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2016 - 17 Governor's Budget - Revenue, Department of

www.revenue.state.mn.us

AT A GLANCE

- Employ over 1,400 people across the state.
- Process 2.7 million individual income tax returns.
- Collect $20.5 billion in state taxes annually to fund state and local programs.
- Collect $9 billion in individual income taxes each year.
- Collect $5 billion in sales taxes each year.
- Collect $811 million in statewide property taxes.
- Help 155,000 businesses collect sales tax.
- Assist 3,420 local units of government with tax administration.
- Answer 675,000 phone calls each year.
- Serve 2.2 million visitors through our website (17 million page views) each year.

PURPOSE

The mission of the Minnesota Department of Revenue is "working together to fund Minnesota's future." Our vision is that everyone reports, pays and receives the right amount: no more, no less.

We work together with individuals, businesses, local governments, federal and state agencies, tax professionals, and others to administer 31 state taxes. We collect $20.5 billion in state taxes annually to fund state and local programs.

We also collect debt owed to state agencies and local governments. We oversee the uniform application of property tax laws by local governments, administer state property tax refund and relief programs, and make state aid payments to counties, cities, towns, and special taxing districts through 29 state programs.

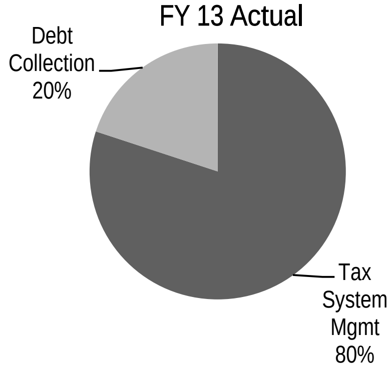
The revenue we collect is allocated through the budget process to fund education, health care, roads and bridges, transit, parks and trails, prisons, public safety, job training, economic development, local government services, and other programs.

Our budget is organized into two major programs: Tax System Management and Debt Collection Management. Tax System Management includes the administration of state taxes; appeals, legal services and tax research; property tax administration and state aids payment; tax payment and return processing; operational support and technology development and support. The Debt Collection Management program includes tax and other agency debt collections.

Our programs contribute to and support the statewide outcome of efficient and accountable government services. In addition, we collect revenue to support the statewide outcomes of: A thriving economy that encourages business growth and employment opportunities; Minnesotans have the education and skills needed to achieve their goals; All Minnesotans have optimal health; Strong and stable families and communities; People in Minnesota are safe; A clean, healthy environment with sustainable uses of natural resources; and Sustainable options to safely move people, goods, services and information.

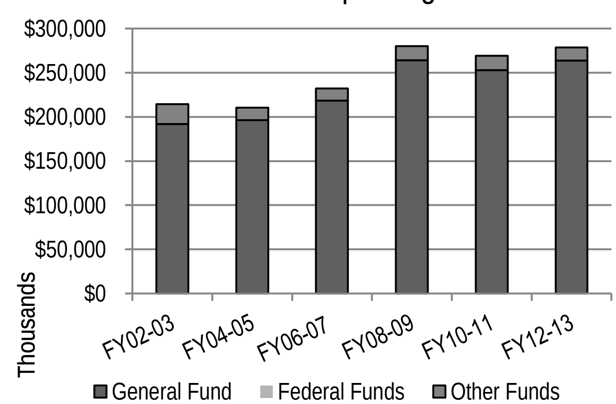
BUDGET

Spending by Program
FY 13 Actual



Source: SWIFT

Historical Spending



Source: Consolidated Fund Statement

95% of the Department of Revenue's budget is comprised of the general fund. The remaining 5% is comprised of funds from services provided to other entities.

STRATEGIES

To achieve our mission we have identified the following strategies.

Minnesota Department of Revenue Strategies

1. Provide customers with information, education, and services.
2. Create operational efficiencies and leverage technology to secure customer information, and to meet customer and employee needs.
3. Enforce the tax laws by identifying and addressing patterns of non-compliance.
4. Listen to our customers, identify and develop improvements to the revenue system.
5. Foster a productive, innovative, and healthy work environment that provides opportunities for growth and development.

The Department of Revenue's legal authority comes from Minnesota Statutes §270C.03. (https://www.revisor.mn.gov/statutes/?id=270C.03/)

(Dollars in Thousands)

Expenditures By Fund

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
1000 - General	120,374	143,315	136,967	143,197	139,266	138,087	146,067	146,254
2000 - Restricted Misc Special Rev	3,854	4,583	4,673	5,956	5,670	5,378	5,670	5,378
2360 - Health Care Access	1,328	1,410	1,569	1,929	1,749	1,749	1,749	1,749
2710 - Highway Users Tax Distribution	1,666	1,766	2,028	2,338	2,183	2,183	2,417	2,405
2800 - Environmental	244	301	274	332	303	303	303	303
Total	**127,466**	**151,376**	**145,510**	**153,752**	**149,171**	**147,700**	**156,206**	**156,089**
Biennial Change				20,420		(2,392)		13,032
Biennial % Change				7		(1)		4
Governor's Change from Base								15,424
Governor's % Change from Base								5

Expenditures by Program

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Program: Tax System Management	103,430	121,186	116,136	121,110	117,627	116,156	124,662	124,545
Program: Debt Collection Management	24,036	30,190	29,374	32,642	31,544	31,544	31,544	31,544
Total	**127,466**	**151,376**	**145,510**	**153,752**	**149,171**	**147,700**	**156,206**	**156,089**

Expenditures by Category

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Compensation	101,869	113,420	107,428	108,307	107,736	107,696	112,274	114,175
Operating Expenses	23,698	31,746	37,265	44,851	40,970	39,539	43,467	41,449
Other Financial Transactions	1,675	5,634	132	142	65	65	65	65
Grants, Aids and Subsidies	199	199	700	400	400	400	400	400
Capital Outlay-Real Property	26	378	-15	52				
Total	**127,466**	**151,376**	**145,510**	**153,752**	**149,171**	**147,700**	**156,206**	**156,089**

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Full-Time Equivalents	**1,544.2**	**1,623.8**	**1,512.1**	**1,434.3**	**1,405.3**	**1,375.8**	**1,470.8**	**1,470.9**

(Dollars in Thousands)

1000 - General

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In		18,531	0	3,461	0		0	
Direct Appropriation	137,996	141,185	139,213	137,877	137,407	136,227	144,208	144,394
Open Appropriation	1,176	2,071	1,198	1,900	1,900	1,900	1,900	1,900
Net Transfers	(1,235)	(9,631)	(51)	(41)	(41)	(41)	(41)	(41)
Cancellations	1,350	8,841	32					
Expenditures	**120,374**	**143,315**	**136,967**	**143,197**	**139,266**	**138,087**	**146,067**	**146,254**
Balance Forward Out	16,213		3,461	0				
Biennial Change in Expenditures				16,474		(2,811)		12,157
Biennial % Change in Expenditures				6		(1)		4
Gov's Exp Change from Base								14,968
Gov's Exp % Change from Base								5
FTEs	1,482.0	1,558.9	1,436.1	1,352.2	1,329.9	1,306.0	1,392.4	1,398.2

