build new historical data to fully analyze the impact on Corporation auditing.		
Revenue	BUS	006	Withholding Tax/CP/UI/WC	0		163,245				\$ 163,245	1	1.00	Revenue Agent 1s collect tax for multiple programs within the Business Division. They attempt to locate taxpayers, research employment history and payment records in an effort to collect delinquent tax and establish liable entity. Based upon historical legacy system information, the revenue generation lost for a RA1 would be approximately \$91,000 per month. With the implementation of a new system and processes, it may take a while to stabilize and identify our new production levels.		
Revenue	ADMIN/ASD	003	Central Services/Administration/PC	78,305		6,809				\$ 85,114	1	0.50	This position opens, sorts, and sequences agency mail, including all paper filed tax returns. This reduction will slow the section's ability to process mail, including paper filed tax returns. We will need to utilize more temporary/seasonal staff resources during the major tax processing season (March-June) to complete our work timely.		
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	131,401		2,682				\$ 134,083	1	1.00	RA1 - this position is the first line resource for debtors to resolve their debt. The primary activity is debt collections through phone calls. This is a revenue generating position.		
Revenue	BUS	006	Withholding Tax/CP/UI/WC	191,772		0				\$ 191,772	1	1.00	This position manages some of the above positions and will be cut to maintain the employee to manager ratio of eleven to one. This is not a direct revenue raising position.		
Revenue	BUS	006	Withholding Tax/CP/UI/WC	231,237		113,894				\$ 345,131	2	2.00	Throughout the current biennium, BCIU has identified and assessed \$11,902,087 withholding tax on underreported or misclassified payroll, conducted 5,752 field investigations and has completed 74 audits. Without these positions, increased tax avoidance may go undetected.		

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Dept	Prgm/ Div												
Revenue	BUS	006	Withholding Tax/CP/UI/WC	129,965		0				\$ 129,965	1	1.00	Revenue Agent 1s collect tax for multiple programs within the Business Division. They attempt to locate taxpayers, research employment history and payment records in an effort to collect delinquent tax and establish liable entity. Based upon historical legacy system information, the revenue generation lost for a RA1 would be approximately \$91,000 per month. With the implementation of a new system and processes, it may take a while to stabilize and identify our new production levels.
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	240,668		20,928				\$ 261,596	1	1.00	This position falls into an area that provides end-user support to agency operations. With the onboarding of a the State's new VOIP phone system, ITS has been given the added responsibility of supporting phones and voicemail. This is a system where ITS had no prior expertise and along with the introduction of GenTax, it is increasing the demand for IT support. The impact will be increased wait-times for call-center phone support that will greatly impacts, collections, OAA (other agency accounts) the Tax-Services unit, etc. This position would also assist with GenTax account management, etc.
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	190,456		47,614				\$ 238,070	1	1.00	This position falls into an area that provides end-user support to agency operations. With the onboarding of a the State's new VOIP phone system, ITS has been given the added responsibility of supporting phones and voicemail. This is a system where ITS had no prior expertise and along with the introduction of GenTax, it is increasing the demand for IT support. The impact will be increased wait-times for call-center phone support that will greatly impacts, collections, OAA (other agency accounts) the Tax-Services unit, etc. This position would also assist with GenTax account management, etc.
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	410,407		66,810				\$ 477,217			Professional services are secured to assist with the implementation and support of complex systems. The primary vendor is Microsoft, who supplies us with project work, security assessments/recommendations, training, etc. The impact of this reduction would be the loss of expert assistance with technology projects, training opportunities, security assessments, etc.

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Dept	Prgm/ Div														
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	255,377		22,207				\$ 277,584	1	1.00	This position is crucial in that it belongs to team of higher-skilled development staff that would be responsible for performing the work currently being performed by FAST (GenTax vendor) staff. The impact is that after FAST leaves in 2017, ITS will not have the staff at the level necessary to fully support the mission-critical application. In addition, the support contract being secured with FAST post-implementation is not at a high-level. This will shift additional support responsibility to ITS.		
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	181,270		15,763				\$ 197,033	1	1.00	This position is slated to support GenTax reporting and account and role management. The impact is similar in that the FAST corporation will be leaving in 2017, and ITS does not have the staff to take on everything that is currently being managed by FAST's production support team.		
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	278,929		24,254				\$ 303,183	1	1.00	This position is crucial in that it belongs to team of higher-skilled development staff that would be responsible for performing the work currently being performed by FAST (GenTax vendor) staff. The impact is that after FAST leaves in 2017, ITS will not have the staff at the level necessary to fully support the mission-critical application. In addition, the support contract being secured with FAST post-implementation is not at a high-level. This will shift additional support responsibility to ITS.		
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	255,377		22,207				\$ 277,584	1	1.00	This position is crucial in that it belongs to team of higher-skilled development staff that would be responsible for performing the work currently being performed by FAST (GenTax vendor) staff. The impact is that after FAST leaves in 2017, ITS will not have the staff at the level necessary to fully support the mission-critical application. In addition, the support contract being secured with FAST post-implementation is not at a high-level. This will shift additional support responsibility to ITS.		
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	103,200		16,800				\$ 120,000			This line-item is used to purchase and maintain DOR's end-user computing resources (PCs, laptops, monitors, etc.) Many of these are nearing end of life. The impact is that DOR could begin to experience hardware failures that impact end-users ability to perform work.		
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	22,360		3,640				\$ 26,000			This is money that is used for maintaining ITS office space and its furnishings. The impact will be the loss of ability to replace failing furniture, increasing the risk for liability to workers' comp claims, etc.		

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Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	86,000		14,000				\$ 100,000			This line item is ITS' training budget. Losing this will affect ITS employees and prevent them from being able to keep up professionally in the rapidly changing environment of IT. This is a great concern as the IT environment is continuously changing, and IT organizations are required to keep up with this change. This will impact the ability support newer technologies, and it will also impact the ability to perform IT work at a higher and secure level.
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	154,800		25,200				\$ 180,000			This line item represents the professional services supplied by Gartner Research-- the most respected research firm in Information Technology. ITS uses Gartner to guide them in strategic decision making as well as for using them to make recommendations for vendors, application providers, etc. The impact will be that ITS will lose access to this resource. This will proliferate the problem of only looking within State of Oregon and losing the connection with other outside organizations.
Revenue	ADMIN/ITS	003	Central Services/Administration/ITS	86,614		14,100				\$ 100,714			Professional services are secured to assist with the implementation and support of complex systems. The primary vendor is Microsoft, who supplies us with project work, security assessments/recommendations, training, etc. The impact of this reduction would be the loss of expert assistance with technology projects, training opportunities, security assessments, etc.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	248,287		5,067				\$ 253,354	1	1.00	PEMC - this position manages and supervises a unit of debt collecting revenue agents that are an advanced classification.. Without this position the oversight and supervisor to staff ratio will be negatively balanced and the collection function would have a negative revenue impact.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	414,438		8,457				\$ 422,895	2	2.00	TA2s- These are senior personal income tax auditors that conduct field and correspondence audits on domestic corporations, S corporations, Partnerships and other business entities. These are revenue producing positions and without them conducting audits less revenue will be produced.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	345,962		7,059				\$ 353,021	2	2.00	These are policy analyst positions, responsible for rules, legislation, publication content, practitioner inquiries/updates. Without them, we do fewer rule processes, slower response to legislative requests, reduced practitioner outreach, etc.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	300,854		6,141				\$ 306,995	2	2.00	AS1's - these positions did Non-Filer work, which was mostly automated with GenTax. They have been moved to Suspense to help with return processing. Cutting these positions will slow suspended return processing and in turn, slow down refunds.

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Dept	Prgm/ Div												
Revenue	ADMIN/DO/HR	001	Central Services/Administration/HR SS	124,952		10,865				\$ 135,817	1	1.00	If we were to eliminate the SS1 position in Quick Copy we would have increased wait times if the agency still requires this function to continue in house. If we move that function out of DOR then all staff requesting that service would need to work with P&D or use an outside vendor. We would need to have other staff in the unit answer the phone which includes calls from Tax Practitioners who are ordering forms. The remaining staff in the unit would also need to fill order request from Tax Services and other areas of the agency. We would need to have the unit staff maintain an accurate inventory on Forms and envelopes and work closely with Communications on ordering.
Revenue	ADMIN/DO/HR	001	Central Services/Administration/HR Facilities	125,232		6,591				\$ 131,823	1	1.00	Eliminates the only staff that completes access permissions resulting in internal control issues. Work will have to be completed by higher level staff. Customer service and timely issues.
Revenue	ADMIN/DO/HR	001	Central Services/Administration/HR	144,036		12,524				\$ 156,560	1	1.00	Eliminates the only receptionist support for Human Resources and Felicities office. Customer service issue no one to greet applicants or customers. Higher level staff will need to absorb clerical work.
Revenue	ADMIN/DO	001	Central Services/Administration/DO	118,446		13,161				\$ 131,607	1	1.00	Eliminates one of two support positions in the Director's Office that supports the Deputy Director, Legislative Liaison and Agency Rules Coordinator. Will require higher level staff to take on clerical and administrative support functions, as well as no back-up for absences by the Director's administrative support
Revenue	PTD	004	Industrial Property Tax	106,265		64,305				\$ 170,570	1	0.88	This position appraises industrial and/or Central assessment properties and provides values to the counties per statute.
Revenue	PTD	004	Industrial Property Tax	117,912		71,354				\$ 189,266	1	1.00	This position appraises industrial and/or Central assessment properties and provides values to the counties per statute.
Revenue	PTD	004	Industrial Property Tax	106,265		64,305				\$ 170,570	1	0.88	This position appraises industrial and/or Central assessment properties and provides values to the counties per statute.
Revenue	PTD	004	Industrial Property Tax	174,791		105,773				\$ 280,564	1	1.00	This position is a team leader position as well as appraises industrial and/or Central assessment properties and provides values to the counties per statute.
Revenue	PTD	004	Industrial Property Tax	134,358		81,305				\$ 215,663	1	1.00	This position manages a team of industrial/Central assessment appraisers.
Revenue	BUS	006	Withholding Tax/CP/UI/WC	0		120,828				\$ 120,828	1	0.57	These regulatory positions conduct compliance inspections primarily at retail establishments for the Tobacco Tax programs. While the revenue generation lost for a CS1 is approximately \$1,500 / month in assessments, their impact on voluntary compliance is difficult to quantify.
										\$ 8,932,105	17	16.33	

