Approved: March 31, 2004
Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Stephen Morris at 10:40 a.m. on February 23, 2004, in Room 123-S of the Capitol.

All members were present except:
Senator Henry Helgerson- excused

Committee staff present:
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Jill Wolters, Senior Assistant, Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:
Joan Wagnon, Secretary, Kansas Department of Revenue

Others attending:
See Attached List.

Bill Introduction

Senator Downey moved, with a second by Senator Jackson, to introduce a bill concerning income taxation; relating to Kansas net operating losses; refunds (3rs1968). Motion carried on a voice vote.

Briefing on the Computer-Assisted Mass Appraisal (CAMA)

Chairman Morris welcomed Joan Wagnon, Secretary, Kansas Department of Revenue, who briefed the committee on the new CAMA System (Attachment 1). The current CAMA system is nearing 20 years and its future viability is questionable, particularly in the mainframe counties. A viable system must be sought. Rather than write the program from scratch, the Department of Revenue determined that it would be beneficial to seek an existing system that could be modified to meet the needs of Kansas.

Briefing on the Kansas Tax Amnesty Program Results

Secretary Joan Wagnon briefed the committee on the Kansas Tax Amnesty 2004 program results, with the final report forthcoming (Attachment 2). She distributed the following information to the committee:

- Kansas Department of Revenue Accounts Receivable, Chart Indicates AR for "All Tax Types" ACM and Legacy Tax Types Combined (Attachment 3)

- Copy of a letter addressed to Senator Morris from Secretary Wagnon regarding Summary of Department Disclosure and Collections Initiatives and Department-Supported Collections Initiatives (Attachment 4)

Secretary Wagnon mentioned that Tax Amnesty lapped over two fiscal years beginning on February 9, 2003, and concluded on December 1, 2003. She explained that Tax Amnesty was broken into two phases. The first phase extended from February 9, 2003, until October 1, 2003, for disputed settlements either in litigation or audit. The second phase was for final assessments where there were no disputes and the person's taxes had not been paid. They had a 60 day period in which to pay. The total was approximately $54 million dollars in taxes brought in. Total amnesty was granted to a total of 15,000 people.

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE at 10:40 a.m. on February 23, 2004, in Room 123-S of the Capitol.

Copies of the Kansas Legislative Research Department Budget Analysis Report for FY 2004 and FY 2005 were available to the committee.

Subcommittee budget report on:

Kansas Department of Revenue (Attachment 5)

Subcommittee Chairman Morris reported that the subcommittee on the Kansas Department of Revenue concurs with the Governor's recommendation in FY 2004 with additional adjustments and comments and concurs with the Governor's FY 2005 recommendations with adjustments and comments.

Senator Salmans moved, with a second by Senator Downey, to adopt the subcommittee budget report on the Kansas Department of Revenue in FY 2004 and FY 2005. Motion carried on a voice vote.

The meeting adjourned at 11:25 a.m. The next meeting is scheduled for February 24, 2004.

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST
DATE February 23, 2004

NAME	REPRESENTING
Cheri Froetschner	DOB
Julia Thomas	DOB
Aaron Dunkel	DOB
Jim Conant	KDOR
Joan Wagnon	KDOR
Mark Beck	KDOR
Tom Palace	PMCA OF KS.
Ed Cross	KIOGA
Ken Peterson	KPC
[illegible]	Ks. Gov't Consulting
[illegible]	HEIN LAW FIRM

IOAN WAGNON. SECRETARY

K A N S A S

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS. GOVERNOR

February 23, 2004

TO: Senator Steve Morris, Chairman
Senate Ways and Means Committee

FROM: Joan Wagnon, Secretary of Revenue

DATE: February 23, 2004

SUBJECT: New CAMA (Computer-Assisted Mass Appraisal) System

The current CAMA system is nearing 20 years old, and its future viability is questionable, particularly in the mainframe counties. A viable replacement must be sought. Rather than write the program from scratch, we determined it would be beneficial to seek an existing system that could be modified to meet the needs of Kansas.