2000 - Restricted Misc Special Rev

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In	6,953	3,543	3,593	3,436	2,695	1,973	2,695	1,973
Receipts	4,438	4,700	4,516	5,216	4,948	4,958	4,948	4,958
Net Transfers	(4,112)	(82)						
Expenditures	**3,854**	**4,583**	**4,673**	**5,956**	**5,670**	**5,378**	**5,670**	**5,378**
Balance Forward Out	3,426	3,577	3,436	2,695	1,973	1,553	1,973	1,553
Biennial Change in Expenditures				2,193		418		418
Biennial % Change in Expenditures				26		4		4
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	25.3	28.8	37.0	39.4	33.4	28.5	33.4	28.5

2360 - Health Care Access

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In		424		180				
Direct Appropriation	1,749	1,749	1,749	1,749	1,749	1,749	1,749	1,749
Net Transfers		(82)						
Cancellations		681						
Expenditures	**1,328**	**1,410**	**1,569**	**1,929**	**1,749**	**1,749**	**1,749**	**1,749**
Balance Forward Out	421		180					

(Dollars in Thousands)

2360 - Health Care Access

Biennial Change in Expenditures				759		1		1
Biennial % Change in Expenditures				28		0		0
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	16.1	15.9	18.4	22.3	21.9	21.5	21.9	21.5

2710 - Highway Users Tax Distribution

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In		531		155				
Direct Appropriation	2,183	2,183	2,183	2,183	2,183	2,183	2,417	2,405
Net Transfers		(86)						
Cancellations		862						
Expenditures	**1,666**	**1,766**	**2,028**	**2,338**	**2,183**	**2,183**	**2,417**	**2,405**
Balance Forward Out	517		155					
Biennial Change in Expenditures				933		0		456
Biennial % Change in Expenditures				27		0		10
Gov's Exp Change from Base								456
Gov's Exp % Change from Base								10
FTEs	17.9	16.8	17.0	17.0	16.7	16.4	19.7	19.4

2800 - Environmental

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In		59		29				
Direct Appropriation	303	303	303	303	303	303	303	303
Cancellations		61						
Expenditures	**244**	**301**	**274**	**332**	**303**	**303**	**303**	**303**
Balance Forward Out	59		29					
Biennial Change in Expenditures				61		0		0
Biennial % Change in Expenditures				11		0		0
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	2.8	3.4	3.5	3.5	3.5	3.4	3.5	3.4

Change Item: Operating Adjustment

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	1,821	3,675	3,675	3,675
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	1,821	3,675	3,675	3,675
FTEs	28.7	57.4	57.4	57.4

Recommendation:
The Governor recommends additional funding for compensation related costs associated with the delivery of agency services. This amount represents an annual increase of 1.8% for General Fund compensation costs.

Rationale/Background:
Each year, compensation costs rise due to labor contract settlements, and changes in employer-paid contributions for insurance, FICA, Medicare, retirement, and other factors. Absorbing this increase in compensation costs within existing agency base appropriations results in reduced staffing and/or reduced non-compensation spending.

Proposal:
The Governor recommends increasing agencies' general fund budgets for employee wage and benefit costs by 1.8% per year for FY 2016-17. Agencies were instructed to include a 1.8% increase to total compensation each year in their base budgets, based upon the compound annual compensation spending rate increase per FTE over the last ten years for executive branch employees. This recommendation is intended to allow agencies to maintain their current level of agency operations.

For non-General Fund direct appropriated funds, the Governor's budget recommendations also include an adjustment of 1.8% per year, where the amount can be supported by the source of revenue.

Results:
This proposal is intended to allow agencies to continue to provide current levels of service and information to the public.

Statutory Change(s):
N.A.

Minnesota Department of Revenue

FY16-17 Biennial Budget Change Item

Change Item: Maintenance and Enhancement of Minnesota's Tax System

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	3,000	3,000	3,000	3,000
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	3,000	3,000	3,000	3,000
FTEs	17.4	17.4	17.4	17.4

Recommendation:

The Governor recommends a $3.0 million per year increase to Minnesota Department of Revenue (Revenue) for the maintenance and enhancement of Minnesota's tax system.

These funds will allow Revenue to maintain and enhance the technology systems such as the state's integrated tax system (GenTax) technology and by making investments in county property tax records through the Property Records Information Systems of Minnesota (PRISM) enhancements project. Funds are also needed to address increasing costs in tax litigation and in other administrative areas, such as increasing lease rates. Failure to ensure the state is well represented in tax litigation can have negative consequences for state revenue and overall tax administration. Increasing administrative costs such as lease rate increases also threaten to erode the Department's ability to maintain current service levels.

Finally, funds are needed to meet the increasing demand for taxpayer telephone assistance, outreach and education, and taxpayer filing and paying assistance so that taxpayers have the information and technology they need to report and pay accurately and on time.

Rationale/Background:

Revenue collects $20.5 billion in state taxes annually to fund state and local programs. The department works with individuals, businesses, local governments, federal and state agencies, tax professionals, and others to administer 31 state taxes. Revenue also collects debt owed to state agencies and local governments, oversees the uniform application of property tax laws by local governments, administers state property tax refund and relief programs, and makes state aid payments to counties, cities, towns, and special taxing districts through 29 state programs.

As a recent example of increased pressures, Revenue faced significant demands in the form of tax law changes during the last biennium. In particular, in 2014, tax law changes were passed on March 21 and May 2, 2014, which is very late in the filing season. Changes also included property tax percentage increase, one-time supplemental agricultural credit, and homeowner notification project. All of these changes needed to be made in the same timeframe and affected the largest taxpayer population. Tax law changes require adjustments in forms and instructions, internal technology, changes for software vendors. And, each adjustment requires legal analysis, plain language resources, programming, testing, and communication with vendors and preparers.

Last year, Revenue reviewed and adjusted over one million individual and property tax returns, issued over 80,000 agricultural refunds, and notified over 40,000 homeowners of potential eligibility for property tax refunds. Those efforts were priorities because they helped taxpayers benefit from changes in the tax laws. Dedicating limited resources to these priorities, however, resulted in reduced capacity to process amended income tax returns, limited the ability to collect debt in the most timely way, reduced audit activity, and diminished telephone customer service support; all of which are critical to maintaining the integrity of Minnesota's tax system.

Revenue has managed increased demand through prioritization of work, numerous continuous improvement and efficiency efforts, and by leveraging technology wherever possible. Even so, the prioritization resulted in backlogs that will require additional resources to resolve. Also, as Revenue's performance measures show, demands on the tax administration system continue to increase. The numbers of outreach and educational activities, the number of phone calls being fielded from customers, and the numbers of tax types that can be filed electronically are all increasing.

Maintaining service and efficiencies achieved through wise technology investments
Administering the tax system requires quality technology systems that allow easy file and pay methods, education, communication, automated processing of returns and payments, analytics, effective audit assessment and collection, appeals processing, revenue research estimates, and reporting. The integrated tax system (GenTax) has served Minnesota well, and requires routine evaluation so that all appropriate tax types are fully utilized in the system and enhancements align with other aspects of tax administration.

PRISM is a project focused on streamlining and enhancing data in a more efficient manner. This initiative will replace nine abstract data collection processes with four annual data submissions made on a standard form. It will improve the quality of information available to the department and policy makers because it will provide parcel level specific data currently collected from 87 counties. It will simplify county submission processes, annual data updates and revisions processes, and maximize the use of the data submitted. This is a significant opportunity for counties, software vendors, and customers using the data.

Tax Litigation and other cost increases
Taxpayers have the right to appeal assessments to Tax Court and/or Supreme Court. Identifying and projecting legal costs is difficult because Revenue cannot project which taxpayers will pursue court options or the complexity of the case that may be litigated until it happens.