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			Third 5%						\$ -					
Revenue	NPH/ERA	019	Nonprofit Homes for the Elderly	4,326,364		0			\$ 4,326,364					This reduction would completely eliminate the program. This was rent for an expanded footprint for DOR in the Portland State Office Building. This additional space would have allowed DOR to have a larger compliance and collection effort in the largest metro area of the state. It also would allow office space for recruitment of individuals in the Portland Metro area that are harder to recruit in the Salem area, such as IT professionals.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	134,613		2,747			\$ 137,360					
Revenue	ADMIN/ASD	003	Central Support Service/Administration/PC	182,332		13,724			\$ 196,056	1	1.00			This position plans, coordinates, assists in development and implementation, and tests our paper return processing systems and banking remittance system. This reduction will compromise our ability to process paper tax returns and process payments made by check. At a minimum, our processing season will see delays in the time it takes to process returns and issue refunds.
Revenue	ADMIN/ASD	003	Central Support Service/Administration/PC	219,245		19,065			\$ 238,310	1	1.00			This position plans, coordinates, assists in development and implementation, and tests our paper return processing systems and banking remittance system. This reduction will compromise our ability to process paper tax returns and process payments made by check. At a minimum, our processing season will see delays in the time it takes to process returns and issue refunds.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	752,134		15,352			\$ 767,486	5	5.00			RA3's - these positions are tax collecting field agents that perform duties from phone calls to onsite advanced collections such as till taps and license suspensions. These positions are responsible to collect from our most difficult collection cases. This is a revenue generating position.
Revenue	BUS	006	Withholding Tax/CP/UI/WC	226,585		111,602			\$ 338,187	2	2.00			Throughout the current biennium, BCIU has identified and assessed \$11,902,087 withholding tax on underreported or misclassified payroll, conducted 5,752 field investigations and has completed 74 audits. Without these positions, increased tax avoidance may go undetected.
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	902,563		18,420			\$ 920,983	6	6.00			Field AS1's. Formally did non-filer work. They had been moved to account maintenance (refund review, penalty waiver requests, etc.) Without them, we estimate it add 3 to 4 weeks to refund and waiver processing.
Revenue	BUS	006	Withholding Tax/CP/UI/WC	124,791		44,302			\$ 169,093	1	1.00			Throughout the current biennium, BCIU has identified and assessed \$11,902,087 withholding tax on underreported or misclassified payroll, conducted 5,752 field investigations and has completed 74 audits. Without these positions, increased tax avoidance may go undetected.

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Dept	Prgm/ Div														
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	365,605		7,460				\$ 373,065	3	3.00	These are PSR3's -- reps in the call center. Reducing positions will increase call wait time and dropped calls (ones that get busy signals and have to hang up). This directly affects customer service. Fully staffed this season, our wait time averaged over 20 minutes, that could jump to 30 minutes or more.		
Revenue	BUS	006	Withholding Tax/CP/UI/WC	396,991		8,100				\$ 405,091	3	3.00	Revenue Agent 2s collect tax for multiple programs within the Business Division. They attempt to locate taxpayers, research employment history and payment records in an effort to collect delinquent tax. Based upon historical legacy system information, the revenue generation lost for a RA2 may be approximately \$125,000 per month. With the implementation of automation and a new system and processes, it may take a while to stabilize and identify our new production levels.		
Revenue	BUS	006	Withholding Tax/CP/UI/WC	90,674		44,661				\$ 135,335	1	1.00	These positions provide technical information and assistance for various payroll tax programs to ensure voluntary compliance with Oregon tax laws. They move misapplied payments to resolve payroll tax balances, respond to requests from Employment Department and Worker's Benefit Fund to transfer funds to the correct program and process all refund and waiver requests for the withholding, transit and other business programs. It is critical that the work is done timely and which has a direct impacts to taxpayers, voluntary compliance and other programs.		
Revenue	BUS	006	Corp Excise/Income Tax	122,176		6,430				\$ 128,606	1	1.00	The Appeals AS1 in the Corporation program provides support and tracking related to all levels of appeals including administrative conferences, magistrate cases, Tax Court, and Supreme Court cases. Although there is no direct revenue loss, the loss of this support position will push work to other revenue generating positions and would reduce their revenue generation to an unknown extent.		
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	414,438		8,457				\$ 422,895	2	2.00	TA2s- These are senior personal income tax auditors that conduct field and correspondence audits on domestic corporations, S corporations, Partnerships and other business entities. These are revenue producing positions and without them conducting audits less revenue will be produced.		

Agency Name REVENUE															
2017 - 2019 Biennium															
Detail of Reductions to 2017-19 Current Service Level Budget															
1	2	4	5	6	7	8	9	10	11	12	13	14	15		
Priority (ranked with highest priority first)	SCR or Activity Initials	Program Unit/Activity Description	GF	LF	OF	NL-OF	FF	NL-FF	TOTAL FUNDS	Pos.	FTE	Impact of Reduction on Services and Outcomes			
Dept	Prgm/ Div														
Revenue	BUS	006	Withholding Tax/CP/UI/WC	146,814		7,727				\$ 154,541	1	1.00	This position serves in several different capacities including systems, operations, and policy administration for the Department's electronic filing mandate regarding W-2 and 1099 submissions. This position is responsible for aligning the DOR systems to the IRS and Social Security Administration specifications and is the primary contact for questions from businesses that submit files through the Department's iWire portal. The direct revenue impact is difficult to associate with this position however without the position, the work will need to be shifted to other positions in the agency which may impact revenue generation.		
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	172,980		3,530				\$ 176,510	1	1.00	TA1s- These are personal income tax auditors that conduct field and correspondence audits on both businesses and individuals. These are revenue producing positions and without them conducting audits less revenue will be produced.		
Revenue	PTAC	005	Personal Income Tax (Infrastructure)	130,908		2,671				\$ 133,579	1	1.00	RA1 - this position is the first line resource for debtors to resolve their debt. The primary activity is debt collections through phone calls. This is a revenue generating position.		
Revenue	PTD	004	A& T Mapping	157,376		39,344				\$ 196,720	1	1.00	This position provides map maintained work for counties to facilitate accurate tax maps and assessments. Accuracy would be diminished with the reduction of this position.		
Revenue	PTD	004	A& T Mapping	131,710		32,928				\$ 164,638	1	1.00	This position provides map maintained work for counties to facilitate accurate tax maps and assessments. Accuracy would be diminished with the reduction of this position.		
Revenue	PTD	004	Industrial Property Tax	117,912		71,354				\$ 189,266	1	1.00	This position provides appraisal support and reviews county appraisal performance.		
										\$ 9,574,085	32	32.00			
										\$ -					
				25,559,709	-	3,976,600	-	-	-	\$ 29,536,309	124	116.89			

Appendix C

Impacts of long-term vacancies on services provided

The agency has positions that have been vacant for six months or longer. During the 2013–15 biennium, the Legislature approved 32 full-time, limited-duration positions to support the Core Systems Replacement (CSR) Project. These positions were filled through temporary work assignments with permanent staff from department program areas. To ensure that permanent staff do not lose their employment rights due to this employment arrangement, the project positions appear vacant, although the funding provided for the positions is being used to support the staff in their project roles. We have used the program funding in our base budget to double-fill these positions to ensure the agency continues to meet program expectations for processing, auditing, and collecting debt.

Seasonal positions in the Administrative Service Division's Processing Center are filled only during our tax processing season between February and May. They are vacant the remainder of the year. There is no impact to production when we are not in tax processing season. Not filling these positions during the peak tax processing season would result in slower return and payment processing times. It is estimated that without the seasonal positions it could take up to a year to process personal income tax returns filed in April.

The permanent positions in the Processing Center are vacant to finance personnel costs associated with work on the Processing Center Modernization Project, identified in the agency's 10-percent reduction list, or to accommodate staff moving back to permanent positions when the CSR Project is complete. These vacancies do impact our ability to prepare for tax processing season, which impacts our ability to process returns.

The Property Tax Division has three permanent positions that have been vacant longer than six months. A Student Office Worker and an Appraiser Analyst 2 position were intentionally held vacant as part of a funding plan to establish an additional Training Development Specialist position to help with online training offerings. We did not receive approval to use these positions to establish an additional Training Development Specialist. These positions will likely remain vacant through the rest of the biennium to help build the ending balance. These vacancies cause positions in higher classifications to perform some clerical work and reduces the amount of time appraisers spend doing appraisal work. An Information Specialist 3 position used for cartography work is being held vacant to help build the ending balance and to help offset costs of double-fills and work-out-of-class differentials in the division. This impacts our ability to provide oversight of the accuracy of county and department-prepared maps. There are also six seasonal positions in the division that are only filled during the senior deferral application processing season.

The Business Division currently has seven long-term vacancies, six of which we would seek to fill if not for the Governor's request to build an ending fund balance during the remainder of the 15–17 biennium. Holding these vacancies impacts our ability to timely complete business registrations, resolve various taxpayer issues, generate revenue, and maintain customer service levels.

The Personal Tax and Compliance Division has 19 positions that have been vacant for longer than six months. Many of the vacancies are the result of budget restraints. These vacancies generally fall into enforcement or support roles. These vacancies have an impact on revenue and our ability to respond to inquiries by taxpayers about their accounts. We also believe long-term voluntary compliance suffers because of reduced enforcement activity. The impact of vacancies in our support positions, like office and administrative specialists, is that enforcement staff must perform required clerical duties, leaving less of their time for enforcement work. Many of these positions were planned to be filled, but are now being kept vacant to support the Governor's request to build an ending fund balance.

The Executive Division has three positions vacant longer than six months. One limited-duration Public Affairs Specialist 2 position has been held vacant since the funding expires at the end of this biennium. The other two positions are office specialist positions in the Human Resources Section. Work has been split among other positions with similar duties, causing longer than usual wait times for internal customers.

