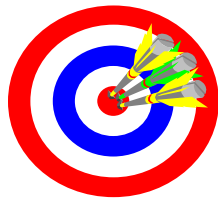


DEPARTMENT OF REVENUE

2001 Biennium

GOALS/OBJECTIVES



and Statutory Authorizations

GOAL I: To promote fair and consistent treatment of all taxpayers through uniform application of tax laws;

Director's Office

OBJECTIVE 1: During each biennium, review all agency administrative rules to insure the rules are consistent, necessary and reflect current law and policy;

Continued progress. ----- During the past six months the department's Policy and Performance Management Process (PPM) continued to focus significant attention on administrative rules to craft new or update existing rules through the biennial review of all Department of Revenue (DOR) rules. Twelve rule review teams were established to review 38 chapters. Many rules will be eliminated and others consolidated or amended to reflect the current practice of the department and compliance with the laws. Thirty-four of the 38 chapters have been completed. The remaining four chapters are in the final stages at this time.

A rule review team has been established to develop rules for the One-Stop Licensing Board of Review. Team members were appointed by participating agency Directors. External stakeholders have been identified and will be invited to participate in the development. At this time, draft rules are being reviewed by the team members. The goal is to have these rules completed by October 1, 2001.

Audit and Appeal rules are being developed to provide guidance in determining when an appeal should be considered timely. These rules will assist both the customers and department staff.

The department's administrative rules have been added to our Internet web site under "Administrative Rules of Montana." The site provides easy access to all the department rules for both department staff and our customers. The rules will be updated quarterly when pages are changed due to adoptions, amendments and repeals of department rules.

Policy and Performance Management is developing an annotations library cross-referencing all applicable statutes administered by the department, administrative rules, policies and procedures. The projected completion date is September 1, 2001. When completed, it will be placed on the department's Intranet site as a reference tool for the staff.

OBJECTIVE 2: Review annually, all internal policies, procedures and compliance strategies for consistency, relevancy and application;

Continued progress. ----- Policy and Performance Management (PPM) implemented a systematic, standardized approach to policy development and the

maintenance of existing policies. Policy subjects have been split into three priority levels in order to develop those that are most critical to the department's operation first. There are eight high priority policies ready for development. Several others will be developed later this year. Current policies have been reviewed during the past six-month period and several will require amendments due to the reorganization of the department and changes to laws.

The newly implemented procedure process has been very successful. Almost every process within the department has developed, or is in the process of developing, procedures. Processes are rapidly developing new procedures in conformance with the new process. Throughout the department at this time, there are more than 170 procedures being drafted by various teams. Additionally, teams are reviewing, and where necessary, revising previous department procedures that existed prior to our Metamorphosis (MET)) initiative, to ensure that our practices conform to a process-oriented structure and beliefs.

All department policies and procedures can be accessed by the staff on the department's Intranet site.

OBJECTIVE 3: ----- By 12/31/99, implement a revised dispute resolution process consistent with legislation enacted by the 1999 Legislature;

Objective accomplished. ----- HB 137 passed by the 1999 legislative session provided for an Office of Dispute Resolution (ODR) within the department. Administrative rules outlining the process were completed. These rules include a flow chart illustrating the steps available to parties involved within the dispute resolution process. This process is available for most tax types administered by the department. The exceptions are property tax, inheritance tax, estate tax, and liquor disputes that by statute have different appeal processes.

Compliance, Valuation & Resolution (CVR)

OBJECTIVE 4: By 12/31/99 adopt a compliance strategy with a balanced approach to DOR compliance initiatives which would include audit coverage and how to effectively ensure compliance among the various revenue sources in the DOR;

Objective accomplished. ----- The department put in place a Compliance Strategy for the period November 1, 1999 through July 1, 2001. This strategy contains goals and objectives that the Compliance, Valuation, and Resolution (CVR) process plans to achieve over the next several months. CVR prioritized the strategies, goals, and objectives among its teams and developed action steps for implementation.

OBJECTIVE 5: Complete annually six cross matches among DOR databases, and DOR databases against other agencies' databases to identify non-filers or under

reporting;

The Compliance, Valuation, and Resolution (CVR) process completed one miscellaneous tax cross match in 2000. In early 2001 the annual cross match for the Lodging Facilities Use Tax occurred. This cross match involves the Department of Public Health and Human Services (DPPHS), Travel Montana, and the department's property tax system.