When taxpayers appeal their assessments in court, the Department and the State are represented by the Office of the Attorney General. In 2012, the Office of the Attorney General asked the department to enter into a partner agency agreement to fund tax litigation positions because it would be unable to fund this work from its budget as it had done previously. Revenue entered into a partner-agency funding agreements in FY 13, FY 14, and FY 15 and expects to do so in the next biennium.

Revenue has also experienced other increased costs associated with litigation, including expert witnesses which are important for many cases. Failure to be well represented in this area can have significant negative consequences on the the integrity of Minnesota's tax system.

As another example, the lease rates for the Stassen building, in which Revenue is housed, will also increase by 4 percent in FY 16, and an additional 4 percent in FY 17. Lease rate increases of this magnitude are unsustainable within existing budgets and will impact service levels.

Maintaining and enhancing customer service
Funds are needed to meet the growing demand for education, outreach, and other taxpayer customer service. The most efficient and effective way to collect revenue is to ensure that taxpayers have the information and technology they need to report and pay accurately and on time. As seen in the results section, Revenue is heading in the right direction.

Proposal:

The Governor recommends a $3.0 million increase each fiscal year to maintain the efficient and effective administration of the tax system and improve appropriate customer service levels. Funding Minnesota's future requires an investment of funds necessary to maintain and enhance current technology systems. Revenue will also invest in litigation expenses including attorney general costs, court reporter fees, transcript fees, document production, delivery services, filing fees, expert witness fees, and mediators. Adequately funding these activities will allow Revenue to continue to meet the growing demand to educate taxpayers and preparers, provide filing and paying options, audit, assess, and collect the right amount of tax.

Results:

With adequate investment, Revenue will maintain and restore the ability to meet our mission of funding Minnesota's future. The vision of, "everyone reports, pays, and receives the right amount: no more, no less" will be realized through education and outreach; administration of state taxes; appeals and legal services and tax research; property tax administration and state aids payment; tax payment and return processing; audit, assessment, and collection; operational support and technology development and support. Revenue will provide excellent service to customers while realizing efficiencies whenever possible.

Performance Measures	Previous	Current	Trend
A. Percentage of customers that file and pay on time	91.5%	91.8%	Stable
B. Percentage of customers that file their tax returns electronically	79%	80%	Stable
C. Employee turnover rate	6.9%	8.3%	Increasing
D. Website visits (monthly average)	167 K	183 K	Increasing
E. Outreach and educational activities	590	1,058	Increasing
F. Incoming customer phone calls	645,994	674,896	Increasing
G. Revenue analyses prepared by the Research Division and Property Tax Divisions	751	951	Increasing
H. Percentage of customers who resolved their appeal with the department without appealing to tax court	96.6%	96.4%	Stable
J. Number of returns processed	5.2 million	5.2 million	Stable
K. Tax types that customers can file electronically	26%	42%	Increasing

Statutory Change(s):

None.

Change Item: Stop Cigarette Smugglers

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	$1,421	$1,036	$1,036	$1,036
Revenues	$2,126	$2,126	$2,126	$2,126
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact =	($705)	($1,090)	($1,090)	($1,090)
FTEs	11.00	11.00	11.00	11.00

Recommendation:

The Governor recommends enhancing tobacco enforcement with more anti-smuggling personnel, increase penalties on law breakers, and create a statewide license for retailers to ensure that honest businesses are not at a competitive disadvantage. This proposal includes an administrative cost to establish a state-wide license for retailers and an ongoing to cost for expanding Revenue's tobacco enforcement team.

Rationale/Background:

In 2013, the cigarette and tobacco taxes were raised to promote the health of all Minnesotans and balance the budget. Since then smuggling of cigarettes and other tobacco products into the state has substantially increased. To put a stop to this illegal activity, this proposal would enhance enforcement with more anti-smuggling personnel, increase penalties on law breakers, and create a statewide license for retailers to ensure that honest businesses are not at a competitive disadvantage.

1. **Enhance the Department of Revenue's tobacco enforcement team, increasing the number of inspections, assessments, and seizures relating to the sale of untaxed tobacco products in Minnesota**
   In the past year, concern about the level of compliance with tax laws related to tobacco products has grown. In 2014, 40% of retail inspections resulted in either a seizure or assessment related to the discovery of untaxed tobacco products. In these inspections, Revenue uncovered increasing evidence of tax evasion. To fully investigate areas of non-compliance and charge the offenders with tax crimes, Revenue needs additional resources. This was one of the recommendations in the 2014 Tobacco study.
2. **Establish a state-wide license for retailers and enhance the state-wide license for distributors**
   Currently, retailers of cigarette and tobacco products are only licensed by local cities and counties. Revenue relies on hundreds of cities and counties for information to enforce the cigarette and tobacco statutes. The information on who is licensed is often incomplete or absent. This was one of the recommendations in the 2014 tobacco study. Creating a state license will:
   - Optimize the enforcement of tobacco products
   - Create an accurate list of retailers in Minnesota that could be shared and used by multiple agencies throughout the State of Minnesota to enforce tobacco laws relating to both tax and health initiatives
   - Provide Revenue with the ability to suspend or revoke a retail license if the taxpayer is found to be non-compliant
3. **Institute penalties for non-compliance with tobacco tax laws – including suspension of retail license and civil and criminal penalties**
   Currently, there are no civil penalties for retailers who are found to be stocking or selling untaxed tobacco products. Civil penalties administered by Revenue would provide retailers with a financial disincentive to purchase untaxed tobacco products from smugglers. In addition to civil penalties, revocation of the new state license for selling cigarettes and tobacco products, and criminal penalties when appropriate, would provide retailers with additional disincentive to purchase untaxed tobacco products from smugglers. Several other states such as Iowa, Illinois, and Ohio have a tiered penalty system for retailers of tobacco products. This was one of the recommendations in the 2014 Tobacco study.

Proposal Details:

1. Enhance the Department of Revenue's tobacco enforcement team, increasing the number of inspections, assessments, and seizures relating to the sale of untaxed tobacco products in Minnesota
2. Establish a state-wide license for retailers and enhance the state-wide license for distributors

3. Institute penalties for non-compliance with tobacco tax laws – including suspension of retail license and civil and criminal penalties

Results:

Type of Measure	*Name of Measure*	*Previous*	*Current*	*Target*
Quantity	Seizure Rate related to Retail Compliance Inspections	7.71%	43.32%	Decrease
Quality	Rate of Cigarette and Tobacco Criminal Cases being submitted for Criminal Prosecution	N/A	6.72%	Increase
Results	Minnesota Smuggled Tobacco consumed as a percentage of total Tobacco Products Consumed	N/A	N/A	Decrease

Statutory Change(s):

Minnesota Statutes 289A.63; 297F.01 Sub 12; 297F.03, Subd. 5; 297F.04, Subd 1 and Subd. 2; 297F.19; 297F.20 by adding Subd. and 609.035

Change Item: Modernize Railroad Property Tax

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	$224	($2,334)	($2,334)	($2,334)
Revenues	$10,530	$18,820	$19,350	$20,000
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact =	($10,754)	($21,154)	($21,684)	($22,334)
FTEs	0	0	0	0

Recommendation:

The Governor recommends expanding the taxable property of railroads to include property like rolling stock while also simplifying outdated rules for taxing railroads. The total C/I levy would be increased the same amount of tax that the newly eligible railroad property generated, keeping taxes flat for other businesses paying the C/I levy. There would be an administrative cost for the Department of Revenue in the first year of $224,000 for programming in the integrated tax system, and smaller administrative costs of $56,000 in future years for administrative costs and additional attorney fees.