Vacancies in the Information Technology Services (ITS) Section directly impact agency operations. One position is from ITS' support services area. Since introducing GenTax and the state's new VoIP phone system, the number of incidents/tickets coming into this area has increased by more than 50 percent. With this increase, the time to resolve requests has steadily increased to the point where Support Services has more than 100 tickets that have been open for more than three days. The unit's normal service level is resolving requests within one day.

The other two vacancies in ITS are application developer/support positions. These vacancies are causing delays in the effort to migrate non-GenTax applications from obsolete, unsecure, or unsupported platforms. The original goal was to have this set of applications migrated to the modern infrastructure by the end of calendar year 2018. At the current rate, this effort is projected to miss this goal by at least one full year. These positions are also critical for the future task of absorbing the production support work of the new system when the project is complete. The CSR Project has now released more than three-fourths of its milestones into production. Currently, a combination of agency and vendor staff are providing most of the production support. This is working for agency operations now, however, ITS does not have the staff available to effectively cross-train development in GenTax. Combined with the proposed reduction in level of contracted maintenance (level-1 to level-2 support) with the GenTax vendor (Fast Enterprises, LLC) in the Governor's Budget, the ongoing ability to support GenTax post implementation is jeopardized.

All three positions have been held vacant to support reconciling the CSR Project technical team back into ITS. They remain vacant to support the Governor's effort to build an ending fund balance.

Appendix D

2017 legislation with possible fiscal impacts for the department

Potential impacts		Savings	Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)
Statewide bills					
SB 106	Creates Public Records Advocate and Public Records Advisory Council and implements mediation process.			X	
SB 325	Requires agency to estimate and publish economic impact of current and proposed rules on low-income households.			X	
SB 605	Requires agency to include comparative analysis of costs and benefits of rules in the notice of proposed rulemaking.			X	
SB 628	Requires agency to report to Governor and for the Governor to include the total cost of compliance with agency rules for the public and small businesses in the Governor’s Recommended Budget.			X	
Corporation-related bills					
HB 2069	Annually adjusts Oregon’s estate tax exclusion amount and threshold filing requirement.		X		
HB 2116	Requires the Department of Revenue to transfer specified amount of corporate excise taxes paid on Oregon sales of pharmaceutical products by pharmaceutical manufacturers doing business in Oregon to pay for administration of the Creates Help In Cutting Costs for Unusual Pharmaceuticals program.		X		
HB 2230	Converts corporate excise and income tax programs to a commercial activities tax.				X
HB 2385	Reduces corporate excise tax rates for employers who increase their average monthly employment from preceding tax year.			X	
HB 2546	Conforms Oregon’s estate tax threshold and requirement to file returns to the basic federal estate exclusion amount.		X		
HB 2787	Creates tax credit for wages paid to youth workers.		X		
HB 2832	Conforms Oregon’s estate tax threshold and requirement to file returns to the basic federal estate exclusion amount.		X		
SB 137	Adjusts estate tax brackets for inflation.		X		

		Savings	Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)
Potential impacts					
SB 156	Requires the Department of Revenue to determine quarterly corporate minimum tax revenue attributable to Oregon sales of motor vehicle fuel and to deposit in the State Highway Fund.		X		
SB 379	Modifies definition of Oregon taxable estate to exclude basic exclusion amount applicable to federal estate.		X		
SB 460	Creates tax credit for wages paid to youth workers.		X		
SB 462	Creates income tax credit for donations to Oregon Project Independence Fund.		X		
SB 598	Creates income tax credit for employers with 100 or less employees who create 10 or more new jobs during the tax year.				
SB 599	Creates income tax credit for capital improvements to business facilities or homes.				X
SB 613	Creates tax credit for expanding workforce with positions that pay 10 percent or more above minimum wage.				X
SB 631	Requires Governor and Department of Revenue director to negotiate minimum requirements of qualifying investment contracts.		X		
Payroll tax-related bills					
Draft only	Oregon paid family and medical leave.				X
HB 2182	Creates withholding tax credit for wages paid to youth workers.		X		
HB 2875	Imposes excise tax on coffee beans and ground coffee and requires Department of Revenue to deposit tax amounts in Alternative Education Sustainability Fund.				X
SB 290	Creates withholding tax credit for wages paid to youth workers.		X		
SB 460	Creates withholding tax credit for wages paid to youth workers.		X		
Personal income tax-related bills					
HB 2006	Disallows mortgage interest deductions for properties other than the taxpayer's personal residence.		X		
HB 2051	Modifies methodology for determining amount of surplus tax credit.		X		
HB 2054	Modifies definition of "business tax credit," as allowed to S corporation shareholders, removing Department of Revenue rulemaking authority.		X		
HB 2061	For personal income tax, changes connection point from federal taxable income to federal adjusted gross income by eliminating allowance of itemized deductions or standard deduction. Decreases personal income tax rates.				X

Potential impacts		Savings	Low	Medium	High
			(\$50,000– \$100,000)	(\$100,000– \$500,000)	(>\$500,000)
HB 2068	Requires Department of Revenue to issue vouchers to taxpayers who failed to use the income tax credit for political contribution.				X
HB 2085	Creates refundable credit for renting farmland to beginning farmers.		X		
HB 2087	Expands taxpayer bill of rights. Lowers limits on tax deficiency interest. Provides for cancellation of uncollected tax debt, penalties, and interest after 20 years. Establishes Office of Taxpayer Advocate and Office of Independent Administrative Review in Department of Revenue.				X
HB 2093	Reduces income tax rates by modifying brackets.		X		
HB 2156	Requires Department of Revenue to establish a toll-free number for business taxpayers.			X	
HB 2157	Requires Department of Revenue to establish a toll-free number for certified public accountants.			X	
HB 2243	Increases maximum number of zones for electronic commerce.		X		
HB 2367	Creates refundable credit for adopting a child from the foster system.		X		
HB 2375	Creates tax credit for employers that pay employees more than minimum wage.				X
HB 2377	Allows credit against net income taxes for portion of eligible costs of newly rehabilitated or constructed single-family dwellings.		X		
HB 2541	Creates credit for replacement of certain trucks used by taxpayer in the course of business.		X		
HB 2592	Creates refundable credit for purchase of qualifying gun safes.		X		
HB 2678	Creates refundable credit for live organ donation.		X		
HB 2767	Phases out itemized deductions other than charitable donations for taxpayers with federal AGI exceeding certain limits.		X		
HB 2769	Imposes a sales and use tax on sales of art, collectible objects, and furniture with a sales price of \$100,000 or more.				X
HB 2771	Phases out real property tax deduction for taxpayers with a federal AGI exceeding certain limits.		X		
HB 2829	Limits availability of itemized deductions.		X		
HB 2841	Creates credit for certain employers who are required to provide paid sick leave.		X		
HB 2850	Creates credit for employing up to three youth workers.		X		
HB 2878	Imposes additional tax on qualified dividend income treated as net capital gain and taxed at lower rate on personal income taxpayer's federal return.		X		
SB 1	Creates credit for operation costs of housing for agricultural workers.			X	
SB 159	Creates refundable credit to offset household energy costs for taxpayers meeting income requirements.			X	

		Savings	Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)
Potential impacts					
SB 160	Creates refundable credit for qualified senior homeowners whose property tax assessment is greater than 10 percent of their AGI.			X	
SB 162	Modifies definition of “business tax credit,” as allowed to S corporation shareholders, removing Department of Revenue rulemaking authority.		X		
SB 164	Provides for taxpayer election of reduced tax rate for certain pass-through nonpassive income on original or amended tax return.			X	
SB 341	Creates credit for taxpayers working as medical clerks or medical preceptors in rural areas.		X		
SB 359	Creates credit for creating jobs for hazardous substance removal and remedial actions.		X		
SB 364	Creates refundable credit for donating shipping containers for storing emergency supplies in or near public buildings.			X	
SB 400	Creates credit for certain employers that provide paid family leave to employees, including paid sick time taken to care for family members of employees.		X		
SB 401	Creates credit for certain employers that provide paid sick time.		X		
SB 406	Creates credit for certain employers to defray costs of increase in minimum wage.		X		
SB 452	Requires Department of Revenue to conduct study of communication methods used to answer questions from taxpayers or resolve their tax issues.		X		
SB 543	Creates credit for certain employers that provide paid family leave.		X		
SB 594	Restores availability of tax credit for employment-related child care expenses and extends credit sunset.				X
SB 597	Changes method by which surplus “kicker” refunds are made to personal income taxpayers from tax credit to refund payment.				X
SB 633	Creates credit for reforestation of commercial forestland following loss from catastrophic fire event.		X		
SB 758	Creates refundable credit against personal income taxes for contributions to higher education savings network account.			X	
SJR 7	Proposes revision of Oregon Constitution to adopt sales and use tax on purchase price of tangible personal property and services and use tax on purchase price of tangible personal property.				X
Property tax-related bills					
HB 2151	Expands food processing exemptions for new industries (cannabinoids and alcohol).			X	
HB 2384	Limits the property tax assessed on the properties of seniors with fixed incomes. Department of Revenue approves claims.			X	