An additional cross match occurred to identify non-filers for the Retail Telecommunication Excise tax. This cross match involved the department's systems, Public Service Commission database and FCC information. CVR intends to run individual income tax cross matches in the fall of 2001.

OBJECTIVE 6: By 6/30/00, complete a pilot project of conducting audits of personal property. If the pilot is successful, by 6/30/01, complete an additional segment of audits for personal property;

The department completed a pilot project increasing verification and audits of reported personal property during the period of October 1998 to April 1999. During this effort, 2,303 audits were performed identifying approximately \$19,689,463 in additional personal property assessed value to be reported on the tax rolls of counties throughout the state. Senate Bill 200 implementation provided for the statewide aggregate of \$5,000 exemptions to taxpayers. Some 899 business audits were conducted and the market values on Class 8 properties were assessed.

For FY 01, CVR will audit all personal property accounts that have historically not returned their personal property forms and have been estimated. In addition, 15% of all active Business Equipment Valuation System (BEVS) accounts will be audited.

OBJECTIVE 7: By 6/30/00, establish a team to conduct a pilot project that will audit large taxpayers for all taxes in a single audit;

In March 2000, CVR formed an ad hoc audit coordination team to identify audit candidates (from large taxpayers) and developed audit procedures for auditing all taxes (or several taxes) in a single audit. This team is comprised of selected individuals with tax knowledge and expertise in all revenue sources administered by the department.

Since its formation, this ad hoc team has identified seven large taxpayers for audit under the program and identified the audit teams responsible for each of those seven audits. The team is currently drafting procedures to guide auditors through audits of this type.

Continued progress. ----- Four of the audits have been conducted. One audit is complete. The other three audits range from just getting started to being approximately 60% complete. The team will be reassembled in the summer of 2001 to review and finalize the procedures that have been drafted.

OBJECTIVE 8: If proposed legislation is enacted to authorize self reporting of real property improvements implement a pilot project in at least two of the fastest growth counties;

As the first step in achieving this goal, we established an ad hoc team to develop implementation recommendations. As a result of their efforts and recommendations, we are implementing a “pilot” project of two counties (Carbon and Hill) for tax year 2000. Depending on the outcome of this project, procedures could be expanded for statewide application in subsequent years.

Continued progress. ----- This “pilot” project is still in progress. The initial mailing of approximately 28,000 forms between the two counties occurred in late October 2000. The local appraisers estimate that approximately 50% of the forms were returned in Hill County and 71% of the forms were returned in Carbon County. The staff has been instructed to process a random sampling in each county of 50 returned forms that listed change. They are to track the type of changes and the dollar value of the changes. The second phase of this project involves mailing reminders to those taxpayers who did not respond to the initial mailing. These reminders will be mailed by December 18, 2000. The remaining effort will entail an in-depth evaluation of the effectiveness of the “pilot”, to determine if it should be expanded statewide. Preliminary evaluations are planned in January 2001. It will take several months to fully evaluate the positives and negatives of the “pilot”, which will include field reviews of many properties in both counties. The final evaluations are planned to be completed in July of 2001.