Our first step was to draft specifications and a design utilizing a committee of KDOR and county users. These documents were issued as attachments to the Request for Proposals (RFP) that was posted in early 2003.

Second, the same committee evaluated all vendor responses to the RFP. We asked that each vendor submit a copy of the user manuals for their systems. Three top vendors were selected based upon a committee's review of the response to proposals, and the functionality documented in the user's manuals.

Third, the top 3 vendors to Topeka were invited for a week each to demonstrate the actual CAMA product utilizing test data from other jurisdictions. The committee evaluated how well each vendor's CAMA product adhered to the specifications.

Fourth, after reviewing the actual CAMA product, follow-up questions were posed to the vendors in writing. Each vendor's response to our questions was thoroughly reviewed.

Fifth, after reviewing in totality each vendor's written responses and their demonstrated products, we further identified all risks associated with each vendor by committee.

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Attachment 1

Sixth, we again issued written questions to the vendor providing each with an opportunity to address their unique risks. We also issued some follow-up questions from the prior written question and answer sessions.

Seventh, we ultimately identified a single vendor that offered a combination of the best product at the lowest risk. We negotiated extensively with that vendor to secure the most favorable price for the State of Kansas.

Where we are now.

A contract has been signed with Tyler Technologies, CLT's parent corporation. The fixed-price contract provides for $2.8 million to be paid upon successful completion of deliverables. The $2.8 million includes an Orion software license for KDOR and 10 beta counties, modifications, support costs for a 2-year period, Marshall Swift licensing fees, conversion programs, training and programming documentation, project planning and documentation, and training and implementation services for 10 beta counties. Tyler will also train KDOR to implement Orion in the remaining 95 counties, and support the counties' use of Orion as an appraisal and assessment tool. Finally, the contract contains an option (at KDOR's discretion) to acquire licenses and support costs at favorable, fixed amounts over the next few years.

Tyler is a large, publicly traded corporation with a long history of expertise in this area. Tyler's relatively new subsidiary, CLT, has provided appraisal services since the 1930's, and computer-assisted mass appraisal products since the 1970's. Tyler's new CAMA software product, Orion, incorporates the latest web-based technology and meets KITO standards. Orion utilizes a relational database and runs on SQL server.

Tyler provided on-site staff in early November, shortly after the contract was signed. A project plan has been rendered for the implementation of Orion in the first 3 beta counties: Douglas, Riley and Johnson Counties. With Tyler's assistance, we have installed the current version of Orion on computers in KDOR offices. We have further loaded 14,000 parcels of data from another jurisdiction to utilize as test data.

KDOR is currently working with Tyler to determine the appropriate operating hardware sizing requirements for small to mid-sized counties. To date, Orion has been implemented in 200,000 parcel-count jurisdictions. These jurisdictions are more akin in size to our Johnson and Sedgwick Counties; hence, the need to further study requirements for the smaller counties. A KDOR/county IT committee has been established to continuously relay and receive updates on this issue, and address other technical matters of mutual concern.

The KDOR/county user committee that updated the specifications and helped evaluate vendor products also continues to meet regarding New CAMA. This committee is currently defining modifications necessary to the base Orion system in order to meet specifications and comply with Kansas laws, and testing the enhanced software.

What is next.

In early January, the KDOR/county user committee reviewed the base Orion system in KDOR offices. We are now working with the vendor to tailor the Orion base system to meet the needs of Kansas users. For example, portions of the system must be altered to make certain Orion will comply with our valuation laws requiring the 3 approaches to fair market value, our assessment classification system and our exemption laws.

The Kansas-tailored Orion will be installed in Douglas, Riley and Johnson Counties in April-May 2004. Each county will receive an orientation. Each county and the state will be trained to operate Orion. Conversion will take place in stages, in May-June 2004, with a final conversion planned for June-August 2004. The first 3 beta counties will "go live" in June, July and August 2004. Tyler will use these first 3 counties begin training the state to implement Orion in the remainder of the counties.