		Savings	Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)
Potential impacts					
HB 2426	Limits the property tax assessed on the properties of seniors with fixed incomes. Department approves claims and defers excess without interest, if it's a deferral account.				X
HB 2466	Changes forest products harvest tax rates and distribution.		X		
HB 2774	Directs the Department of Revenue to post central assessment rolls on the department's website and to post exemption information on centrally-assessed properties on the state's transparency website.			X	
SB 700	Limits the property tax assessed on the properties of seniors with fixed incomes. Department of Revenue approves claims.			X	
HJR 1	Repeals Measure 50 and amends Oregon Constitution.			X	
Small programs administration					
HB 2024	Imposes tax on inhalant-form nicotine at point of retail sale, based on percentage of wholesale price.			X	
HB 2037	Expands definition of "tobacco products" to include vapor products, resulting in vapor products being subject to the tobacco products tax. Increases tax rate on cigarettes (with floor tax) and tobacco products, with revenue going to OHA.			X	
HB 2056	Imposes tax on nicotine vapor products based on concentration of nicotine, with revenue going to the Oregon Health Plan Fund. Increases tax rate on cigarettes (with floor tax) and tobacco products.			X	
HB 2062	Expands definition of "tobacco products" to include vapor products, resulting in vapor products being subject to the tobacco products tax.			X	
HB 2084	Requires the Department of Revenue to maintain a list of cigarette, vapor, and tobacco sellers from outside the state that don't require age verification or don't pay tax on sales of products to consumers in Oregon. Prohibits common carrier from transporting cigarettes, vapor, or tobacco products from sellers on list to consumers in Oregon.		X		
HB 2119	Increases cigarette tax (with floor tax).		X		
HB 2400	Authorizes state agency to enter into agreement with city or county to collect local lodging taxes.				X
HB 2406	Increases cigarette tax (with floor tax).		X		
HB 2506	Sequesters lodging tax revenue from certain state parks and distributes it to the newly-established Ocean Beach Fund for managing state recreation areas along ocean shores.		X		
HB 2662	Increases cigarette tax (with floor tax). Removes cigar-tax limit.		X		
SB 89	Expands duties of OAA to perform centralized collections for state agencies.				X

		Savings	Low (\$50,000– \$100,000)	Medium (\$100,000– \$500,000)	High (>\$500,000)
Potential impacts					
SB 180	Expands definition of “tobacco products” to include vapor products, resulting in vapor products being subject to the tobacco products tax.			X	
SB 235	Requires licensure for retail sale of cigarette, vapor, or tobacco products.			X	
Collections-related bills					
HB 2272	Requires financial institutions to participate in data match system established by Department of Revenue to identify assets held at financial institutions by delinquent debtors.			X	
SB 254	Requires financial institutions to participate in data match system established by Department of Revenue to identify assets held at financial institutions by delinquent debtors.			X	

Note: Bills listed are those that have had a first reading as of February 14, 2017.

Appendix E

Secretary of State audit response

Oregon Needs Stronger Leadership, Sustained Focus to Improve Delinquent Debt Collection (Report No. 2015-25)

Recommendation:

Improve Other Agency Account collections by:

- Identifying optimal caseload for efficient and effective debt collection and pursuing additional staff if necessary.
- Asking the Legislature to allow OAA collectors to access state tax return information.
- Improving data sharing with client agencies.
- Boosting outreach to increase full collections assignment and tax refund offset assignment.
- Streamlining service agreements and working with clients to expand allowed garnishments.
- Working with agencies to have original debt due dates included in accounts assigned to OAA.

Response:

Management agrees with the recommendations to improve our Other Agency Account collections. We'll continue to work with all stakeholders, internal and external, to prioritize and implement initiatives that drive toward meeting these specific recommendations. We'll also consider all recommendations when making business decisions for Other Agency Account configuration during the third phase of our system conversion, which is scheduled for completion in fall 2016.

Recommendation:

Prioritize automated matching of debtor data, for both OAA and tax units, to wage and other databases to improve collection effectiveness.

Response:

Management agrees with this recommendation. As we convert to GenTax, the data we currently collect from multiple sources will be available in one location. With our current system, agents must review several different data sets to research a garnishment source. Through GenTax, we'll have a daily search function for wage or bank sources that have been added to the data warehouse and will flag debtor accounts that meet the criteria for application of garnishments. This will be available with Rollout 2 of GenTax and the first search is planned for February 2016.

With Rollout 3 of our systems replacement, we'll have automated filing enforcement and automatching, data matching using information from i-Wire, and the ability to validate withholding and employer remittances through GenTax. Over time, the system will track and trend debtor characteristics that will help with scoring collectability. For example, the system will help us determine what collection actions have been most successful with certain debtor types.

Appendix F

Projects costing \$1 million or more

Core Systems Replacement

The Department of Revenue is in the final year of replacing the majority of its core tax systems through the Core Systems Replacement (CSR) Project. This replacement serves to mitigate the growing risks of not being able to support its aging legacy systems and maintain current service levels. The primary business drivers for replacing our core tax systems are risk avoidance and improved performance.

We sought and received approval in 2013 to implement a new commercial, off-the-shelf (COTS), integrated tax system and data warehouse (GenTax) through Fast Enterprises, LLC. To date, the department has successfully completed three of the four project rollouts on time and under budget.

The CSR Project is being financed each biennium through three sources:

- The agency's budget.
- An additional General Fund appropriation for ETS fees, contracted maintenance and support, non-bond eligible general services and supplies, and bond debt service.
- Article XI-Q general obligation bonds.

Updated project costs will be provided during the 2017 Legislative Session.

Property Valuation System (PVS)

In 2015, we started a project to consolidate and replace the current computer software and systems used by the Property Tax Division to value industrial and centrally assessed properties. We have received tentative legislative approval for the purchase of a computer-assisted mass appraisal (CAMA) software system, which is the industry standard for assessment and taxation.

This new system, referred to as the Property Valuation System (PVS), will give agency appraisers a comprehensive system that will integrate our appraisal processes, consolidate our data, and eliminate the manual processes and outdated technology they currently use to complete their appraisal work. Additionally, we will be able to accept electronically-filed returns and send property value information electronically to taxpayers and counties.

Other benefits of this technology investment are:

- Improved customer service to counties and taxpayers.
- A long-term, stable IT platform for appraisal activities.
- Increased data analytics and reporting capabilities.

A request for proposals (RFP) was published and the evaluation and selection process is underway. We have approval to sell \$445,120 in bond funds in February 2017 to cover the cost incurred in the 2015–17 biennium for initiation and planning activities. Based on current estimates of the total cost of the project, we submitted a \$3.4 million policy option package.

Processing Center Modernization Project (PCM)

The goal of the Processing Center Modernization Project (PCM) is to identify and implement a single, scalable, integrated solution for processing both paper tax returns and payments. This solution will allow the agency to take advantage of large technical advancements that are the current industry-standard. Advancements such as optical character recognition would allow the processing systems to read and capture information directly from a document, reducing the amount of time to process paper returns and payments. A modernized processing system will greatly increase the stability of the Processing Center's systems and their ability to complete tasks. This project will bring the agency into alignment with industry best practices for tax return and payment processing.

We are partnering with the Office of the State Chief Information Officer (OSCIO) and following their stage gate process to make sure the project stays on track and has proper project management discipline meeting all OSCIO requirements for a project of this nature. We also established a steering committee and project team with representatives from throughout the agency. We recently issued a formal request for information to further refine solution requirements to meet our needs. We believe that this project is critical to the state and are taking every step to ensure its success.

Appendix G

Key performance measures

KPM #	2015–17 Approved 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: The degree to which county appraisal program equity and uniformity is achieved; measured by determining the percentage of study areas statewide with real market values that are within accepted appraisal standards.
7	Appraisal value uniformity: Our ability to deliver high-quality business resulted; measured by appraisal equity and uniformity of DOR industrial accounts.
8	Direct enforcement dollars cost of funds: Our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens; measured by the cost of funds for every direct enforcement dollar received by DOR.
9	Collection dollars cost of funds: Our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens; measured by the cost of funds for every dollar collected by DOR.
10	Cost of assessments: Our efficiency and effectiveness of our suspense, audit, and filing enforcement functions; measured by the cost of every audit and filing enforcement dollar assessed.
11	Employee engagement: Index of employees considered actively engaged by a standardized survey.

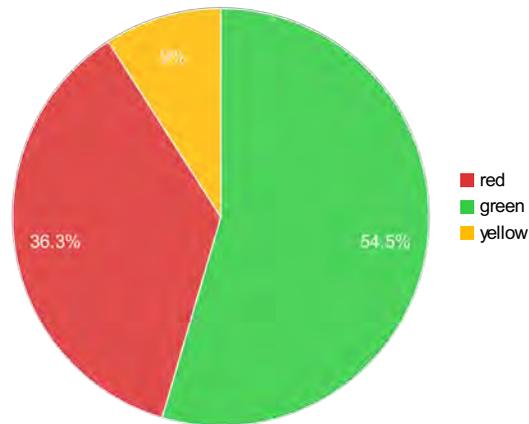
Revenue, Department of

Annual Performance Progress Report

Reporting Year 2016

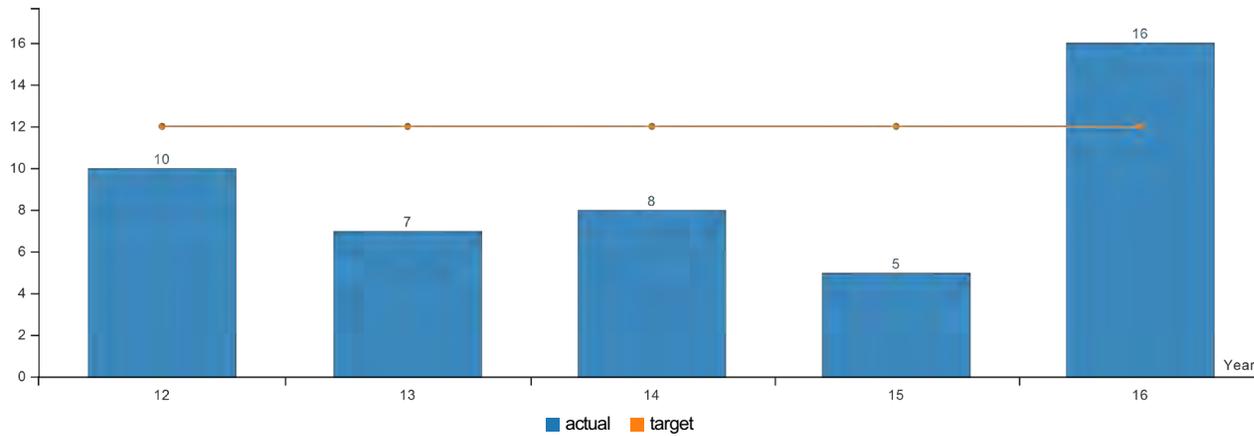
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KPM #	Approved Key Performance Measures (KPMs)
1	Average Days to Process Personal Income Tax Refund. -
2	Percent of Personal Income Tax Returns Filed Electronically -
3	Employee Training Per Year (percent receiving 20 hours per year). -
4	Customer 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.