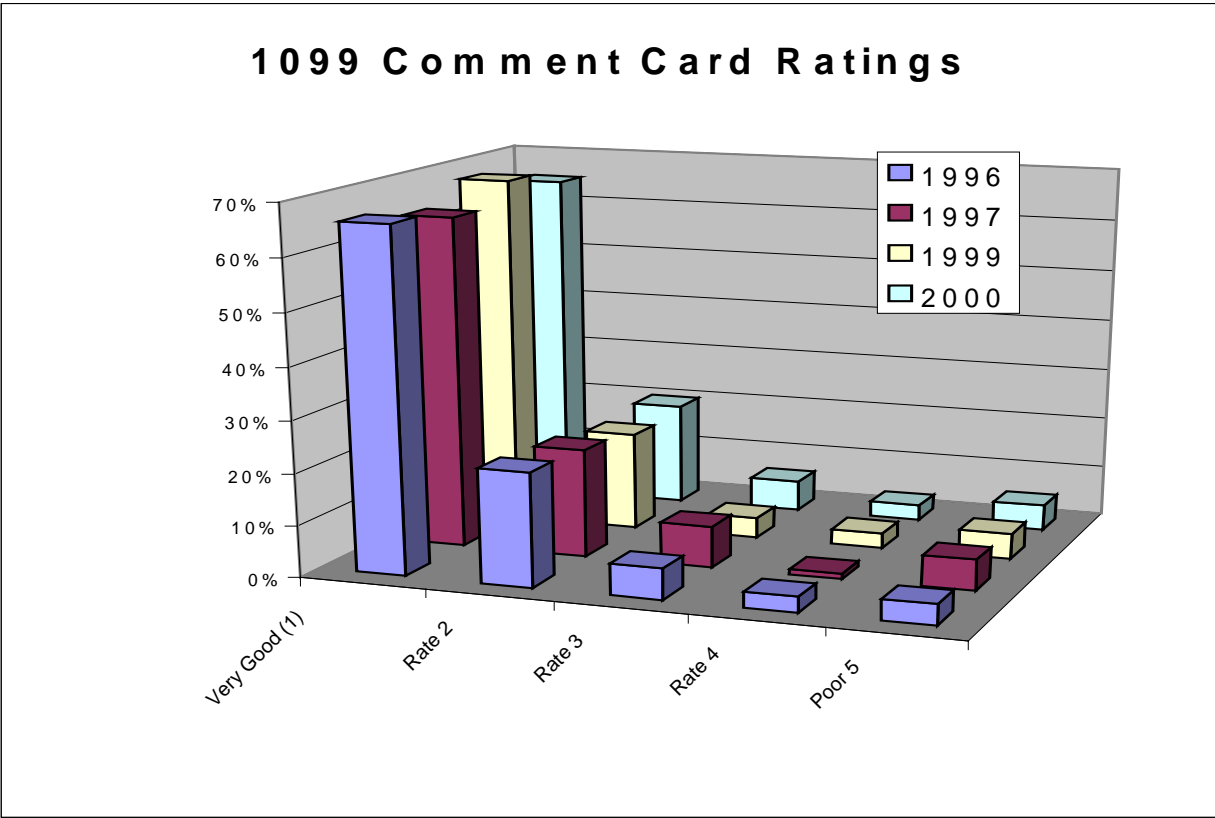
GOAL II: To make conducting business with the department as simple and pleasant as possible;

Director's Office

OBJECTIVE 1: Annually survey customer segments to identify customer needs and issues with services provided by the agency;

The Department sends out annually the “1099 Comment Cards” to taxpayers with their 1099 state income tax forms. The comment cards are attached to the 1099-G and mailed to taxpayers with a Montana address, who received a state tax refund of \$10 or more. The card asks the customer to rate the service they received during their contact with the Department of Revenue. The rating matrix uses a scale of Very Good (number 1) to Poor (number 5). The card also includes an area for comments and asks for recommendations/suggestions to help the department provide better service.

The following table indicates the ratings received over a four-year period.



Besides the ratings, many comments/suggestions were also received and evaluated. The top three (most often received) recommendations coming from the comment areas were: initiate a 1-800 number; improve/simplify taxes forms; and do not use voice mail (want a live person).

Continued progress. ----- An excellent opportunity presented itself when the department was invited to attend the Montana Society of CPAs 88th Annual Meeting with the purpose to provide materials to this group for updates on department happenings. This created an avenue to survey one of the largest groups who use our organization's services and capture input from them regarding those services. We hope to have this survey completed and results reviewed by August 2001.

The annual Employee Feedback Assessment survey was conducted in June 2000. The survey results showed significant improvements in three of the four major areas of measurement. Employee participation was good (over 50%) in this survey. Based on feedback received and analysis of the 2000 and 1999 baseline survey, we were able to identify specific areas and action items to help us improve in areas of concern. (Please refer to GOAL IV, OBJECTIVE 1 of this report for specific details).

In August 1999, we launched one of the furthest reaching education efforts ever undertaken by the department. Our goal was to educate Montanans about changes to the property tax system enacted as a result of SB 184. In September 1999, we undertook an effort to assess the effectiveness of this education campaign. (Please refer to GOAL II, OBJECTIVE 7 of this report for specific details).

We will continue these types of survey efforts to help insure the effectiveness of our communication and to ensure that we respond to the actual needs of our customers, not our perception of those needs.