During calendar year 2005, Orion will be implemented in the remaining 7 beta counties; specifically, Atchison, Osage, Franklin, Montgomery, Sedgwick, Grant and Sheridan Counties. Tyler will continue to train KDOR to implement Orion during this process. Then, KDOR staff will implement Orion in the remainder of the 95 counties on a staggered basis over a limited period of years, beginning with calendar year 2006.

K A N S A S

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
DIVISION OF TAXATION

Compliance and Enforcement

February 20, 2004

KANSAS

TAX AMNESTY

PROGRAM RESULTS

Final Report Forthcoming

Jeff Scott
Executive Manager
- Amnesty Project Manager
Compliance and Enforcement
Kansas Department of Revenue

Senate Ways and Means
2-23-04
Attachment 2

Kansas Tax Amnesty 2004
Phase II Results

02/20/200[illegible]

APPROVED AMNESTY - PHASE II		
Tax Type:	Total Tax:	% whole
Individual Income	$8,628,883	27.97
Fiduciary	$0	0.00
Retail Sales	$8,006,796	25.96
Retailers' Compensating Use	$481,201	1.56
Consumers' Compensating Use	$748,819	2.43
Corporate	$9,845,146	31.92
Withholding	$2,316,888	7.51
Estate Tax	$606,882	1.97
Liquor Enforcement	$65,685	0.21
Retail Liquor	$146,610	0.48
Transient Guest	$0	0.00
TOTAL TAX	$30,846,909	100.00

FUND BREAKDOWN					
ACTUAL General Fund %:	% to SGF	%Highway	% Local	% Other	100%
Individual	$ 8,628,883	$ -	$ -	$ -	$ 8,628,883
Fiduciary	$ -	$ -	$ -	$ -	$ -
Retail Sales *	$ 5,639,987	$ 302,657	$ 2,064,152	$ -	$ 8,006,796
Retail Comp *	$ 445,111	$ 23,916	$ 12,174	$ -	$ 481,201
Consumers Comp *	$ 610,288	$ 32,798	$ 105,733	$ -	$ 748,819
Corporate	$ 9,845,146	$ -	$ -	$ -	$ 9,845,146
Withholding	$ 2,316,888	$ -	$ -	$ -	$ 2,316,888
Estate Tax	$ 606,882	$ -	$ -	$ -	$ 606,882
Liquor Enforcement	$ 65,685	$ -	$ -	$ -	$ 65,685
Retail Liquor	$ 36,652	$ -	$ 102,627	$ 7,330	$ 146,610
Transient Guest	$ -	$ -	$ -	$ -	$ -
TOTAL:	$28,195,522	$359,371	$2,284,686	$7,330	$ 30,846,909
% of whole >	91.40%	1.17%	7.41%	0.02%	100.00%

KANSAS TAX AMNESTY PROGRAM RESULTS

02/20/2004

PHASE I and PHASE II

AMNESTY PHASE I RESULTS - FY 03	
	02/20/2004
Corporate Audit Result	$8,207,831
Sales/Use Audit Result	$2,503,406
Administrative Appeals / BOTA Result	$12,846,041
Amnesty I Total Result	$23,557,278
AMNESTY PHASE II RESULTS - FY 04	
	02/20/2004
APPROVED AMNESTY TAX IN BANK - RESULT >	$30,846,909
Original Amnesty Phase II GOAL	$19,500,000
Amount Exceeding Phase II GOAL	$11,346,909
% Exceeding Amnesty Phase II Goal	58.19
Amnesty I and II Combined totals to date	$54,404,187