	Green	Yellow	Red
	= Target to -5%	= Target -6% to -15%	= Target > -15%
Summary Stats:	54.55%	9.09%	36.36%

KPM #1	Average Days to Process Personal Income Tax Refund. -
	Data Collection Period: Jul 01 - Jun 30



Report Year	2012	2013	2014	2015	2016
Average Days to Process Personal Income Tax Refund					
Actual	10	7	8	5	16
Target	12	12	12	12	12

How Are We Doing

Actual performance for 2016 was 16 days, four days longer than the target. Performance for 2015 was five days.

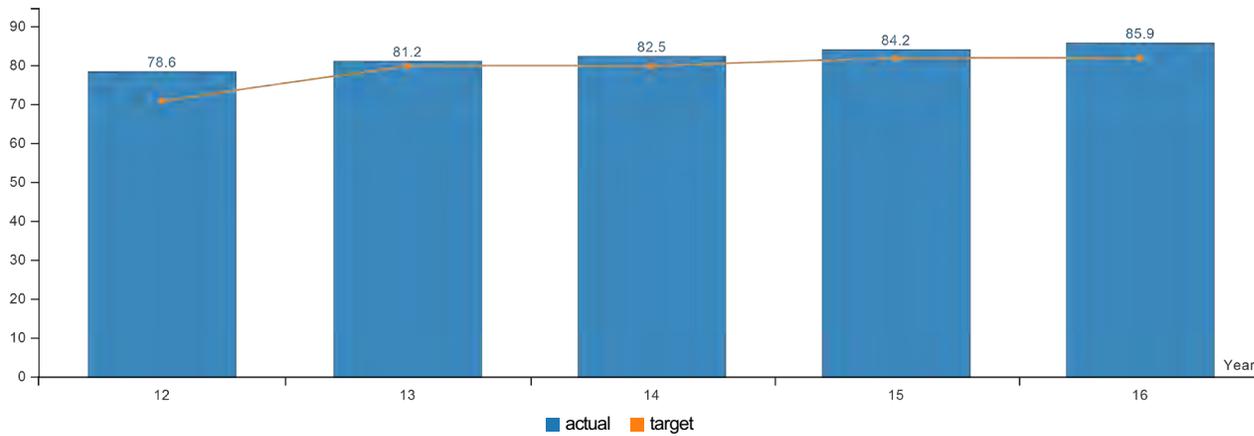
Factors Affecting Results

DOR converted to a new personal income tax return processing system in December 2015. With this, there were several factors that contributed to slower processing times:

- The learning curve for staff was steep in the beginning.
- Normal issues with bringing on a new system slowed down processing (unexpected scenarios produced unexpected results).
- The new fraud module added a dimension of screening. It was impossible to predict the number of returns it would affect. As a result, staff reviewed thousands more returns than previous years.
- Processing Center equipment issues resulted in slower data entry and a higher error rate than previous years. Additional production resources were required to manually enter data and correct errors.

As in past years, refunds on electronically filed (e-filed) returns were issued sooner than paper returns. E-filed returns that didn't suspend averaged 13 days to process in 2016. This was nine days slower than in 2015. Paper returns that didn't suspend averaged about 40 days to process. This was 23 days slower than 2015.

KPM #2	Percent of Personal Income Tax Returns Filed Electronically -
	Data Collection Period: Jul 01 - Jun 30



Report Year	2012	2013	2014	2015	2016
Percent of Personal Income Tax Returns Filed Electronically					
Actual	78.60%	81.20%	82.50%	84.20%	85.90%
Target	71%	80%	80%	82%	82%

How Are We Doing

We are above target with 85.9 percent of tax returns filed electronically (as of September 1, 2016). This compares to 84.2 percent a year ago. The numbers for e-file have consistently risen each year, though the rate of growth has slowed.

Factors Affecting Results

Oregon's e-filing has always linked to the federal system, and we were one of the early states to pilot their modernized e-file platform. We benefit when more taxpayers choose to file their federal tax returns electronically and as the IRS expands their e-filing options.

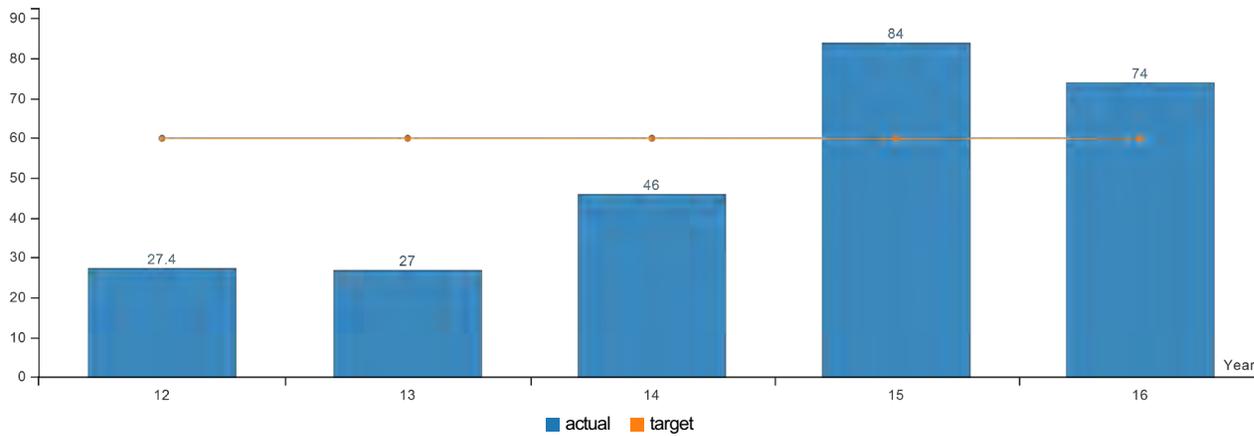
Revenue implemented an e-file mandate for tax practitioners in 2011 that matches the IRS mandate. There is no penalty for noncompliance, but we send a reminder letter each year to those practitioners who didn't file their client's returns electronically.

Oregon also participates in the Free File Alliance, which allows taxpayers to e-file for free if they meet income level, age, veteran status, and return-type criteria. Software companies that participate in the Free File Alliance advertise their free offerings each tax season, which helps further encourage e-filing in Oregon. Each year, we post a list on our website that includes links to approved tax preparation companies that offer free filing options. Finally, Oregon 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.

The 2015 tax year was a "kicker" (surplus refund) year. It's likely this increased the number of individuals filing for a refund, which could have helped drive the e-file numbers upward because taxpayers who had no filing requirement had to file in order to claim their kicker credit.

DOR didn't automatically mail tax booklets to those who filed on paper in the prior year, which could have also helped drive e-file numbers upward. We did mail instructions and forms to those who called or ordered online and had them available at all our offices throughout the state.

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



Report Year	2012	2013	2014	2015	2016
Employee Training Per Year (percent receiving 20 hours per year)					
Actual	27.40%	27%	46%	84%	74%
Target	60%	60%	60%	60%	60%

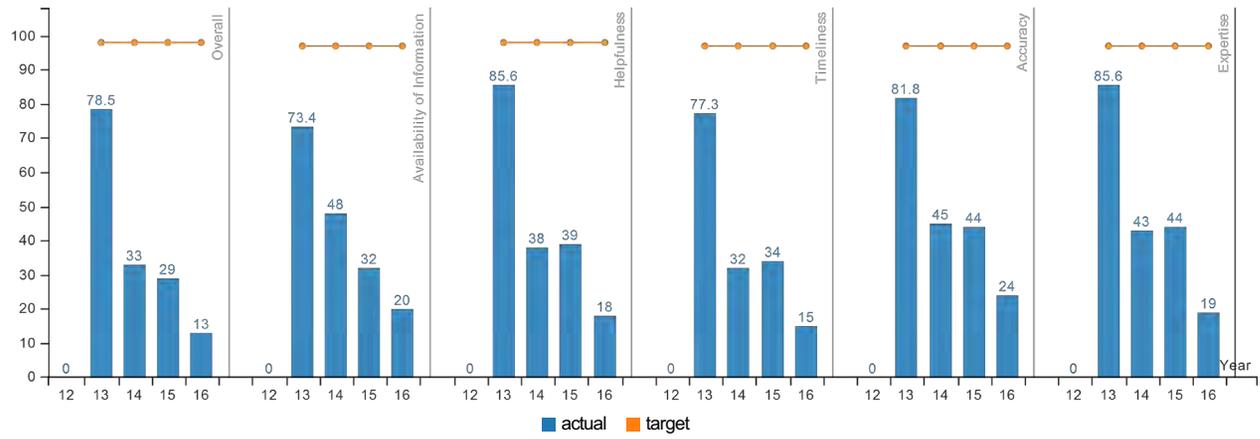
How Are We Doing

We exceeded our target with 74 percent of staff receiving at least 20 hours of training.

Factors Affecting Results

We ensured agency training was reported and captured in iLearn. We also encouraged 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-path options and identify training that will help employees meet their career goals. We identified agency, division, and unit needs and contracted or created training to address those needs. We also entered into a contract to purchase licenses for unlimited training on a number of topics at a flat fee, which allows us to maximize our training dollars in the most effective way possible. We've also provided a significant amount of training for staff to learn how to use our new core systems.

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	2012	2013	2014	2015	2016
Overall					
Actual	No Data	78.50%	33%	29%	13%
Target	TBD	98%	98%	98%	98%
Availability of Information					
Actual	No Data	73.40%	48%	32%	20%
Target	TBD	97%	97%	97%	97%
Helpfulness					
Actual	No Data	85.60%	38%	39%	18%
Target	TBD	98%	98%	98%	98%
Timeliness					
Actual	No Data	77.30%	32%	34%	15%
Target	TBD	97%	97%	97%	97%
Accuracy					
Actual	No Data	81.80%	45%	44%	24%
Target	TBD	97%	97%	97%	97%
Expertise					
Actual	No Data	85.60%	43%	44%	19%
Target	TBD	97%	97%	97%	97%

How Are We Doing

Our customer service ratings were down in 2016. Our overall composite score is 18 percent, with our score for the “overall” question at 13 percent. For 2015, our composite score was 34 percent and our score for the “overall” rating question was 29 percent.