OBJECTIVE 2: Develop by 6/30/00, uniform principles of taxation for the agency, which encompass ease of compliance for taxpayers;

Objective accomplished. ----- This objective was accomplished ahead of schedule. By December 31, 1999 the department published uniform principles of taxation. We published a series of white papers on tax policy and specifically engaged both the House and Senate Tax Committees in a review of guiding principles in the realm of sound tax policy. These efforts continued as the Session Summary reports were written. The report "Tax Legislation Passed by the 56th Legislative Assembly: An Assessment of Conformity with Guiding Principles of Taxation" examined tax legislation passed during the 1999 session in relation to eight Guiding Principles of Taxation.

Both the underlying principles and the white papers described above can be found on the DOR Internet site in the Tax Reform Analysis section.

Compliance, Valuation & Resolution

OBJECTIVE 3: On an annual basis, resolve 85% of contested valuations and assessments at the earliest possible level;

In January 2000, the department's Compliance, Valuation, and Resolution (CVR) process and the Office of Dispute Resolution (ODR) developed and initiated procedures to help ensure the resolution of contested valuations and assessments at the earliest possible level. These procedures provide guidance to department employees by describing the steps to be taken in processing appeals for both the local level (County Tax Appeal Board) and the state level (State Tax Appeal Board and Office of Dispute Resolution).

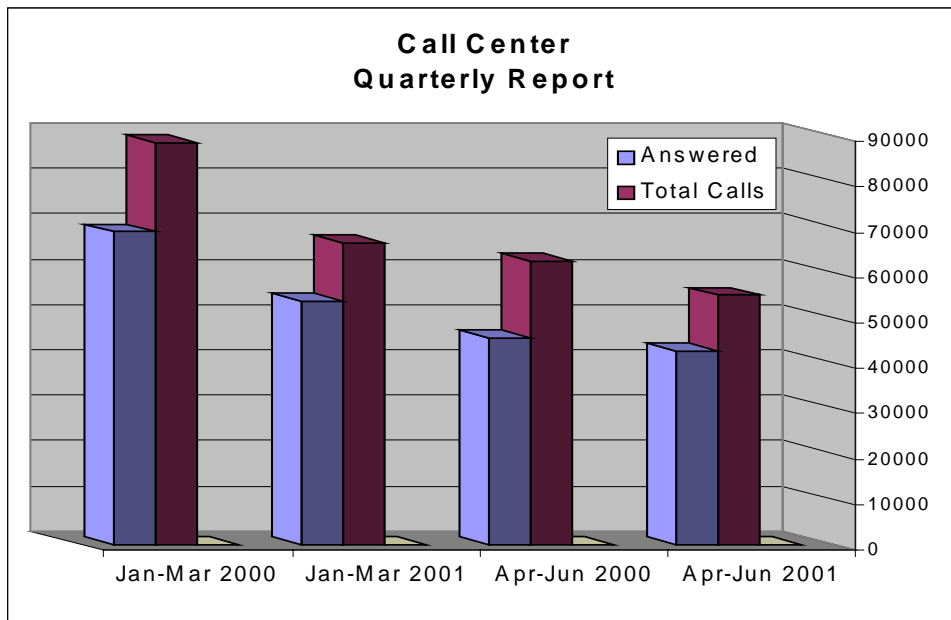
Continued progress. ----- Procedures are being developed to establish the appropriate level of settlement and resolution authority for employees. A tracking system will be implemented to monitor the number of appeals, any adjustments that have occurred and the final outcome of decisions made.

Customer Service and Information Processing

OBJECTIVE 4: By 1/1/00, implement a single point of contact for all customers, including establishing a centralized customer service representative program;

Objective accomplished. ----- The department established a Customer Service Center on the third floor, southwest wing of the Mitchell Building in December of 1998. The call center has a staff of nine, well-trained customer service representatives who personally answer information calls. The goal of this unit is to answer 80% of the inbound calls without the need to transfer the call to a specialist. This center is a single, central point of contact for all customer information, inquiries, and payment filings. This results in faster, more accurate customer service.

The following graph illustrates our efforts to achieve this objective and compares these efforts to the previous year. The Customer Service Center (sometimes referred to as the Call Center) answered, for the first two quarters of 2001, an average of 79% of the incoming calls received without the need to transfer them to a specialist.



OBJECTIVE 5: By 1/1/00, enhance the DOR's ability to interact with our customers through electronic commerce, this will include increasing the volume of returns filed by ELF or Telefile and providing greater access to forms and information on the INTERNET;

Objective accomplished. ----- DOR has successfully increased the number of returns filed electronically. The department has developed DOR network sites on both the

Internet (on the World Wide Web) and Intranet (on the Statewide Area Network). To date, 129 of our Montana tax, business, unemployment insurance and miscellaneous forms have been made electronically accessible for download from these sites.