Kansas Department of Revenue

AMNESTY PHASE II - CHARGE OFF RESULT			
TAX TYPE	PERIODS	Penalty & Interest Charged Off	% of whole
Individual Income	11,164	$6,369,117	33.77%
Fiduciary	43	$28,067	0.15%
Retail Sales	14,617	$5,115,739	27.12%
Retail Comp Use	374	$222,445	1.18%
Consumers Comp Use	1,492	$264,209	1.40%
Corporate	305	$4,098,099	21.73%
Withholding	10,347	$2,568,549	13.62%
Estate	21	$46,580	0.25%
Mineral	2	$2,295	0.01%
Liquor Enforcement	34	$55,825	0.30%
Liquor Drink	185	$89,766	0.48%
TOTAL CHARGED OFF	38,584	$18,860,692	100.00%
TOTAL TAX GAIN		$30,846,909	
ORIGINAL COMBINED DEBT TOTAL		$49,707,602	
% of ORIGINAL DEBT COLLECTED		62.06%	
% of ORIGINAL DEBT CHARGED OFF		37.94%	

Dated 2.20.2004

AMNESTY PHASE II
APPLICATION TRACKING

02/20/2004

TOTAL - - AMNESTY APPS *PROCESSED*					Through >	02/20/04	
	KDOR		RMA		TOTALS	% whole	New Registrations
INCOME	8045		1052		9097	60.56%	101
SALES	2151		15		2166	14.42%	45
WH	3107		10		3117	20.75%	13
CORPORATE	174				174	1.16%	2
LIQUOR	58		1		59	0.39%	0
CC / USE	275		1		276	1.84%	121
RC / USE	71		0		71	0.47%	0
FIDUCIARY	35				35	0.23%	0
OTHER	26				26	0.17%	1
	13942	+	1079	=	15021	100.00%	283

KANSAS DEPARTMENT OF REVENUE
ACCOUNTS RECEIVABLE
THIS CHART INDICATES AR FOR "ALL TAX TYPES"
ACM AND LEGACY TAX TYPES COMBINED

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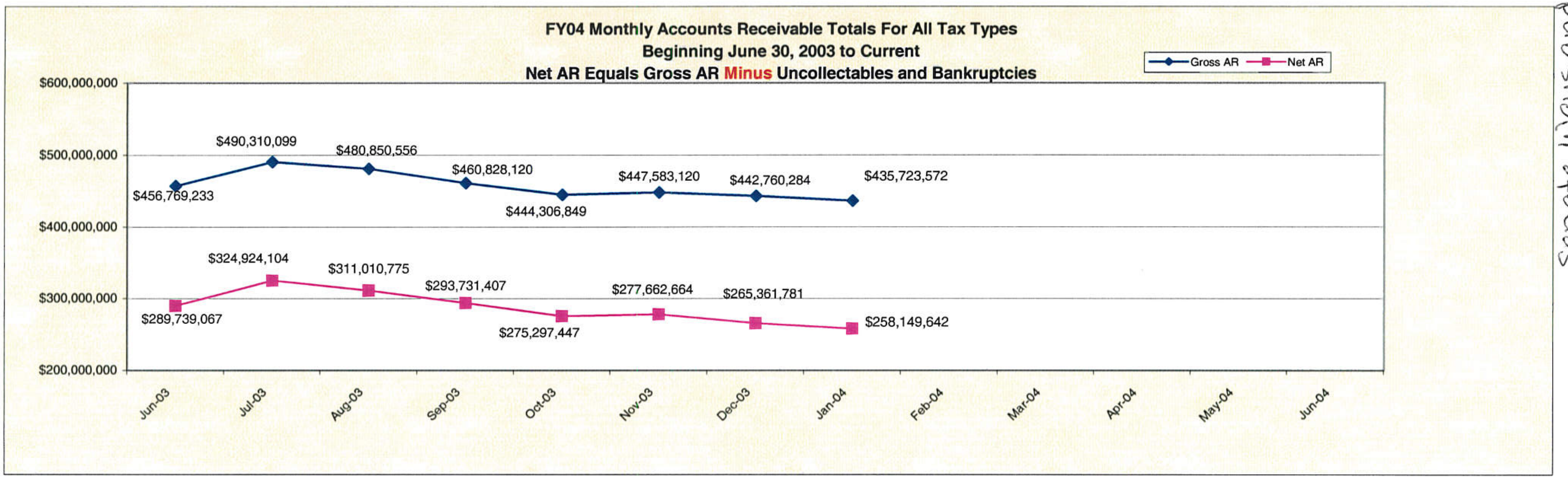