Factors Affecting Results

Nature of the business.

We administer very complicated tax laws and act as the state’s collection agency. People usually contact us when they are confused, waiting on a tax refund, responding to a notice, or we are attempting to collect debt. There appears to be a direct correlation between what people view as negative action (slow refunds, billings, adjusted returns, etc.) and the rating given.

We added a question to the survey to help identify the nature of the call or who answered it. Of the 823 who answered that question:

- 85 percent of those calling with a tax question or who needed help with their tax return rated us as “good” or “excellent” (213 callers).
- 68 percent of those calling to make a payment rated us as “good” or “excellent” (66 callers).
- 21 percent of those checking on a refund rated us as “good” or “excellent” (285 callers).
- 19 percent of taxpayers calling about a billing or collection notice rated us as “good” or “excellent” (72 callers).
- 2 percent of those calling because we made changes to their tax return rated us as “good” or “excellent” (187 callers).

Internal processes.

Over the last two years, we’ve changed our processes for reviewing refund returns to increase fraud detection. While our customers have told us that they appreciate our diligence, they don’t appreciate the additional time it takes for them to receive their refunds.

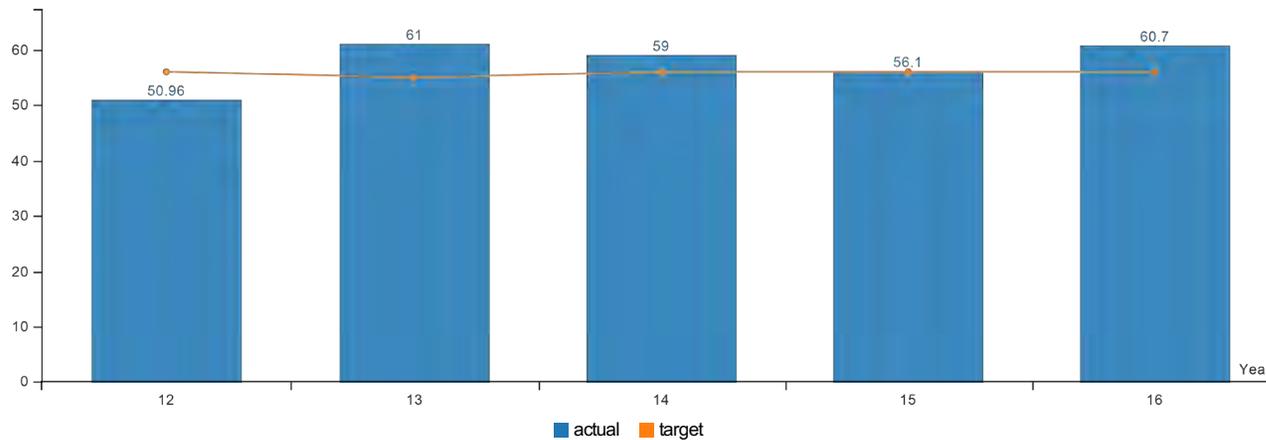
Limited survey exposure.

It has been very difficult to collect meaningful data. The survey is only available by phone, so the respondent must call the survey number. The technology we’re currently using limits our ability to make the survey more accessible.

The data.

The survey was available throughout fiscal year 2016. Yet, we received relatively few responses—1,875 in 2016. This is up slightly from 1,423 in fiscal year 2015. This represents about 1 percent of the 139,000 calls answered by the Tax Services Unit during the reporting period.

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



Report Year	2012	2013	2014	2015	2016
Effective Taxpayer Assistance					
Actual	50.96	61	59	56.10	60.70
Target	56	55	56	56	56

How Are We Doing

Overall score: 60.7 (out of 100). This is up slightly from the 2015 score of 56.1. While our score is on target and was up over the previous year, it's somewhat misleading. The score for this measure rose because of a much higher rate of success for those using the "Where's My Refund" feature (a self-help lookup), which is heavily weighted in the score. The other two portions of the measure decreased this year.

Factors Affecting Results

Wait time: Calls with less than five minutes wait time = 51 percent of total calls (down from 68 percent in 2015).

We increased the staff available to take calls prior to rolling out the new system in anticipation of increased call volume, but wait times still jumped from less than a minute to just over five minutes in December (the month we rolled into the new computer system for personal income tax). Wait time increased each month of the season and peaked at 30 minutes in June, when only 3 percent of calls were answered in less than five minutes. This was due to sheer call volume and the fact that calls took longer to resolve because staff were still learning how to navigate the new system and more time was spent walking taxpayers through the new online tools.

Our "virtual hold" system, launched in March 2014, gives the caller the option to hang up and get a call back when a representative is available. Calls where the caller chose to be called back later are not included in this statistic. This feature was popular with both taxpayers and our staff. The taxpayers tended to be calmer when they didn't have to wait on the phone to talk to a representative. Unfortunately, use of this feature is limited on heavy volume days.

General factors that cause longer wait times:

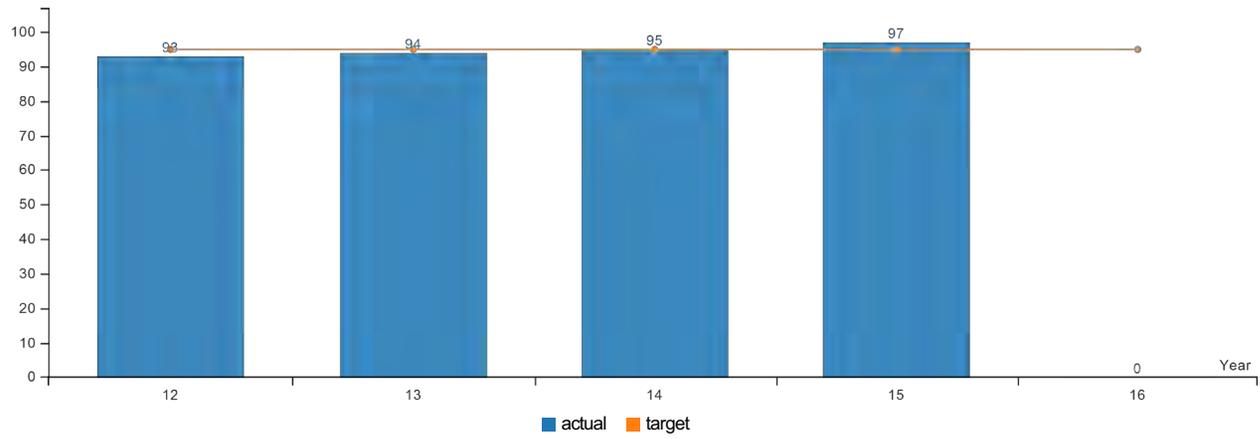
- As self-help tools are added, issues tend to be more difficult to resolve as the customer can get the simple answers themselves.

- 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.
- Wait times are typically increased by other situational factors. A prime example of this was the changes to our fraud review for returns. Refunds took longer because of new fraud processes that took longer and impacted more returns. This led to increased call volume and customer dissatisfaction. Another example involves the IRS answering fewer calls because of reduced staff numbers. This means more taxpayers call us with their federal questions, which we try to answer.

Percentage of successful "Where's My Refund?" inquiries made through IVR or web applications: 77 percent (up from 52 percent in 2015). 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 the return to allow us to begin processing. The jump in the number of successful inquiries can likely be attributed to a new, more efficient system.

Percentage of customer service ratings of "good" or "excellent": 18 percent (down from 29 percent in 2015). Obviously, this sub-measure indicates dissatisfaction with our customer service from those who respond to our survey. Though there's no single factor responsible for these poor survey results, it's likely attributable to the timeliness of our return processing season. See KPM 4 for more detailed information about our customer service rating.

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



Report Year	2012	2013	2014	2015	2016
Appraisal Uniformity					
Actual	93%	94%	95%	97%	No Data
Target	95%	95%	95%	95%	95%

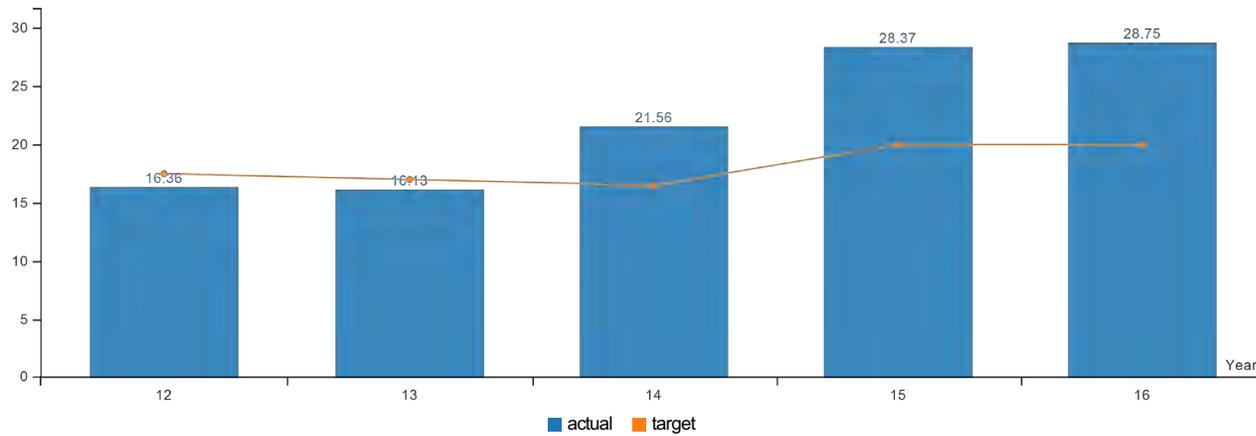
How Are We Doing

For the seven-year period of 2009 to 2015, the percentage of market areas in compliance was between 89 (2011) and 97 percent (2015).

Factors Affecting Results

Concerns include CODs are self-reported by the counties, so our ability to validate methodology is limited at this time, and study areas can vary year to year creating consistency and comparison issues.