Rationale/Background:

Minnesota's procedures for calculating taxes on railroad property are rigid and outdated. This proposal would:

- Provide local property tax relief to homeowners.
- Provide a more fair treatment of railroad property.
- Align our procedures with current property tax laws and with the procedures of other states.
- Eliminate obsolete calculations in valuating railroad property.
- Make Minnesota's property tax system more consistent.

Proposal Details:

This proposal would expand the taxable property of railroads to include property like rolling stock, and increase the commercial/industry levy to be consistent with the new funding. That would result in lower property taxes for homeowners. It would also modernize railroad property taxes and make them more consistent with other property tax valuations. The proposed policy changes would be effective for the 2015 assessment to allow for forms and instructions to be updated. The proposed effective date for any technical sections is the date following final enactment.

Current laws do not provide for an accurate determination of the fair market value of railroad operating property. This proposal would allow the commissioner to use modern, generally accepted appraisal practices to estimate market value for railroads, update obsolete language, and reduce the burden of resources spent on dealing with appeals stemming from outdated appraisal methodology.

Railroads are assessed by the State Assessed Property Section of the Minnesota Department of Revenue Property Tax Division. They cannot be locally assessed because they cross many jurisdictions. Assessments are completed annually for all railroads operating in Minnesota. They are guided by Minnesota Rule 8106 and are completed using unitary valuation.

Although Minnesota law directs the commissioner to use generally accepted appraisal principles and practices to determine the value of a railroad, Minnesota Rule 8016 prescribes a rigid and outdated methodology. The law also limits the operating property included in the valuation.

A November 2011 study of Minnesota's Railroad Rule recommended changes to Minnesota Rule 8016. This study included a survey of other states concerning their methodologies used to value railroad property. This proposal incorporates information gained from that study. Most of the changes in this proposal, including the taxation of rail cars, have precedence in other states.

Results:

Type of Measure	*Impact*
Transparency, Understandability, Simplicity, & Accountability	Increase
Horizontal Equity	Increase

Statutory Change(s):

Minnesota Statutes 270.80-270.87, 272.02 subd. 9(b), 273

Change Item: Disallowance of Working Family Credit for Full-Year Nonresidents

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	$35	0	0	0
Revenues	$5,100	$5,200	$5,300	$5,300
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact =	($5,065)	($5,200)	($5,300)	($5,300)
FTEs	.48	0	0	0

Recommendation:
The Governor recommends that full-year nonresidents are removed from Working Family Credit eligibility. Part year residents would remain eligible.

This proposal would include a onetime administrative cost of $35,000 for the Department of Revenue for changes in the integrated tax system and dealing with an increased number of returns with errors in FY 2016.

Rationale/Background:
As an example, Wisconsin residents that are working in Minnesota and are within the income limits of the Working Family Credit receive the credit from both Minnesota and Wisconsin. Minnesota residents working in Wisconsin do not receive equal treatment, only getting the credit from Minnesota. This proposal would make full-year nonresidents ineligible for the Minnesota Working Family Credit, effective for tax years beginning after December 31, 2014.

This proposal would:

- Follow the intention of the credit: to benefit Minnesota residents and part year residents.
- Cut down on fraudulent returns, which are more difficult to track on out-of-state claims.

Proposal Details:
This proposal removes full-year nonresidents from Working Family Credit (WFC) eligibility. This proposal is effective for tax years beginning after December 31, 2014. Full-year nonresidents will no longer qualify for the credit.

Results:

Type of Measure	*Impact*
Transparency, Understandability, Simplicity, & Accountability	Increase

Statutory Change(s):
Minnesota Statute 290.0671, subd.1(e)

Change Item: NexTen for Transportation

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	6,530	8,600	12,600	12,600
Revenues	(1,900)	(4,200)	(5,300)	(5,800)
*Highway User Tax Distribution Fund				
Expenditures	234	222	222	222
Revenues	364,570	562,095	584,142	637,447
Transfers Out	364,277	561,791	583,833	637,133
Trunk Highway Fund				
Expenditures	306,221	426,621	482,538	534,194
Revenues	209,712	323,774	336,834	368,218
County State Aid Fund				
Expenditures	115,894	178,928	186,145	203,489
Revenues	115,894	178,928	186,145	203,489
Municipal State Aid Fund				
Expenditures	30,442	46,999	48,895	53,451
Revenues	30,442	46,999	48,895	53,451
Net Fiscal Impact = (Expenditures – Revenues)	(104,939)	(115,647)	(163,604)	(184,376)
FTEs (MNDOT)	338	564	675	819
FTEs (DOR)	3	3	3	3
*HUTD Transfers out are including transportation funds only.				

Request:
The Governor recommends that the state commit to a major investment plan for transportation to fund the estimated $6 billion dollar gap that exists between funding needs and revenues in the next 10 years. The Governor proposes filling the $6 billion gap in road and bridge funding by:

- Initiating a 6.5% gross receipts tax on gas
- Increasing registration fees (increase additional tax rate from 1.25% to 1.5% and base tax from $10 to $20; phased-in over 4 years)
- Authorizing $2 billion in trunk highway bonds over the next 10 years
- Leveraging MnDOT efficiencies (up to15% of new revenue)

The gross receipts tax and registration tax increases will fund roads and bridges at the state, county and municipal levels.

The Governor recommends funding Department of Revenue's cost for administering the NexTen Transportation proposal. These costs include $234,000 in FY 2016 and $222,000 in subsequent years for initiating and implementing the 6.5% gross receipts tax on gas.

Other Components:
In addition to the new funding above, the Governor recommends:

- Appropriating the existing trunk highway fund balance for additional state road and bridge funding and to restore purchasing power to MnDOT's operations.
- Increasing general fund appropriations to fund transportation needs not eligible for trunk highway funds. These include:
  - Greater Minnesota transit - $4 million in FY16 and $6 million in FY17 for a $10 million increase for the biennium, with a $10 million dollar base increase in the following years.
  - Bike and pedestrian infrastructure, including Safe Routes to Schools – a $2.5 million annual base increase.

Decreasing general fund revenues of $4.1 million for the FY16-17 biennium for increased petroleum refunds and $2 million for increased income tax refunds from increased registration fees. Also, increasing general fund appropriations $130,000 for the biennium for increased aid under M.S. 270C.19 due to the increase in gas tax, and increasing highway user tax appropriations $456,000 for administrative costs related to the gross receipts tax.

Authorization for the sale of $2 billion in trunk highway bonds over the next ten years. Debt service for these bonds is estimated to be $2.750 million in FY 2016 and $29.734 million in FY 2017, a total of $32.484 for the FY2016-17 biennium. This estimate increases to $149.061 for the FY2018-19 biennium. These estimates were provided by the Department of Minnesota Management and Budget.

To maximize funding uses and deliver our program more efficiently the Governor recommends allowing the use of the State Road Construction appropriation for internal department costs associated with delivering MnDOT's construction program. Currently, consultant costs are eligible for State Road Construction funding, but costs for internal MnDOT staff are not.