The following charge offs occurred in July for a total of $823,325					
Individual Income	$96,273	Fiduciary	$45,713	Retailers' Sales	$240,930
Consumers Comp	$2,224	Corporate	$423,180	Withholding	$15,005

The increase in **July** Gross AR of $33,444,058 is mostly attributed to Withholding Tax where the July Gross AR went up $31,124,685 or 58% for the month.
Of the $31,124,685 increase in the July Gross AR for Withholding Tax the Compliance Analytical Research Team discovered that $26.5 million of the increase was related to a job run to detect W-2 failure to file and to assess penalty.
In **August** Withholding AR dropped $8.4 million or 10%. This is the result of reviewing many of the accounts that received W2 failure to file penalty and discovering in many cases that the taxpayer had sent his KW3 electronically which KDOR is unable to identify and process electronically. After discovery the accounts are being cleared of the penalty and the AR is dropping dramatically.
In **September** the gross AR decreased dramatically. The majority of the decrease occurred in the following 4 tax types as a result of "audit purge".

Consumers	-$2,502,611	Withholding	-$87,358	Corp Inc	-$4,398,087	Sales	-$4,487,653

"Audit Purge" is defined as: Those Audit periods that had slipped into ACM over time ($11.6 million worth and a $3.5 million credit which had not been coded properly and that should have never been in collections have now been PURGED from ACM.
Also in September there was another $7+ million cleanup of W2 failure to file penalty, similar to what occurred in August.

During **October** the total gross AR decreased $16,521,272 or a reduction of 3.58%. The majority of the decrease occurred in Withholding Tax which had a $14,255,125 reduction in total gross AR for the month. The reduction in Withholding AR is the result of the on going clearing of penalty related to the W-2 failure to file penalty assessed in July. "Actual" Amnesty collections as of October 31st amounted to $4,343,574 of which Individual Income contributed $1,557,303 and Retail Sales $1,657,192.

In December "Actual" Amnesty collections as of December 31st amounted to $29,349,605 of which Individual Income contributed $8,365,377, Retail Sales $7,264,485, Corporate Income $9,714,729 and Withholding $2,132,912. Motor Carrier AR went up $6,526,137 or 14% in December as first 1/2 delinquency notices were produced.

In January "Actual Amnesty collection as of January 31st amounted to $30,772,087 of which Individual Income contributed $8,621,020, Retail Sales $7,996,703, Corporation $9,845,068 and Withholding $2,276,104. Withholding Tax accounted for $4,004,641 of the total AR reduction for the month of January.

K A N S A S

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

February 23, 2004

To: Senator Stephen Morris
Chair, Senate Ways and Means Committee

From: Joan Wagnon

Re: Summary of Department Disclosure and Collections Initiatives and Department-Supported Collections Initiatives

<u>Expand Tax Information Disclosure</u>
House Bill 2744 and Senate Bill 477
Enable the department to share taxpayer information relevant to pending legislative proposals with the Governor, Commerce and state legislators. Those persons receiving the information would be subject to the same confidentiality restrictions that the department is under. Enable the department to share taxpayer information with Department of Commerce relevant to the administration of any tax incentive programs that Commerce is involved in. Publish names of businesses registered for sales tax, to facilitate identification of those operating businesses that are not registered and not reporting or remitting sales tax. Expand necessary tax information sharing with local governments and other state agencies concerning dry cleaning tax, clean drinking water fees, water excise tax, transient guest tax, and liquor excise tax.

<u>Tax Clearance Proposals</u>
House Bill 2776 and Senate Bill 468—Professional Licenses
Provide that state agencies issuing professional licenses shall regularly share their licensee lists with the department of revenue, and shall not renew a professional license if the licensee has delinquent tax liability owed to the state.