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



Report Year	2012	2013	2014	2015	2016
Appraisal Value Uniformity					
Actual	16.36%	16.13%	21.56%	28.37%	28.75%
Target	17.50%	17%	16.50%	20%	20%

How Are We Doing

In the last three years, we haven't had any usable sale transactions. Therefore, we used our recent site-specific appraisals to measure the COD. The data reveals we didn't meet our performance target because the measure of variance between the values from our recent site-specific appraisals and the values from our mass appraisal process exceeded the target benchmark (COD of 20). We recently implemented significant changes to our process and have completed training that we anticipate will improve the quality of our appraisal values. As we continue to address hot spots and known valuation issues, a decreasing COD may not be realized. However, we continue to refine our processes, train new staff, and work through our eight-year appraisal cycle with site-specific appraisals, and we anticipate seeing a decrease in our COD around 2025.

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 lead to a decrease in the reliability of this indicator. In the past three years, we haven't identified any usable sales transactions for state appraised property. Therefore, all of our analysis is based on site-specific appraisals instead of market-based sales.

We recently instituted an appraisal process consisting of site visits followed by site-specific narrative appraisal reports to estimate value for state-appraised industrial properties. The following factors have contributed to the above-target COD since 2014.

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, inclusion or exclusion of data points can produce vastly different results. Some properties have known valuation issues or issues are found during the appraisal process. Valuation issues can include the following: omitted property, taxpayer reporting errors (duplicates, age of assets, failure to report), and reclassification of assets. All of these valuation issues creates 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.

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

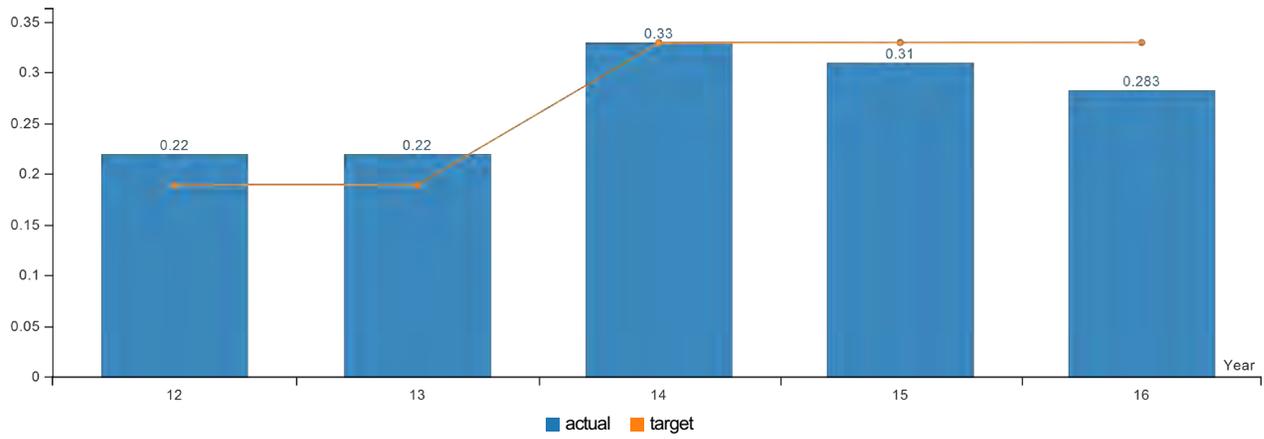
Changes in the economy have more impact on certain property market sectors. Therefore, since 2014, we've concentrated on hot spots in an attempt to bring those values closer to RMV. Appraising these hot spots can contribute to an artificially high COD since the values in these areas have the potential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

The COD data from 2012 and 2013 used eight data points or less, which was all that was available for these years. This is a very small sample size from which to draw a solid COD conclusion.

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. This is a good example of how more data points can drastically change the outcome of the COD.

We averaged 46 data points per year during the last two years, an increase of 360 percent. The increase in appraisal activity is a direct outcome of the change to our business plan to visit all the industrial sites in Oregon on a regular basis. However, this results in more findings of valuation issues and hot spots, which can result in higher CODs. Once we work through an entire appraisal cycle (2025), our COD should start to decline.

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



Report Year	2012	2013	2014	2015	2016
Cost of Direct Enforcement Funds					
Actual	\$0.22	\$0.22	\$0.33	\$0.31	\$0.28
Target	\$0.19	\$0.19	\$0.33	\$0.33	\$0.33

How Are We Doing

Our COF for fiscal year 2016 was 0.283. For this measure, lower performance is better. This represents an 8.1 percent decrease from the fiscal year 2015 COF of 0.308. Dollars received increased from \$234.9 million in 2015 to \$269.7 million in 2016, while our enforcement function funding in the Legislatively Adopted Budget (LAB) increased from \$72.5 million in 2015 to \$76.2 million in 2016.

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. Internal factors influencing our enforcement revenue include the CSR Project, changes in staffing, the level of staff experience, and filing enforcement strategies.

The Business Division’s programs recorded an increase in enforcement revenue for fiscal year 2016, but those numbers were impacted by one abnormally large payment.

Personal income tax enforcement revenue decreased in fiscal year 2016. Over the past year, we had to shift resources to the CSR Project while still attempting to maintain consistency in billings and collections to meet audit and collection goals. The Personal Income Tax program was the main component of Rollout 2 of the CSR Project, and all staff had to attend a number of trainings and learn an entirely new system over the past year.

Factors Affecting Results

Expanded hiring and training: Staff hired in recent years has had the added difficulty of learning our old legacy system and the new GenTax system. This has slowed production. In addition, staff has been very involved in training on and testing of the new system.

Disparate impact of corporate tax payments: The Business Division recognized a significant increase in enforcement revenue due to a large payment that was received during the year.

Core Systems Replacement Project: Fiscal year 2016 included a resource drain for both the personal income tax and business tax programs. Both areas deployed resources to help test, train, and implement various features of the GenTax system. All users had to learn a brand new system while continuing their work. In addition, resources from throughout the agency assisted with processing and system functions in order to maintain processing goals.

PTAC played a significant role in Rollout 2 of the GenTax implementation. Many functions that worked for Business Division users needed to be modified slightly for the personal income tax program. Because of the large number of taxpayers and situations that could occur with personal income taxes, many unique situations emerged that needed to be addressed. Personal income tax staff spent many hours addressing these situations, developing and testing solutions, and then helping with implementation of those solutions.

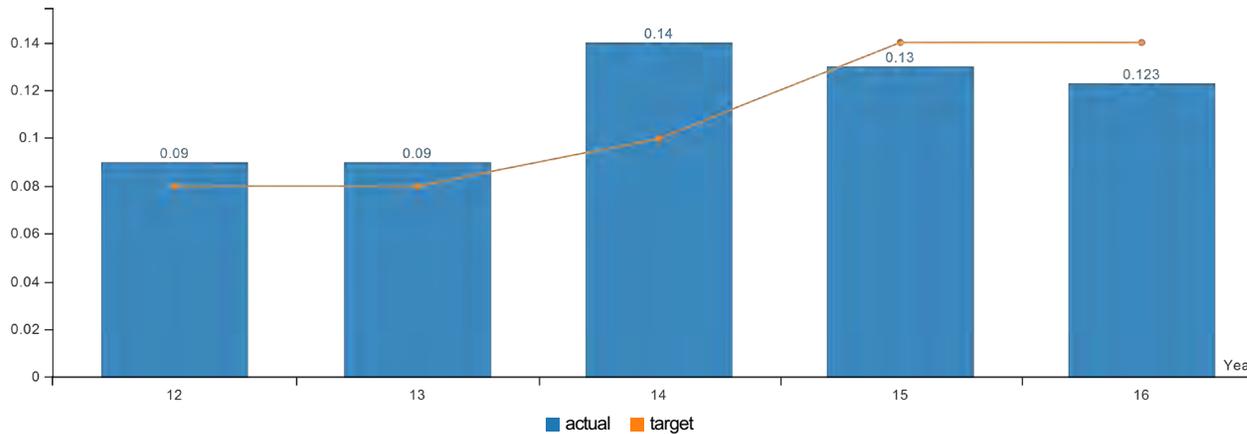
The Business Division also played a major role in Rollout 2. Changes to the GenTax system during Rollout 2 had to be tested to ensure they would work with programs included in Rollout 1, which were primarily Business Division programs. This resulted in additional training and testing requirements for staff, which decreased their production.

The Withholding Section remains in our legacy system until November 2016. Withholding staff are beginning to see the short-term production impacts of GenTax implementation, as they're fulfilling testing and training requirements in anticipation of Rollout 3.

External factors: We also recognize that there are a variety of external factors that impact compliance. Factors such as the overall economy, employment rate, and external policy decisions all have the potential to affect enforcement rates, but we don't currently have a way to measure these potential impacts.

Legislatively Adopted Budget (LAB): Any increases or decreases to the budget will affect this measure.

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



Report Year	2012	2013	2014	2015	2016
Cost of Collections Funds					
Actual	\$0.09	\$0.09	\$0.14	\$0.13	\$0.12
Target	\$0.08	\$0.08	\$0.10	\$0.14	\$0.14

How Are We Doing

Our COF for fiscal year 2016 was 0.123. For this measure, lower performance is better. This represents a 5.4 percent decrease from the fiscal year 2015 COF of 0.130. Dollars collected increased from \$234.9 million in 2015 to \$269.7 million in 2016 and the department’s collection function Legislatively Adopted Budget (LAB) increased from \$30.6 million in 2015 to \$34.7 million on 2016.

There are many factors that impact cost of funds. Some of the external factors that impact our enforcement revenue include the health of the overall economy and the labor market participation rate. Internal factors influencing our enforcement revenue include the CSR project, changes in staffing, the relative level of staff experience, and filing enforcement strategies.

The Business Division’s programs recorded an increase in enforcement revenue for fiscal year 2016, but those numbers were impacted by one abnormally large payment.

Personal income tax enforcement revenue decreased in fiscal year 2016. Over the past year, we had to shift resources to the CSR Project while still attempting to maintain consistency in billings and collection to meet audit and collection goals. The Personal Income Tax Program was the main component of Rollout 2 of the CSR Project, and all staff had to attend a number of trainings and learn an entirely new system over the past year.

