



## Fiscal Note Request SB0271, As Amended in Free Conference Committee

(continued)

requirements, the fiscal impacts presented in this fiscal note reflect the costs associated with establishing a base component and two tax processing components of the replacement system, the costs of preparing for the DOR/UI transfer of UI tax functions, and the conversion of data from POINTS into the UI Tax Systems.

3. The cost estimates (cost increases net of costs savings) provided herein reflect costs associated with:
  - a) Data/software cleanup by the current POINTS Project Team to allow conversion to the new systems;
  - b) Purchase of repeatable code product (i.e., a commercial, off-the-shelf tax processing system);
  - c) Replacing federal funding of certain indirect costs with general fund dollars; and
  - d) Replacing federal funding of certain shared operating costs (e.g., forms processing, printing, and mailing) with general fund dollars.
4. Since having acquired the UI responsibilities currently vested in DOR, the department has organized and integrated the UI functions with other processes and functions of the agency in a manner that provides for optimal efficiencies in processing both UI and other tax types. Within the current integrated environment, the department has been able to identify the equivalent of 30.00 FTE that are directly allocable to the administration of UI tax functions. These FTE and their associated costs would be transferred to DOLI as of June 30, 2004. This would reduce administrative costs by the full appropriation allocated to these personnel and their associated direct costs in FY 2005. The following functions associated with the administration of UI tax functions and with these personnel would be transferred back to the Department of Labor and Industry:

*Document and Information Processing*

Payment processing, Data entry, Mail handling, Records management (i.e., validation and retention)

*Customer Intake*

Customer registration, accounts receivable collections (all existing accounts receivable balances, except for those in a bad debt status would be transferred to DOLI)

*Compliance, Valuation and Resolution*

Field audit, Office audit

*Information Technology Support (POINTS technical and business analysts assigned full-time to UI matters)*

Federal Reporting TPS – 581s, 204s, etc., Employer experience ratings, Governmental experience ratings, Non-filer compliance activities

5. Federal funding for the billing of UI services provided to DOLI included in the department's budget request equals \$2,089,917 for FY 2005. Upon transfer of UI functions to DOLI, the department will lose this federal funding.
6. Currently, federal funds provide for a portion of the personal services costs for a variety of DOR employees. The loss of federal funding in partial support of these positions, including an adjustment to take into account pay plan (health insurance) increases provided for in HB 13, will require replacing these funds with general fund dollars totaling \$517,193 in FY 2005.
7. Federal funding provides the funds for a portion of operating costs shared by UI and other tax types within the agency. Loss of federal funding for activities that will continue within DOR (mail handling, validation, retention, and mailing costs) will require general fund of \$197,592 in FY 2005.
8. The department will require general fund to cover costs related to data clean-up/transition, conversion of data into the new systems and training costs at a total of \$1,676,600 for the 2005 biennium.
9. The cost estimates provided herein are based on the limited time and resource constraints inherent in the abbreviated fiscal note process.

**Fiscal Note Request SB0271, As Amended in Free Conference Committee**  
(continued)

10. The total cost of the project, by component, is as follows:

	<u>FY 2004</u>	<u>FY 2005</u>
D of A CIO:		
• Project Management Office	\$ 600,000	\$ 600,000
• Project Contingency	1,290,000	1,290,000
• IV&V	387,000	387,000
DOR system development costs	2,463,000	2,083,000
Project DOR vendor costs	4,000,000	4,000,000
DOLI Vendor Costs (see summary-Reed Act Funds)	<u>4,023,000</u>	<u>0</u>
Subtotal Project Costs	<u>\$12,763,000</u>	<u>\$8,360,000</u>
General Fund Expenditures:	<u>FY 2004</u>	<u>FY 2005</u>
Manual Data Clean-up/Transition	\$ 725,400	\$0
DOR Data Conversion	440,400	440,400
Training Costs	<u>38,400</u>	<u>32,000</u>
Total GF Expenditures	<u>\$1,204,200</u>	<u>\$ 472,400</u>

To the extent permitted by law, approximately \$17.1 million of the costs identified above are expected to be borrowed from the Montana Board of Investments through an Intercap loan. The related debt service payments in this biennium are estimated at \$1.9 million. These costs will be paid from an administrative fee assessed against selected taxes collected by the department.