House Bill 2680 and Senate Bill 414--Liquor Licenses
Require that a liquor license applicant be current in sales tax and withholding tax liability before the license can be issued or renewed. Further require liquor licensees to operate as one entity, for both liquor and sales tax purposes. This will enable the department to determine whether licensees are current on sales and withholding tax liability.

House Bill 2648—Motor Vehicle Dealers Licenses (Introduced by Representative Edmonds)
Require mandatory revocation of a motor vehicle dealer's license if the dealer is delinquent in remitting sales tax or filing sales tax returns for three consecutive months.

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Increase Collection of Sales Tax on Private Car Sales
Senate Bill 372 (Introduced by Special Committee on Assessment and Taxation)
Amend K.S.A 79-3603 regarding sales tax on the sale of isolated or occasional sale of motor vehicles or trailers. The base for computing the tax will be the stated selling price of the motor vehicle or trailer or the value for property tax purposes, whichever amount is higher.

Increase Efficiency of Restraining Order Against Tax-Delinquent Businesses
House Bill 2696 and Senate Bill 428
Provide a procedure for prompt issuance of a restraining order by the Shawnee County district court, upon request by the department, against a business in the state sufficiently delinquent in reporting or remitting sales or employer withholding tax.

Enhance Tax Lien
House Bill 2664 and Senate Bill 412
Amend the tax warrant statutes regarding sales, withholding, income, liquor enforcement, liquor excise, cigarette and tobacco, and transient guest tax statutes to provide for the filing of tax liens that will attach to the real property of the debtor, as well as personal property, without the necessity of seizure of that personal property.

SENATE SUBCOMMITTEE REPORT

KANSAS DEPARTMENT OF REVENUE

FY 2004 and FY 2005

Stephen R Morris

Senator Steve Morris, Chairperson

Bill Bunten

Senator Bill Bunten

Senator Henry Helgerson

Larry P Salmans

Senator Larry Salmans

Senate Ways and Means
2-23-04
Attachment 5

Senate Subcommittee Report

Agency: Kansas Department of Revenue **Bill No.** **Bill Sec.**

Analyst: Efird **Analysis Pg. No.** 606 **Budget Page No.** 347

Expenditure	Agency Est. FY 04	Governor Rec. FY 04	Subcommittee Adjustments
Operating Expenditures:			
State General Fund	$ 21,976,275	$ 21,976,275	$ 0
Other Funds	62,981,280	61,548,614	0
TOTAL	$ 84,957,555	$ 83,524,889	$ 0
FTE Positions			
Reportable Budget	1,196.0	1,196.0	0.0
Non FTE Perm. Uncl. Pos.	3.0	3.0	0.0
TOTAL	1,199.0	1,199.0	0.0

Agency Request/Governor's Recommendation

The **agency** requests operating expenditures totaling $84,957,555. The 2003 Legislature approved the Governor's recommended FY 2004 shrinkage rate of 11.2 percent. The agency's revised FY 2004 request includes a shrinkage rate of 6.1 percent which saves $3,167,830. Net increased financing of $1,432,666 for salaries and benefits is added from Electronic Databases Fee Fund, the VIPS/CAMA Technology Hardware Fund and the Photo Fee Fund in order to reduce the shrinkage rate. The **agency**'s requested $2.9 million increase in revised FY 2004 expenditures is partially attributed to adjustments in state aid payments increasing $1,474,509, with the change primarily due to higher Special County Mineral Production Fund payments. In addition, the agency's revised FY 2004 request includes a state operations increase adding $1,432,666 for salaries and benefits to reduce shrinkage.