Rationale/Background:

Minnesota cannot preserve and improve quality and performance of the state's transportation systems under current investment levels and current infrastructure lifecycle replacement practice. The consequences of underinvesting in the state's transportation system will include a deterioration in service, increase in congestion, failing infrastructure and diminished ability to remain economically competitive. This is because transportation systems facilitate the efficient movement of people and goods and create the opportunity for economic development, enhanced productivity, job formation and sustainable growth. Without additional investment, the transportation system will not be able to expand to accommodate expected population and job growth. In addition, alternatives to driving alone must play a larger role in satisfying growing transportation demand - roads, transit and other transportation modes must work together as one system.

<u>Road and Bridge funding components</u>
Inflation has overtaken revenue growth for transportation. In 2012 the Transportation Finance Advisory Committee (TFAC) determined additional funding was needed for transportation. The department faces a $6B gap in revenue over the next ten years above current fund balance projections, to fund activities such as state road construction and operations and maintenance. $4B is needed for preservation and modernization, and $2B is needed for strategic expansion.

Without additional revenue, there will be:

- Increased deterioration of pavement and bridges on state system
  - Currently 5% of highway pavement is considered in poor condition (rough driving surface); it is estimated to be 11% in 20 years
  - Currently 3% of bridge deck pavement is considered in poor condition; it is estimated to be 8-10% in 20 years
- Very little expansion to address population and economic growth
- Likely staff reductions at MnDOT, and therefore reduction of products and service delivery

In order to restore purchasing power lost from inflation, MnDOT needs operating appropriations increased 3 percent for FY 2016 and approximately 6 percent per year for FY 2017 (compounding from FY 2016). In addition, more operations and maintenance dollars are recommended, calculated as 5% of new trunk highway fund revenues. This additional funding will be spent on snow plowing, fixing pot holes and guard rails, etc. These are needed due to declining asset conditions, increased snow and ice requirements, and the need for more timely maintenance.

While the Department has always worked to be good stewards of public funds, the department has taken a more targeted approach to identify and quantify efficiencies as well as find areas for greater efficiencies. When the Department identifies savings on current projects, we release the programmed funds to advance additional projects (examples include the 494/694 project in Plymouth and Highway 371 north of Nisswa). Under this proposal, the Department commits to finding 15% efficiencies of new revenues.

<u>General Fund - Transit</u>
Greater Minnesota Transit has a statutory goal to meet 90% of the transit need by 2025. In 2013, public transit systems met 63% of the need, based on the demographic models developed for the recent Greater Minnesota Investment Plan. This gap of operating funds includes those needed by local service providers to deliver more service, acquire and replace buses, provide bus maintenance and storage facilities. A small portion will be used by MnDOT to administer the larger program and keep up with inflation.

General Fund – Bike and pedestrian infrastructure, including Safe Routes to Schools
There is a need to increase access to safe options for active transportation – walking and bicycling. Statewide Bicycle System and Pedestrian System plans are in progress to identify specific future needs. Since 2006 MnDOT has received Safe Routes to School applications requesting more than $100 million and has awarded approximately $17 million in grants, illustrating the gap between current need and investment. These grants to schools, in partnership with cities and counties, implement infrastructure projects that improve safety or access for children walking or bicycling to school.

Proposal:

Road and Bridge funding components
New revenues, bonding and MnDOT efficiencies would be identified to help close the funding gap in the next ten years. The goal is an integrated transportation system that optimizes the movement of people and goods across the state. With new funding, we can:

- Improve asset management - preserve and modernize the existing system
- Expand MnPASS and bus rapid transit lanes
- Complete strategic expansion on key corridors throughout the state
- Complete Main Street improvements

The benefits for taxpayers will include:
- reduced wear and tear on their cars
- fewer stops at the fuel pump
- fewer accidents
- more time doing what they need to do

MnDOT has identified pavement and bridge needs as well as mobility projects that are not currently being addressed through its 10-year work plan. These unmet needs and projects will be given priority. These funds will provide for capital costs of construction as well as project development and engineering activities of up to 17% of the project costs, allowing the department to utilize this funding in the most efficient manner.

Internally MnDOT will narrow the transportation funding gap by saving or avoiding costs through efficiencies, innovation and improved program and project management and thereby stretch public dollars further. Efficiencies will also be realized in the long-term asset management of the transportation system with increased benefits and savings when the right investment is made at the right time.

The increase in our operating and capital appropriations allow us to make more timely asset preservation investments and greater utilize our unreserved fund balance. This is reflected in the fiscal impact section which shows that expenditures will outpace the new revenue estimates. The agency understands that it is important to retain a reasonable amount of unreserved fund balance for unforeseen events, but also that the majority of the funds would be best used in state road construction and maintenance.

MnDOT proposes to utilize the increased operating appropriations for our highest-priority products and services. Some of these include:
- Snow and Ice - Keeping the roads clear of snow and ice
- System Roadway Structures Maintenance – remove potholes (Pavement repair)
- Bridges and Structures Inspection and Maintenance

General Fund – Transit
In Greater Minnesota, MnDOT's highest priorities will be to establish service in locations without any existing public transit. Currently, only Waseca County has no form of public transit service available, although many counties do not have county-wide service. Assuming all eligible locations are served by public transit, MnDOT's top priorities for service expansion include:
- Expand service hours in the morning and night to serve more trips
- Expand multi-county services to link more communities
- Provide service on more days of the week
- Expand service frequencies and coverage

General Fund – Bike and pedestrian infrastructure, including Safe Routes to Schools
Provide safe routes infrastructure to increase access to safe options for active transportation in communities across Minnesota. Safe routes for bicyclists and pedestrians are the most effective way to increase walking and bicycling. Safe bicycle and pedestrian access

to schools for Minnesota children has numerous benefits including reducing congestion around schools, reducing school transportation costs, and providing an opportunity for physical activity which decreases obesity, improves health and supports academic achievement.

IT Related Proposals:

N/A

Results:

Road and Bridge funding components

MnDOT would plan to rehabilitate the system for the 21st century by:

- Improving 2,200 additional miles of pavement
- Repairing or replacing an additional 330 bridges, such as Robert St bridge over Mississippi River in St Paul
- Accelerate progress toward state goal of zero highway deaths with targeted installation of rumble strips, median barriers, lighting and other safety improvements .The Minnesota Toward Zero Death program has helped decrease traffic fatalities on Minnesota roads by 40.5% - saving an estimated 2,046 lives since 2003
- Keep roadside infrastructure in a state of good repair.

In addition, MnDOT has operating performance measures that will be impacted by this proposal. All are anticipated to decline without additional funding; and this would reduce the decline. They include:

- Snow Plowing Performance – meet clearance targets
- Smooth Roads – percent of pavement patching addressed
- Percent of projects let in the year scheduled

General Fund – Transit

The additional funding allows the State to meets 90% of projected need for Greater Minnesota transit by 2025 by increasing transit service by nearly 500,000 service hours.

General Fund – Bike and pedestrian infrastructure, including Safe Routes to Schools

Additional bicycle infrastructure investments would focus on local bicycle networks via local planning assistance with partners. Expanding the State Bikeways Systems (e.g. Mississippi River Trail) and investing in local network connection projects would also be prioritized.

Additional pedestrian infrastructure investments will improve the condition of existing infrastructure (sidewalks, pedestrian bridges, traffic signals, etc.), and fill gaps in the sidewalk network.

Increasing the Safe Routes to Schools investment would provide safer walking and biking to school options for thousands of school students.