Continued Progress. ----- The department has developed and adopted Electronic Commerce Strategies (E-Commerce) that put specific objectives and time frames in place to accomplish significant increases in electronic transactions of all types, from electronic filing of returns to electronic transfer of funds.

Our efforts have produced some pretty positive results. The percentage increase (for calendar year 2000) in joint federal/state electronically filed returns between 1999 and 2000 was 50%. The percentage decrease in Telefile returns from 1999 to 2000 was 5%. Our goal for 2001 was to have a 30% increase. We have surpassed that goal. The participation in E-Commerce has seen an increase in participation by 38.5%!

The DOR Internet site was designed for taxpayers and other department customers. The site contains information about the department (how it is organized, department goals, a letter from the director); about specific taxes, licenses and fees; about electronic filing (options, guidelines and a registration form); and about abandoned property; liquor licensing, liquor distribution and other department programs. The site also contains resource and reference materials (Montana Codes Annotated, Administrative Rules, Taxpayer Bill of Rights) and links to other useful sites. To date, more than 200 of our Montana tax, business, unemployment insurance and miscellaneous forms have been made electronically accessible for download from the DOR Internet site. These forms cover the current tax year (2001) and go as far back as 1993.

In the second half of 2001, the DOR Internet site will be redesigned to look and feel similar to the State of Montana's Internet site (discoveringmontana.com).

Our DOR Intranet site was designed for the department's employees and contains a variety of information. This site has been expanded to include other informative articles and useful resources. For example, current articles, process and regional information, project updates (Communications, Competency, E-Commerce, GIS, POINTS), electronic forms, job postings, calendars, employee awards, templates, statewide team information, rules, policies, procedures, and popular links are all available for employee use. We also have sites encouraging employees to get to know one another (Meet the Team and Meet New Employees and Thank Retirees page). Another new addition is the Hot Topics page, which request employee feedback on a designated issue. We have developed a new DOR Forms page that is broken down into six categories, and includes 26 internal departmental forms that are electronically available on our Intranet site. The categories of forms listed include Business, Education and Training, Federal, Human Resources, Payroll, and Travel.

OBJECTIVE 6: By 7/1/00, implement a one-stop licensing/registration function for 90% of the licensing and registration requirements statewide;

Continued progress. ----- For calendar year 2000, the One-Stop program processed 9,134 licenses/registrations and collected \$1,108,454 in revenues. From January 1, 2001 through June 15, 2001, we processed 3,883 licenses/registrations with \$479,662.38 in revenues collected.

With the passage of SB26 the legislature approved the expansion of the One-Stop pilot program to include virtually all licenses and permits. As a result, the department has been developing the capacity to bring even more licensing/permitting activity through this single point of customer service. Specifically, the activity has expanded since April 1999 to include off-premise beer/wine licenses and is currently converting meters and scales licenses and the remaining liquor licenses.

Resource Management

OBJECTIVE 7: Each year of the biennium, evaluate the level of public information and education provided through a multimedia customer education campaign;

Objective accomplished. ----- Since July 1998, our outreach efforts have ranged from reengineering information to educational efforts related to implementation of legislative changes and external surveys.

In August of 1999, we attempted to address taxpayer questions and concerns by engaging in a major awareness campaign pertaining to the implementation of Senate Bill 184. To evaluate the success of this campaign, we conducted a matrix evaluation, which included a random sample mail survey, phone survey, office survey of taxpayers coming into the office asking questions about their taxes and in-house surveys of staff members regarding the depth of questions that were asked.

We used what we learned from this evaluation and applied it to our recent Senate Bill 200 outreach efforts. We evaluated our successes and the need for change from this campaign and made steps to implement these changes.

In December of 1999, the department completed development of internal/external communication strategies. In the course of developing these strategies we analyzed our existing public information practices and the needs for our future efforts.

In addition, the department has participated with other state agencies in the development and presentation of the Assistance for Business Clinics (ABC) program. Under this program, the department's Public Education unit annually provides public education through Assistance for Business Clinics, providing practitioners and business owners' information on payroll taxes. These clinics were offered in 16 different towns across the state during 1999 and total attendance was more than 800 people. We also participate in

tax institutes, seminars and tax counseling for the elderly with the IRS.