The **Governor** recommends operating expenditures totaling $83,524,889. The Governor's FY 2004 recommendations reduce $1,432,666 from the agency's revised request for additional funds for state operations. All of the reduction is from the DOV Operating Fund. The Governor's recommended shrinkage rate is 8.9 percent in FY 2004. The **Governor**'s FY 2004 recommendations include a net increase of $1,474,509 which is attributed to a state aid adjustment for mineral tax payments.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendation, and makes the following additional adjustments and comments:

1. Reduce the ending fee funds balances and transfer the funds to the State General Fund on or before June 30, 2004, as follows:

   - **Division of Vehicles Operating Fund, $1,000,000; and**

   - **Electronic Databases Fee Fund, $1,200,000**

The cashflow analysis shown in the following tables indicates significant ending balances through FY 2005 absent these adjustments recommended by the Subcommittee.

Div. of Vehicles Op. Fund Resource Estimate	Actual FY 2003	Agency Estimate FY 2004	Gov. Rec. FY 2004	Agency Request FY 2005	Gov. Rec. FY 2005
Beginning Balance	$ 5,983	$ 1,731,170	$ 1,731,170	$ 1,363,511	$ 1,392,951
Net Receipts	33,237,184	39,850,666	38,447,440	47,057,907	39,716,731
Total Funds Available	$ 33,243,167	$ 41,581,836	$ 40,178,610	$ 48,421,418	$ 41,109,682
Less: Expenditures	31,511,997	40,218,511	38,785,659	48,421,418	39,711,990
Ending Balance	$ 1,731,170	$ 1,363,325	$ 1,392,951	$ 0	$ 1,397,692
Ending Balance as Percent of Expenditures	5.5%	3.4%	3.6%	0.0%	3.5%

Elec. Databases Fee Fund Resource Estimate	Actual FY 2003	Agency Estimate FY 2004	Gov. Rec. FY 2004	Agency Request FY 2005	Gov. Rec. FY 2005
Beginning Balance	$ 1,856,550	$ 4,008,278	$ 4,008,278	$ 3,840,618	$ 3,840,618
Net Receipts	5,879,946	6,814,516	6,814,516	7,666,759	7,351,653
Total Funds Available	$ 7,736,496	$ 10,822,794	$ 10,822,794	$ 11,507,377	$ 11,192,271
Less: Expenditures	3,728,218	6,982,176	6,982,176	6,900,289	9,585,183
Ending Balance	$ 4,008,278	$ 3,840,618	$ 3,840,618	$ 4,607,088	$ 1,607,088
Ending Balance as Percent of Expenditures	107.5%	55.0%	55.0%	66.8%	16.8%

Senate Subcommittee Report

Agency: Kansas Department of Revenue **Bill No.** **Bill Sec.**

Analyst: Efird **Analysis Pg. No.** 606 **Budget Page No.** 347

Expenditure	Agency Req. FY 05	Governor Rec. FY 05	Subcommittee Adjustments*
Operating Expenditures:			
State General Fund	$ 22,601,396	$ 20,046,408	$ (403,667)
Other Funds	71,123,551	64,730,736	(829,563)
TOTAL	$ 93,724,947	$ 84,777,144	$ (1,233,230)
FTE Positions			
Reportable Budget	1,196.0	1,196.0	0.0
Non FTE Perm. Uncl. Pos.	3.0	3.0	0.0
TOTAL	1,199.0	1,199.0	0.0

* The entire adjustment reflects deletion of the Governor's recommended pay plan adjustments.

Agency Request/Governor's Recommendation

The **agency** requests operating expenditures totaling $93,724,947. The agency's request includes a shrinkage rate of 5.6 percent that allows salary turnover savings of slightly less than $3.0 million. The agency requests funding for three enhancements: $270,000 for reclassifications, $2,858,838 to reduce the shrinkage rate to 5.6 percent, and $5.6 million for replacement license plates. The **agency** requests an FY 2005 budget increase of almost $8.8 million, with most funding of $5.6 million for reissuance of license plates. SGF financing is requested to increase 2.8 percent, or $625,121 for expenditures in FY 2005.