Change Item: K-12 Expense Credit Expansion

Fiscal Impact ($000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	($300)	($400)	($400)	($400)
K-12 Credit	($5,900)	($6,000)	($6,100)	($6,300)
K-12 Subtraction Interaction	$500	$500	$500	$500
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact =	$5,700	$5,900	$6,000	$6,200
FTEs	4.7	6.2	6.2	6.2

Request:
The Governor recommends expanding the K-12 Credit to higher incomes so more families are eligible. This proposal expands the working-family credit to 16,800 new families by moving the phase-out threshold to $45,000 and indexes the cap for inflation. The Governor also recommends funding the Department of Revenue's costs for administering the expansion of the K-12 credit. These costs include $300,000 in FY 2016 and $400,000 in subsequent years for review, audit and appeal of claims, additional taxpayer assistance capacity and for educational outreach to taxpayers.

Rationale/Background:
This proposal would help more parents afford school supplies and other educational expenses for their children.

- The credit is fully refundable, so it can make a big difference for low income families.
- The income cap has not been modified since 1999.
- Approximately 54,000 families currently qualify for the credit.
- We expect newly eligible families to save over $285 on average from this proposal.

Proposal Details:
This proposal changes the K-12 Credit phase out threshold, allowing more taxpayers to be eligible for the maximum credit, by extending the phase-out threshold for the credit to start at $45,000.

Results:

Type of Measure	*Impact*
Progressivity	Increase

Statutory Change(s):
Minnesota Statute 290.0674

Program: Tax System Management

www.revenue.state.mn.us

AT A GLANCE

- Processed 2.7 million individual income tax returns
- Interact with 680,000 corporations, S corporations and partnerships, non-corporation and non-partnership businesses
- Processed 715,000 property tax refunds
- Helped 155,000 businesses collect sales tax
- Held 164 outreach events connecting with over 10,000 customers, many representing minority and low-income communities in 2013
- Attended 18 events for service members and their families in 2013 to promote their eligibility for tax benefits
- Released several new or revised fact sheets and held 22 conference calls with tax professionals, businesses, media, and other stakeholders to review and explain tax law changes made during the 2013 and 2014 legislative sessions

PURPOSE & CONTEXT

The Department of Revenue's (DOR) Tax System Management program provides the technology and human resources necessary to administer tax laws. This includes providing tax information and education services, filing and paying services, property tax and state aid administration, and tax enforcement activities. DOR's Tax System Management program ensures that individuals, businesses, and policy-makers have:

- Information they need to accurately, conveniently, and voluntarily fulfill their tax filing and paying obligations;
- Confidence that everyone reports, pays and receives the right amount: no more or no less; and
- Accurate, impartial, and complete information to make informed decisions.

SERVICES PROVIDED

The activities that contribute to successful Tax System Management include:

Administration of State Taxes - These services involve providing customer information and service, enforcement efforts such as fraud prevention, audits and investigations. Divisions administering these activities include Corporate Franchise, Criminal Investigations, Individual Income Tax and Withholding, Sales and Use Tax, and Special Taxes. State Taxes include the income tax; sales and use tax; corporate franchise tax; estate tax; motor fuels excise tax; alcoholic beverage taxes; cigarette tax; tobacco products tax; controlled substances tax; mortgage registry tax; deed transfer tax; bingo, raffle and paddlewheel tax; combined receipts tax; sports bookmaking tax; insurance premium taxes; MinnesotaCare taxes; mining occupation tax; mining net proceeds tax; state property tax; air flight property tax; rural electric co-ops; and the solid waste management tax.

DOR serves several different customers, including but not limited to, Minnesota individual and business taxpayers, tax professionals and preparers, local tax administrators, legislators and staff, non-profit groups, governor and staff, and members of the media.

Key administration emphasis includes:

- Providing customers with the information they need to voluntarily comply with tax laws;
- Keeping pace with changing technology and laws;
- Responding to customer inquiries, in the format desired by the taxpayer (walk-in, call-in, and click-in);
- Protecting customer data and addressing issues immediately and appropriately; and
- Effectively using state resources to appropriately identify and audit a wide range of individual and business taxpayers.

  Payment and Return Processing - These services involve reviewing and processing paper and electronic returns, refunds, and payments submitted to DOR. This activity serves individual and business taxpayers and other state agencies.

Key payment and return processing emphasis includes:

- Keeping pace with changing technology and fraud schemes;
- Providing safe, secure, and convenient ways for filing and paying;
- Accurately reviewing and processing returns, payments, and refunds;
- Checking returns to prevent fraudulent returns and refunds; and

- Processing payments and deposits in a timely manner.

Appeals, Legal Services & Tax Research - These activities support tax policy development and tax administration by:

- Analyzing proposed tax legislation and providing revenue estimates of proposed law changes;
- Working with customers to review and resolve tax appeals;
- Providing government officials with the research information they need to make decisions on tax law and policy;
- Providing timely and accurate support and advice on tax-related legislation;
- Providing legal direction and assistance to ensure the agency complies with state and federal laws and rules; and
- Representing the agency in court and administrative hearings.

Appeals, Legal Services, and Research serve customers including, but not limited to, individual and business taxpayers, tax administrators, governor and staff, legislators and staff, state agencies, local governments, and nonprofit organizations.

Property Tax Administration & State Aid - These services include the oversight and administration of Minnesota's property tax system. While counties are responsible for the direct administration of property taxes, DOR oversees and supports counties by:

- Providing education, guidance, and assistance to county assessors, auditors, and treasurers;
- Overseeing local property tax administration to promote compliance and uniformity;
- Administering a range of local aid payments; and
- Collecting, analyzing, and providing data to stakeholders.

Property Tax Administration & State Aids serves customers including, but not limited to, taxpayers, local administrators, and state policymakers. These activities promote equity and uniformity throughout the state's very complex property tax system.

Operational Support - Provides the overall strategic and day-to-day operational functions necessary to support the agency. Activities include departmental leadership, human resource management, facilities management, strategic organizational planning and project management, financial management and budgeting, performance reporting, taxpayer rights advocacy, external communications, taxpayer relations, and internal employee communication and training.

Operational Support serves all department employees, individual and business taxpayers, tax administrators, the governor and staff, legislators and staff, state agencies, and local governments.

Technology Development, Implementation & Support - DOR relies heavily on technology to meet the agency's mission, vision, and strategies. Information technology (IT) functions are provided under a service agreement with MN.IT Services. MN.IT@Revenue supports DOR with hardware, software, and information technology professionals to implement, run, and maintain the hardware and software needed to administer the tax code.

This activity serves all DOR employees and external customers of the agency by providing technology solutions that facilitate tax administration, provide for security of taxpayer data, and supports continuous business improvements in taxpayer services.