Factors Affecting Results

Expanded hiring and training: Staff hired in recent years has had the added difficulty of learning our old legacy system and the new GenTax system. This has slowed production. In addition, staff has been very involved in training on and testing of the new system.

Disparate impact of corporate tax payments: The Business Division recognized a significant increase in enforcement revenue due to a large payment that was received during the year.

Core Systems Replacement Project: Fiscal year 2016 included a resource drain for the personal income tax and business tax programs. Both areas deployed resources to help test, train, and implement various features of the GenTax system. All users had to learn a brand new system while continuing their work. In addition, resources from throughout the agency assisted with processing and system functions in order to maintain processing goals.

PTAC played a significant role in Rollout 2 GenTax implementation. Many functions that worked for Business Division users needed to be modified slightly for the personal income tax program. Because of the large number of taxpayers and situations that could occur with personal income taxes, many unique situations emerged that needed to be addressed. Personal income tax staff spent many hours addressing these situations, developing and testing solutions, and then helping with implementation of those solutions.

The Business Division also played a major role in Rollout 2 of the GenTax implementation. Changes to the GenTax system during Rollout 2 had to be tested to ensure they would work with programs included in Rollout 1, which were primarily Business Division programs. This resulted in additional training and testing requirements, which decreased their production.

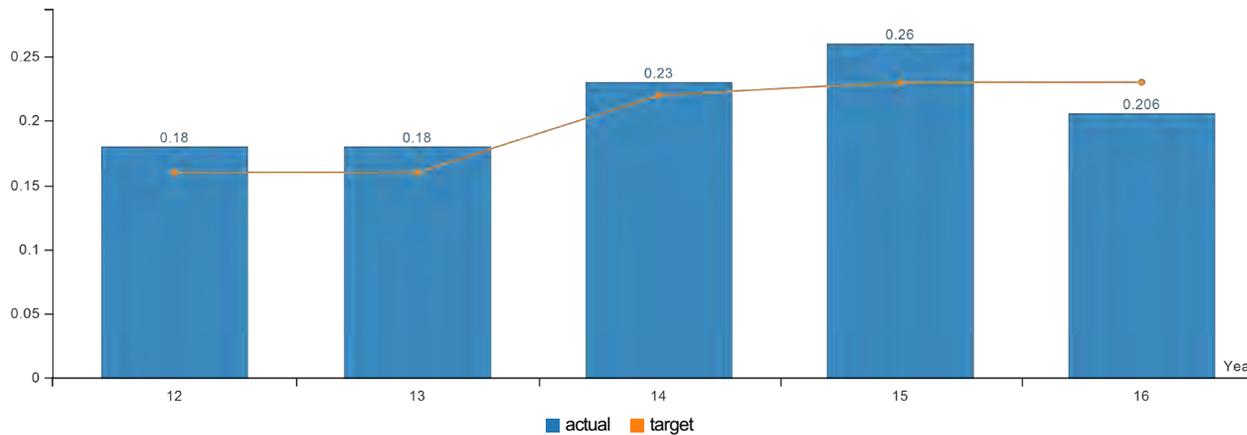
The Withholding Section remains in our legacy system until November 2016. Withholding staff are beginning to see the short-term production impacts of GenTax implementation, as they're fulfilling testing and training requirements in anticipation of Rollout 3.

Data mining and weekly AR reports: Using new tools available in GenTax provided a more structured approach to collections. Weekly reporting helped identify the most collectable accounts.

External factors: We recognize that there are a variety of external factors that impact compliance. Factors such as the overall economy, employment rate, and external policy decisions all have the potential to affect enforcement rates, but we don't currently have a way to measure these potential impacts.

Legislatively Adopted Budget (LAB): Any increases or decreases to the budget will affect this measure.

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



Report Year	2012	2013	2014	2015	2016
Cost of Assessments					
Actual	0.18%	0.18%	0.23%	0.26%	0.21%
Target	0.16%	0.16%	0.22%	0.23%	0.23%

How Are We Doing

In 2016, our cost of assessments (COA) decreased to 0.206. For this measure, lower performance is better. This represents a 7.8 percent decrease from the fiscal year 2015 COA of 0.263. This was due, in large part, to increased assessments in the Corporation Tax Program. Assessed dollars increased from \$159 million in 2015 to \$201.1 million in 2016. The enforcement function funding in LAB decreased from \$41.8 million in 2015 to \$41.5 million in 2016.

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. Internal factors influencing our enforcement revenue include the CSR project, changes in staffing, the level of staff experience, and filing enforcement strategies.

The Business Division's programs recorded an increase in assessments for fiscal year 2016, but that increase included one abnormally large assessment.

Personal income tax assessments decreased in fiscal year 2016. Over the past year, we had to shift resources to the CSR Project while still attempting to maintain consistency in billings to meet enforcement goals. We anticipate an increase in enforcement revenue during fiscal year 2017 as staff gain experience in and knowledge of how our new GenTax system works. However, there is always the possibility of large assessments that can impact the results.

Factors Affecting Results

Core Systems Replacement Project: Fiscal year 2016 included a resource drain for both the personal income tax and business tax programs. Both areas deployed resources to help test, train, and implement various features of the GenTax system. All users had to learn a brand new system while continuing their work. This production loss was expected. In addition, resources from throughout the agency assisted with processing and system functions in order to maintain processing goals.

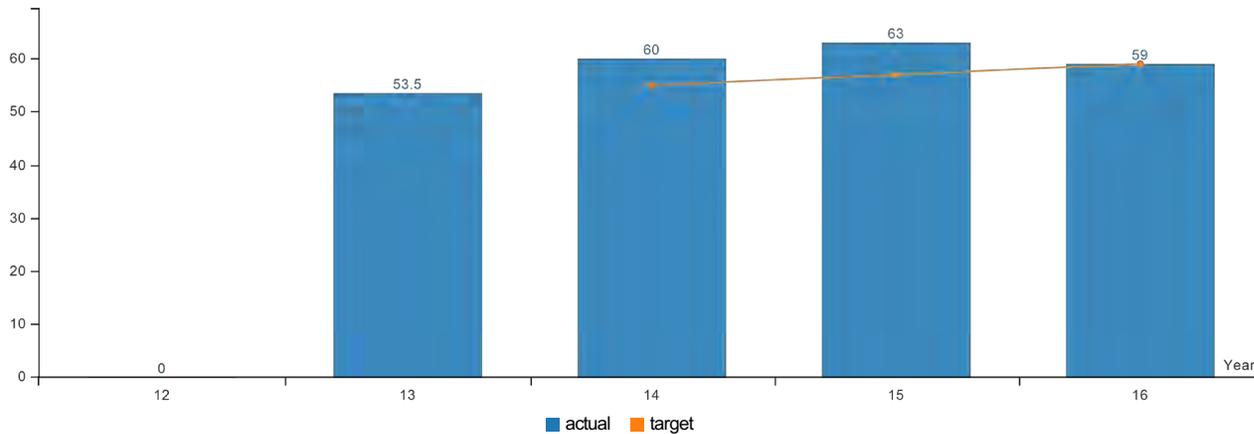
PTAC played a significant role in Rollout 2 of the GenTax implementation. Many functions that worked for Business Division programs needed to be modified slightly for the Personal Income Tax Program. Because of the large number of taxpayers and situations that could occur with personal income taxes, many unique situations emerged that needed to be addressed. Personal Income Tax Program staff spent many hours addressing these situations, developing and testing solutions, and then helping with implementation of these solutions. This caused a reduction in production and efficiency.

External factors. We recognize that there are a variety of external factors that impact compliance. Factors such as the overall economy, employment rate, and external policy decisions all have the potential to impact enforcement rates, but we don't currently have a way to measure these potential impacts.

Internal factors. Fiscal year 2016 included the first tax return processing season for personal income taxes in GenTax. With the new system, we re-evaluated all of our existing rules regarding fraud errors that can be corrected automatically by the system, manual processing of returns, and refund review. This created an unusual season, and we weren't able to accurately anticipate the volume of work it would create.

Legislatively Adopted Budget (LAB): Any increases or decreases to the budget will affect this measure.

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



Report Year	2012	2013	2014	2015	2016
Employee Engagement					
Actual	No Data	53.50	60	63	59
Target	TBD	TBD	55	57	59

How Are We Doing

We initiated the standardized employee engagement survey in February 2013. The results established our baseline index of 53. We completed the survey again in September 2013. Those results showed slight improvement in the index to 54. In May 2014, our employee engagement index increased to 60, which exceeded the target. The results of the 2015 survey show our index at 63, which exceeded the target again. The results of the 2016 survey showed a drop in the engagement index to 59, meeting our target.

From the May 2016 survey, the critical engagement tactics that impacted the index score included:

1. My agency provides adequate training to support my career development.
2. My immediate supervisor deals effectively with poor performance.
3. I have the data and tools I need to do my job.

Factors Affecting Results

Many factors contributed to the decrease in our engagement index, including a significant reduction in the response rate (15 percent decrease from 2015) and a large portion of the agency being involved in the Core Systems Replacement (CSR) Project rollout and training. We changed how we reported the results of the survey, which may have had significant, unexpected impacts on the response rate. We chose to report the results down to the unit or section level (depending on minimum response rate requirements to keep 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. We'll maintain this reporting structure another year to see if we see an increase in the response rate now that employees have been able to see that anonymity has been preserved.

Additionally, 2016 had the largest rollout (based on number of people and programs affected) for the CSR Project to date. This created a huge training curve for our employees to come up to speed on the new software. Developmental training for employees was limited to focus on training needed for the new software rollout. Additionally, there were feelings of unease and confusion as

employees and managers attempted to understand how the new software would affect their work. We're addressing these feelings of unease by completing classification studies and desk audits as necessary after each rollout, while proactively looking at the effects the software system will have on agency structure and processes once it is fully launched in late 2017.

The agency's leadership team is committed to making training and development for staff a priority. In addition, the agency is continuing its commitment to transparency in communications through monthly town hall meetings, bi-weekly director's video blogs, a weekly written blog, and information shared by administrators and managers. These communication channels provide good information to staff about what is going on in the organization, what is changing, and what can be expected.