The **Governor** recommends operating expenditures totaling $84,777,144. The Governor recommends a shrinkage rate of 10.2 percent that allows salary turnover savings of slightly more than $5.6 million. The Governor's recommendations provide no additional funding for any of the three enhancements, although the Governor recommends that the reclassifications be absorbed within $270,000 available funds. The **Governor** recommends a net increase of $1,252,255 in FY 2005 expenditures, primarily to finance the salary plan adjustments of $1,223,230. No funding for reissuance of license plates is recommended in FY 2005, with a delay recommended by the Governor until FY 2006. The Governor recommends a net reduction in SGF financing for FY 2005, with $1,929,867 less than the FY 2004 recommendation, for a decrease of 8.8 percent. The Governor's recommendations in FY 2005 provide additional financing from the Electronic Databases Fee Fund, adding $2.0 million to replace $2.0 million SGF financing and adding $1.0 million to replace $1.0 million of DOV Operating Fund financing. As a result of BEST adjustments in FY 2005, the **Governor** recommends transfer of $888,839 to the State General Fund (SGF). Also recommended are lapses of SGF financing, with $90,188 reduced as a result of BEST adjustments for agency operations and $57 for official hospitality.

Under the Governor's FY 2005 **statutory budget** recommendation, the Governor's recommendation for this agency's budget would have to be reduced by an additional $2,968,913 State General Fund.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendation, and makes the following additional adjustments and comments:

1. Delete $1,233,230, including $403,667 from the State General Fund, to remove pay plan funding recommended by the Governor (a 3.0 percent base salary adjustment for all state employees) for consideration in a separate bill.

2. Commend the agency for improvements in customer service, especially under the conditions of having to maintain 140 to 165 vacant positions in order to achieve a shrinkage rate of 10.2 percent. The focus on enhancing customer service is best represented by answering over 503,000 telephone calls in FY 2003 and assisting over 21,000 walk-in customers. With the new telephone system, the agency was able to achieve a 95 percent answer rate with less than a one minute wait time for customers who did not hang up. Computer-based self-service options provided another 300,000 plus customers with on-line assistance in FY 2003.

3. Note that the net accounts receivable in taxes owed the state has decreased to an estimated $258 million as of January 2004. This amount represents all tax types that the agency believes may be collected through various methods. Concurrent to determining net accounts receivable, the agency has collected through January 31, 2004, a total of $29,349,605 through the amnesty program. The Subcommittee recognizes that collections remain an important task for the agency to fulfill as its employees strive to "collect taxes and fees fairly, cheerfully, accurately and efficiently" in keeping with the new agency philosophy.

4. Note the significant FY 2005 ending balance for the VIPS/CAMA Fund is intended to be used in FY 2006 for providing computer hardware and software to 95 counties as a new reappraisal system is implement beyond the 10 pilot counties scheduled in FY 2005. Further review of the cashflow for this fund should be conducted during Omnibus, with the agency to supply details about revised projects costs in FY 2004, FY 2005 and FY 2006 based on contracting with a new vendor since the original budget was submitted in September 2003. The Subcommittee notes that a $1.8 million encumbrance was cancelled in FY 2003, and that action significantly increases the carryover balance to FY 2004 (which should be reflected in the revised cashflow table for this fund to be reviewed during Omnibus).

VIPS/CAMA Fund Resource Estimate	Actual FY 2003	Agency Estimate FY 2004	Gov. Rec. FY 2004	Agency Request FY 2005	Gov. Rec. FY 2005
Beginning Balance	$ 1,174,796	$ 319,141	$ 319,141	$ 1,081,126	$ 1,081,126
Net Receipts	944,345	2,841,573	2,841,573	2,841,573	2,814,101
Total Funds Available	$ 2,119,141	$ 3,160,714	$ 3,160,714	$ 3,922,699	$ 3,895,227
Less: Expenditures	1,800,000	2,079,588	2,079,588	1,913,642	1,886,170
Ending Balance	$ 319,141	$ 1,081,126	$ 1,081,126	$ 2,009,057	$ 2,009,057
Ending Balance as Percent of Expenditures	17.7%	52.0%	52.0%	105.0%	106.5%