RESULTS

Type of Measure	*Performance Measures*	*Previous*	*Current*
Result	A. Percentage of customers that file and pay on time	91.5%	91.8%
Result	B. Percentage of customers that file their tax returns electronically	79%	80%
Result	C. Employee turnover rate	6.9%	8.3%
Quantity	D. Website visits (monthly average)	167K	183K
Quantity	E. Outreach and educational activities	590	1,058
Quantity	F. Incoming customer phone calls	645,994	674,896
Quantity	G. Revenue analyses prepared by the Research Division and Property Tax Divisions	751	951
Quality	H. Percentage of customers who resolved their appeal with the department without appealing to tax court	96.6%	96.4%
Result	I. Tax types that customers can file electronically	26%	42%
Quantity	J. Number of returns processed	5.2 million	5.2 million

Notes:

A. *Percentage of customers that file and pay on time:* (Previous is CY12; Current is CY13).
B. *Percentage of customers that file their tax returns electronically:* (Previous is CY12; Current is CY13).
C. *Employee turnover rate*: Percentage of DOR employees that leave each year (Previous is FY13, Current is FY14).
D. *Website visits:* Number of visits per month to DOR website (Previous is CY12, Current is CY13).
E. *Outreach and educational activities:* Number of outreach and educational activities, including educational classes, conference calls, television shows, outreach events, and email blasts (Previous is CY12, Current is CY13).
F. *Incoming customer phone calls*: Number of phone calls received and completed by DOR employees (Previous is CY12, Current is CY13).
G. *Revenue analyses prepared by the Research Division and Property Tax Divisions*: The number of revenue analyses prepared by both Research and Property Tax in connection with tax legislation. This includes revenue analyses prepared without connecting legislation (Previous is FY2011-2012, current is FY2013-2014).
H. *Percentage of customers who resolved their appeal with DOR without appealing to tax court*: (Previous is FY12, Current is FY13).
I. *Tax types that customers can file electronically*: Percentage of state tax types that customers can completely file their returns electronically (Previous is FY2011-2012, current is FY2013-2014).
J. *Number of returns processed*: The total number of returns processed, across all tax types (Previous is FY13, Current is FY14).

(Dollars in Thousands)

Expenditures By Fund

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
1000 - General	96,991	114,199	108,251	111,584	108,750	107,570	115,551	115,737
2000 - Restricted Misc Special Rev	3,201	3,509	4,016	4,927	4,642	4,350	4,642	4,350
2360 - Health Care Access	1,328	1,410	1,569	1,929	1,749	1,749	1,749	1,749
2710 - Highway Users Tax Distribution	1,666	1,766	2,028	2,338	2,183	2,183	2,417	2,405
2800 - Environmental	244	301	274	332	303	303	303	303
Total	**103,430**	**121,186**	**116,136**	**121,110**	**117,627**	**116,156**	**124,662**	**124,545**
Biennial Change				12,630		(3,464)		11,960
Biennial % Change				6		(1)		5
Governor's Change from Base								15,424
Governor's % Change from Base								7

Expenditures by Budget Activity

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Budget Activity: Tax System Management	103,430	121,186	116,136	121,110	117,627	116,156	124,662	124,545
Total	**103,430**	**121,186**	**116,136**	**121,110**	**117,627**	**116,156**	**124,662**	**124,545**

Expenditures by Category

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Compensation	82,619	91,711	82,344	82,814	82,457	82,417	86,995	88,896
Operating Expenses	19,032	23,955	32,977	37,831	34,705	33,273	37,202	35,183
Other Financial Transactions	1,556	5,004	130	65	65	65	65	65
Grants, Aids and Subsidies	199	199	700	400	400	400	400	400
Capital Outlay-Real Property	25	317	-15					
Total	**103,430**	**121,186**	**116,136**	**121,110**	**117,627**	**116,156**	**124,662**	**124,545**
Total Agency Expenditures	103,430	121,186	116,136	121,110	117,627	116,156	124,662	124,545
Expenditures Less Internal Billing	**103,430**	**121,186**	**116,136**	**121,110**	**117,627**	**116,156**	**124,662**	**124,545**
Full-Time Equivalents	**1,224.3**	**1,288.3**	**1,121.3**	**1,062.0**	**1,040.0**	**1,017.2**	**1,105.5**	**1,112.4**

(Dollars in Thousands)

1000 - General

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In		13,305	0	2,364	0		0	
Direct Appropriation	110,655	113,844	110,597	109,261	108,791	107,611	115,592	115,778
Net Transfers	(1,235)	(8,136)	(51)	(41)	(41)	(41)	(41)	(41)
Cancellations	1,350	4,813	32					
Expenditures	**96,991**	**114,199**	**108,251**	**111,584**	**108,750**	**107,570**	**115,551**	**115,737**
Balance Forward Out	11,080		2,364	0				
Biennial Change in Expenditures				8,645		(3,514)		11,454
Biennial % Change in Expenditures				4		(2)		5
Gov's Exp Change from Base								14,968
Gov's Exp % Change from Base								7
FTEs	1,169.3	1,234.2	1,054.1	989.3	973.5	956.0	1,036.0	1,048.2

2000 - Restricted Misc Special Rev

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In	2,431	3,161	3,341	2,864	2,165	1,473	2,165	1,473
Receipts	3,550	3,770	3,539	4,228	3,950	3,950	3,950	3,950
Net Transfers	264	(82)						
Expenditures	**3,201**	**3,509**	**4,016**	**4,927**	**4,642**	**4,350**	**4,642**	**4,350**
Balance Forward Out	3,044	3,339	2,864	2,165	1,473	1,073	1,473	1,073
Biennial Change in Expenditures				2,233		49		49
Biennial % Change in Expenditures				33		1		1
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	18.2	18.0	28.3	30.0	24.4	20.0	24.4	20.0

2360 - Health Care Access

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In		424		180				
Direct Appropriation	1,749	1,749	1,749	1,749	1,749	1,749	1,749	1,749
Net Transfers		(82)						
Cancellations		681						
Expenditures	**1,328**	**1,410**	**1,569**	**1,929**	**1,749**	**1,749**	**1,749**	**1,749**
Balance Forward Out	421		180					
Biennial Change in Expenditures				759		1		1

(Dollars in Thousands)

2360 - Health Care Access

	FY12	FY 13	FY 14	FY15	FY16	FY17	Gov FY16	Gov FY17
Biennial % Change in Expenditures				28		0		0
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	16.1	15.9	18.4	22.3	21.9	21.5	21.9	21.5

2710 - Highway Users Tax Distribution

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	**FY 13**	**FY 14**	**FY15**	**FY16**	**FY17**	**FY16**	**FY17**
Balance Forward In		531		155				
Direct Appropriation	2,183	2,183	2,183	2,183	2,183	2,183	2,417	2,405
Net Transfers		(86)						
Cancellations		862						
Expenditures	**1,666**	**1,766**	**2,028**	**2,338**	**2,183**	**2,183**	**2,417**	**2,405**
Balance Forward Out	517		155					
Biennial Change in Expenditures				933		0		456
Biennial % Change in Expenditures				27		0		10
Gov's Exp Change from Base								456
Gov's Exp % Change from Base								10
FTEs	17.9	16.8	17.0	17.0	16.7	16.4	19.7	19.4

2800 - Environmental

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	**FY 13**	**FY 14**	**FY15**	**FY16**	**FY17**	**FY16**	**FY17**
Balance Forward In		59		29				
Direct Appropriation	303	303	303	303	303	303	303	303
Cancellations		61						
Expenditures	**244**	**301**	**274**	**332**	**303**	**303**	**303**	**303**
Balance Forward Out	59		29					
Biennial Change in Expenditures				61		0		0
Biennial % Change in Expenditures				11		0		0
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	2.8	3.4	3.5	3.5	3.5	3.4	3.5	3.4

Program: Debt Collection

www.revenue.state.mn.us

AT A GLANCE

- Collect 68 different state tax debt types
- Collect 171 other agency debt types for 49 government agencies
- Collect court debt for all 87 counties
- Closed 123,743 tax debts last year (FY14)

PURPOSE & CONTEXT

The debt collection program of the Minnesota Department of Revenue (DOR) is responsible for collecting delinquent tax and other state agency debt.