Continued progress. -----

Educational Sessions

DOR has provided education in Individual Income Tax preparation to volunteer preparers working with Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). These educational sessions provide volunteer preparers with practical knowledge and experience in preparing state Individual Income Tax forms, the Elderly Homeowner/Renter Credit form, and in electronic filing requirements.

So far in 2001, the DOR has participated in the Assistance for Business Clinics (ABC's) in Havre, Great Falls, Livingston, Kalispell, Helena, Hamilton, and Missoula. These educational sessions provide payroll information to employers and their agents on Unemployment Insurance and State Withholding Tax. In the sessions held to date, participants have favorably evaluated DOR presentations, with an average rating of 99% Excellent to Satisfactory. ABC's yet to come in 2001 will be held in Glasgow, Glendive, Miles City, Bozeman, Butte, Billings, and Lewistown.

In April, the DOR provided education on Unemployment Insurance, State Withholding Tax, and One-Stop Licensing to the business advocates located in the Job Service Centers throughout the state. This information will allow business advocates to better serve potential business owners who come to them for assistance.

Additional educational sessions planned throughout the remainder of 2001 include the Montana Cooperative Association of Electric Co-ops in August, the Montana Society of Public Accountants Liaison Meeting in October, and others that are still in the scheduling stage.

Informational Efforts

The DOR has provided public information on a variety of issues and topics, through a multitude of different mediums.

Media outreach and media relations were targeted toward individual and business taxpayers, property owners and special interest groups. Information focused on tax filing, tax law changes, improvements in customer service, special programs and public events.

Examples: Tax Year 2000 individual income tax filing, Missoula office move and the public auction for abandoned property.

Public service announcements for radio were created for individual income tax filing, property tax relief, liquor education and other topics. These announcements were played on radio stations statewide.

Department representatives attended a number of conventions, trade shows and expositions to distribute information. As an example, the department attended meetings

in five Montana cities to discuss HB 124 with local government officials and other external stakeholders. Department representatives also presented information at speaking engagements and group meetings.

A number of documents and reports were created to inform taxpayers, property owners, legislators and other customers. Many contained economic and statistical information from the department's Tax Policy & Research process.

The DOR Internet site provided information about the department (how it is organized, department goals, a letter from the director); about specific taxes, licenses and fees; about electronic filing (options, guidelines and a registration form); and about abandoned property; liquor licensing, liquor distribution and other department programs. The site also provided customers with reference materials (Montana Codes Annotated, Administrative Rules, Taxpayer Bill of Rights) and links to other useful sites. To date, more than 200 of our Montana tax, business, unemployment insurance and miscellaneous forms have been made electronically accessible for download from the DOR Internet site. These forms cover the current tax year (2001) and go as far back as 1993. In the second half of 2001, the DOR Internet site will be redesigned to look and feel similar to the State of Montana's Internet site (discoveringmontana.com).

DOR Public Education Strategy

The DOR is currently implementing a Public Education Strategy. A team comprised of representatives from each of the department's process areas, as well as two external stakeholders, developed this strategy. The overall goal of the strategy is the development of a public education program that will enable the department to respond to public education requests effectively, accurately, and consistently. The focus is on the four main areas listed below:

- 1) Utilization of the best educational tools and delivery methods to maximize the success of the DOR's public education efforts.
- 2) Recruitment and training of DOR staff to provide effective education that meets the public's needs.
- 3) Unification, for consistency, of the DOR public education efforts that are occurring statewide.
- 4) Promotion of DOR educational offerings to the public in order to maximize the impact of public education efforts.

DOR External Communication Strategy

The DOR is currently implementing a Communication Strategy, which contains strategies for the department's external communication activities. The overall strategic direction is:

"We will develop an effective communication process and work toward the common desire to continuously improve communication, supporting an empowered workforce and well-informed external stakeholders. We will continue to build trust and cooperation through open, honest, and responsive communication. We are committed to use communication to reinforce awareness that each of us is valuable and the work we do is vital in making the department an innovative, successful, customer-focused organization."

The five communication strategies that support the overall direction are:

- 1) Develop, reinforce and maintain strategic messages that promote the department's commitment to deliver quality service through improved processes and professional, customer-focused employees.
- 2) Create an atmosphere of trust through open and honest communication.
- 3) Build a cooperative, efficient work environment by ensuring timely, effective communication that enables employees to work at optimum levels and meet stakeholder needs.
- 4) Manage communication activities to enhance communication skills, provide guidance, and develop solutions to communication issues and needs.
- 5) Improve and expand communications by utilizing communication technologies, tools, and resources and by facilitating access to and sharing of information.