**Department of Labor and Industry**

11. The DOLI will reinstate the Montana Automated Contribution (MAC) UI Tax system. The MAC system processed UI taxes until November 1999 when POINTS went live. The MAC will have to be re-programmed to account for federal and state law changes and automation environment changes that have occurred in the last three years. Upon passage and approval (April 1, 2003 for purposes of this fiscal note) of this bill and ending August 31, 2004, the department will require 7.50 one-time-only FTE for reprogramming the MAC system. Therefore, 1.88 FTE are requested in FY 2003 (1/4 year x 7.50 FTE = 1.88), 7.50 FTE in FY 2004, and 1.25 FTE in FY 2005 (1/6 year x 7.50 FTE = 1.25). The staff will perform project management and oversight duties, programming, coordination, and assistance with data conversion. The cost is estimated:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Personal Services</u>			
Project staff (7.50) personal service and benefits (FTE are in addition to the FTE to be transferred)	\$73,560	\$415,740	\$44,352
<u>Operating Expenses</u>			
DOR Conversion		859,210	
Conversion costs @ 125/hr. (4160 hrs is \$520,000)		520,000	
Project Manager @ \$125/hr. (2600 hrs total is \$325,000)	65,000	260,000	
Development Contract	67,600	548,040	67,600
Operating costs	15,155	201,975	5,486
Contingency	33,197	399,542	17,616
IV & V	<u>11,066</u>	<u>133,181</u>	<u>5,872</u>
Total Operating Expenses	<u>\$192,018</u>	<u>\$2,921,948</u>	<u>\$96,574</u>
<b>Total UI MAC Tax System Costs by year</b>	<b><u>\$265,578</u></b>	<b><u>\$3,337,688</u></b>	<b><u>\$140,926</u></b>
<b>Total Project cost to restart the MAC UI Tax system:</b>	<b>\$3,744,192 Funded by OTO Reed Act Funds</b>		

**Fiscal Note Request SB0271, As Amended in Free Conference Committee**

(continued)

12. The MAC system would be operational by July 1, 2004, assuming that the data integrity clean-up by DOR produces data that is clean enough to be imported to MAC as certified by the CIO.
13. UI Tax would come under the direct administrative supervision of DOLI on July 1, 2004. The transfer of the UI Tax function would include the DOLI retaining the revenue previously paid to DOR (federal special authority estimated at \$2,405,000 each fiscal year) and the transferring of up to 30.00 FTE from DOR to DOLI (43.00 FTE transferred from DOLI to DOR in 1997). Total need is 43.00 FTE based on a similar tax staff structure as went to DOR in 1997 acknowledging that there will be different needs when the actual structure is created. (1.00 FTE grade 18, 1.00 FTE grade 16, 8.00 FTE grade 15, 10.00 FTE grade 14, 3.00 FTE grade 13, 4.00 FTE grade 12, 5.00 FTE grade 10, and 11.00 FTE grade 8).
14. The DOR staff auditors can be phased into DOLI as early as April 2004 with other staff transferring throughout the rest of the state fiscal year. When these transfers occur, it is expected that an agency transfer of appropriation would be reflected. It is assumed that 11.00 FTE will be hired April 1, 2004, 1.00 FTE grade 18, 3.00 FTE grade 15 and 7.00 FTE grade 12 (¼ year x 11 FTE = 2.75 FTE) for a cost of \$117,212 in personal services and \$20,641 in operating costs in FY 2004. The remaining staff will move July 1, 2004, for a total of 43.00 FTE in FY 2005. The costs of moving staff and creating a facility to house the UI Tax collection function will be split between FY 2004 and FY 2005. The UI Tax function transfer cost is estimated:

	<u>2004</u>	<u>2005</u>
Personal Services	\$117,212	\$1,800,000
Operating Expenses		
General Operating Costs	\$20,641	\$600,000
Reed Act OTO Moving Costs	<u>130,000</u>	<u>148,445</u>
Total Operating Expenses	<u>\$150,641</u>	<u>\$748,445</u>
Total UI Tax Function Costs	\$267,853	\$2,548,445

15. The transfer of UI Tax related legal work per year costs \$5,000 per year in personal services. UI Tax related legal work would transfer to DOLI July 1, 2004.
16. DOR would continue to stabilize and maintain POINTS until the MAC system is operational.

FISCAL IMPACT:

	<u>FY 2003</u> <u>Difference</u>	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<b>Department of Revenue</b>			
FTE	0.00	0.00	(30.00)
<u>Expenditures:</u>			
Personal Services	\$0	\$0	\$517,193
Current shared DOR/UI Costs	0	0	197,592
Manual Data Cleanup/Transition	0	725,400	0
DOR Data Conversion	0	440,400	440,400
Training	0	38,400	32,000
State Special Revenue Fund – Debt Service	<u>0</u>	<u>196,650</u>	<u>1,671,089</u>
TOTAL	\$0	\$1,400,850	\$2,858,274

Funding of Expenditures:

General Fund (01)	\$0	\$1,204,200	\$1,187,185
State Special Revenue (02)	<u>0</u>	<u>196,650</u>	<u>1,671,089</u>
TOTAL	\$0	\$1,400,850	\$2,858,274

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	<u>FY 2003</u> <u>Difference</u>	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<b>Department of Revenue (continued)</b>			
<u>Revenues:</u>			
General Fund (01)	\$0	(196,650)	(1,671,089)
State Special Revenue (02)	0	196,650	1,671,089
<b>Department of Labor and Industry</b>			
FTE	1.88	10.25	44.25
	(OTO)	(7.5 are OTO)	(1.25 are OTO)
<u>Expenditures:</u>			
Personal Services	\$73,560	\$532,952	\$1,849,352
Operating Expenses	<u>192,018</u>	<u>3,072,589</u>	<u>845,019</u>
TOTAL	\$265,578	\$3,605,541	\$2,694,371
<u>Funding of Expenditures:</u>			
Federal Special (Reed Act) (03)	\$265,578	\$3,467,688	\$289,371
Federal Special Revenue (03)	<u>0</u>	<u>137,853</u>	<u>2,405,000</u>
TOTAL	\$265,578	\$3,605,541	\$2,694,371
<u>Revenues:</u>			
Federal Special Revenue (03)	\$0	\$137,853	\$2,405,000
<b>Statewide</b>			
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>			
General Fund (01)	\$0	(\$1,400,850)	(\$2,858,274)
State Special Revenue (02)	0	0	0
Federal Special Revenue (03)	0	0	0
Federal Special (Reed Act) (03)	(265,578)	(3,467,688)	(289,371)

LONG-RANGE IMPACTS AND INFORMATIONAL NOTES:

1. POINTS data integrity and stabilization is critical to the successful data conversion required for a UI Tax system.
2. It will take the Department of Labor and Industry approximately one year to rebuild the MAC UI Tax system. DOR's POINTS system will continue to operate the UI Tax portion until July 1, 2004.
3. Housing of the FTE transferring from DOR to DLI will need to be addressed. Since the Walt Sullivan building is at full capacity now, space will need to be found.
4. The MAC system is an interim system. A new UI TAX system will need to be built in five to seven years.
5. Using Reed Act monies to fund SB 271 will have an impact to the DOLI Work Force Service Division and Unemployment Insurance Division in the next biennium. The Reed Act monies are funding the federally-allocated shortfalls.