There is no "one size fits all" solution to collecting these debts. The debt type, debtor, and other factors make collecting each debt unique.

The collection process begins the same for all debtors. DOR sends the customer a notification with details on the debt, customer rights, and how they can resolve the debt. If the customer fails to respond to the written letter, the collection actions vary based on many factors. Collection actions include phone calls, levies, liens, refund offsets, personal liability assessments, license revocation, liquor posting, and seizing assets depending on the circumstance .It takes several well-orchestrated functions to successfully administer debt collection. It is more than collectors collecting a debt. A team of people ensures that everyone reports, pays and receives the right amount by:

- Printing letters, processing payments and returns, registering customers in the system, making financial adjustments, and handling and distributing incoming correspondence;
- Reconciling accounts, and issuing payments to banks, the general fund, and other agencies;
- Issuing legal opinions, providing representation on legal matters, resolving internal and tax court appeals and administrative hearings;
- Programming the technical systems needed to track and process debts;
- Protecting customer data and addressing issues immediately and appropriately; and
- Communicating and reaching out to the public through direct and digital communication and the media.

A large part of DOR's role is helping customers understand their obligation and working to get them into compliance and keep them in compliance. To do that, DOR provides education and outreach to customers through training and education events, informational literature, videos, website, marketing, and more.

DOR interacts with customers in a variety of ways. In fiscal year 2014, DOR handled:

- 326,508 inbound telephone calls.
- 2,363 walk-in customers.
- 12,226 customer e-mail inquiries.
- 1,785 e-mail inquiries from other agencies.
- Over 40,000 written customer inquiries.

In addition to active debt collections activities, this area is responsible for administering the Revenue Recapture program. The Revenue Recapture program allows other government agencies, municipal hospitals and ambulances to file a claim on a delinquent debtor. Once the claim is filed, DOR will remit to the agency the necessary amount instead of paying it out in an individual income tax refund. Last year, agencies using Revenue Recapture reclaimed $81.6 million from offsetting tax refunds

SERVICES PROVIDED

DOR's Debt Collection program handles delinquent tax debts and other agency debts referred to DOR by other public agencies. DOR facilitates all aspects of debt collection making it more efficient for government as a whole by not duplicating work in multiple agencies. This also makes it easier for a debtor who may owe debt to more than one agency to resolve it in one place by providing a one stop resolution center.

This program serves a variety of customers including taxpayers, tax administrators, state legislators, tax professionals, local elected officials, state agencies and local governments.

DOR started collecting non-tax debts on behalf of other agencies in 1995, when legislation provided for a centralized debt collection service. In 2008, new legislation expanded this service to allow local governments to refer their debts to DOR. The Minnesota Department of Revenue Collection Division now collects 171 types of fees, fines, taxes, and payments for a range of public agencies including:

- 36 State Agencies: Including the Departments of Agriculture, Corrections, Commerce, Employment and Economic Development, Health, Human Services, Labor and Industry, Military Affairs, Natural Resources, Public Safety, Revenue, Transportation, Veterans Affairs, and the Pollution Control Agency
- Four State Boards: State Campaign Finance Disclosure Board, Minnesota Client Security Board, Iron Range Resource Rehabilitation Board, and State Veterans Home Board
- Two Public Employee Retirement Associations: Minnesota State Retirement System and Public Employees Retirement Association
- Six Independent State Government Entities: Attorney General's Office, Secretary of State's Office, Minnesota Individual Affairs Council, Minnesota Office of Higher Education, Minnesota State Lottery, and Minnesota State Colleges and Universities system
- Ten Judicial Districts: District Courts in each of the state's 87 counties, which are divided among ten judicial districts for administration purposes
- One program through Ramsey County collecting restitution debt

RESULTS

Performance Measures	*Previous*	*Current*	*Trend*
A. Accounts Receivable Tax Debt Revenue Collected	$234 M	$257 M	Increasing
B. Accounts Receivable Other Agency Debt Revenue Collected	$48 M	$49 M	Stable

Notes:

A. *Accounts Receivable Tax Debt Collected:* The amount of dollars collected and applied to the total delinquent tax debt owed. (Previous is FY13; Current is FY14)

B. *Accounts Receivable Other Agency Debt Revenue Collected:* The amount of dollars collected and applied to the total delinquent other agency debt owed. This includes the fee amount that is transferred to the general fund. (Previous is FY13; Current is FY14)

(Dollars in Thousands)

Expenditures By Fund

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
1000 - General	23,383	29,116	28,716	31,613	30,516	30,516	30,516	30,516
2000 - Restricted Misc Special Rev	653	1,074	657	1,029	1,028	1,028	1,028	1,028
Total	**24,036**	**30,190**	**29,374**	**32,642**	**31,544**	**31,544**	**31,544**	**31,544**
Biennial Change				7,789		1,072		1,072
Biennial % Change				14		2		2
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Budget Activity

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Budget Activity: Debt Collection Management	24,036	30,190	29,374	32,642	31,544	31,544	31,544	31,544
Total	**24,036**	**30,190**	**29,374**	**32,642**	**31,544**	**31,544**	**31,544**	**31,544**

Expenditures by Category

	Actual FY12	Actual FY13	Actual FY14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Compensation	19,250	21,709	25,084	25,493	25,279	25,279	25,279	25,279
Operating Expenses	4,666	7,791	4,288	7,020	6,265	6,265	6,265	6,265
Other Financial Transactions	119	630	2	77				
Capital Outlay-Real Property	1	61	0	52				
Total	**24,036**	**30,190**	**29,374**	**32,642**	**31,544**	**31,544**	**31,544**	**31,544**
Total Agency Expenditures	24,036	30,190	29,374	32,642	31,544	31,544	31,544	31,544
Expenditures Less Internal Billing	**24,036**	**30,190**	**29,374**	**32,642**	**31,544**	**31,544**	**31,544**	**31,544**
Full-Time Equivalents	**319.9**	**335.5**	**390.7**	**372.3**	**365.3**	**358.5**	**365.3**	**358.5**

(Dollars in Thousands)

1000 - General

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In		5,226		1,098				
Direct Appropriation	27,341	27,341	28,616	28,616	28,616	28,616	28,616	28,616
Open Appropriation	1,176	2,071	1,198	1,900	1,900	1,900	1,900	1,900
Net Transfers		(1,495)						
Cancellations		4,027						
Expenditures	**23,383**	**29,116**	**28,716**	**31,613**	**30,516**	**30,516**	**30,516**	**30,516**
Balance Forward Out	5,134		1,098					
Biennial Change in Expenditures				7,830		703		703
Biennial % Change in Expenditures				15		1		1
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	312.8	324.7	382.0	362.9	356.4	350.0	356.4	350.0

2000 - Restricted Misc Special Rev

	Actual FY12	Actual FY 13	Actual FY 14	Estimate FY15	Forecast Base FY16	Forecast Base FY17	Governor's Recommendation FY16	Governor's Recommendation FY17
Balance Forward In	4,522	382	252	571	530	500	530	500
Receipts	888	930	977	988	998	1,008	998	1,008
Net Transfers	(4,376)							
Expenditures	**653**	**1,074**	**657**	**1,029**	**1,028**	**1,028**	**1,028**	**1,028**
Balance Forward Out	382	238	571	530	500	480	500	480
Biennial Change in Expenditures				(40)		369		369
Biennial % Change in Expenditures				(2)		22		22
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	7.1	10.8	8.7	9.4	9.0	8.5	9.0	8.5