Progress has been made in each strategic area, with only a few goals remaining to be completed at this time.

Information Technology

OBJECTIVE 8: Complete Year 2000 compliance changes and testing for DOR applications, data and processing environments by 9/30/99;

Objective accomplished. ----- The rollover was completed without incident.

OBJECTIVE 9: By 12/31/99, complete and implement the initial phase of the integrated tax system;

Objective accomplished. ----- Phase I of POINTS (Process Oriented Integrated System) was brought on line December 7, 1999. With the implementation of POINTS Phase I, eight different systems were brought on-line and integrated; Delinquent Accounts Receivable, Revenue Contribution System, Montana Automated Contributions, Employer Charging, Magnetic Media System, WithHolding Tax, Refunds and Confiscations, and SBAS interface. At this time we are working out some of the conversion bugs that are inherent in the implementation of a new system and interface with SABHRS.

OBJECTIVE 10: By 6/30/01, complete conversion of the remaining taxes to the integrated tax system, including property and income taxes;

Continued progress. ----- Phase II of the POINTS project, which includes the replacement of the corporate license tax (CLT) and individual income tax systems (IIT) with modules that will integrate with POINTS I continues to move forward. The system-testing phase is nearing completion.

During our efforts to finalize our plans for design, development, and implementation of these two major initiatives, we discussed at length the timeline associated with these projects and the impact on the department. Based on our analysis, we believe that it was necessary to move back our anticipated completion dates for these two projects in order to ensure their success as well as the department's success in other activities we must accomplish over the next two years. At this time corporate and individual income tax modules are currently targeted to begin parallel implementation, along with existing legacy systems in the fall 2001. The contractor suspended the property tax module development phase in February 2001. Efforts to resolve this project track are ongoing between DOR and the contractor. These implementation targets were established based on resource availability and workload impacts. Once these modules have been completed, the department will assess implementation dates for the remaining taxes.

GOAL III: To foster a positive relationship with government and citizen groups impacted by taxation policy;

Director's Office

OBJECTIVE 1: Annually compile, customer needs assessments regarding services provided by the agency to all external customers through surveys, taxpayer advocacy activities, stakeholder communications, and advisory board(s); when needs are identified, implement changes to the processes within six months of identification;

In 1999, our work in this area was associated with the implementation of the Senate Bill 184 and Senate Bill 200 legislation. We made an aggressive effort to educate taxpayers regarding tax law changes and the department's implementation efforts associated with this legislation. We then surveyed taxpayers to get their feedback regarding our education effort.

In December 1999, the department developed and adopted a Communication Strategy that provides us strategic direction for internal and external communications. To attain the goals and objectives associated with these strategies we have implemented several action steps to improve our communications with internal and external customers. Many of the objectives and action steps have been integrated into process work plans.

Continued progress. ----- In 2000 and early 2001, we surveyed our taxpayer services pertaining to income tax and the 1099 forms. In June 2001 the department surveyed accountants which attended the Montana CPAs 88th annual meeting. We are currently trying to determine what improvements we can make to accommodate these survey results. (Please see GOAL II, OBJECTIVE 1 response for the specifics on the survey activities).

We continue to provide periodic reports to interim legislative committees and seek input from advisory groups where needed.

OBJECTIVE 2: Coordinate by 12/31/00, the development of integrated strategic revenue policies;

Continued progress. ----- During the remainder of fiscal 2001, Tax Policy and Research (TPR) continued to provide staff support to the Local Government Funding and Structure Committee and the Court Funding and Structure Committee. This work resulted in a final report for each committee, five bills for the Local Government Committee and one bill for the Court Committee. The bills are listed below:

- HB124 The “Big Bill” (1) simplified revenue collection and revenue distribution among state, local governments and schools; and (2) established a local government entitlement share partnership and block grants for schools until a school funding study is undertaken.
- SB137 This bill created a state and local government relationship committee. The essence of this committee’s duties was written into SB10 under the Local Government and Education Interim Committee. SB10 did not include the non-legislator members of the committee that were contained in SB137.
- SB138 The local government accounting and budgeting laws were modernized.
- SB155 A local option sales tax was introduced. This concept did not pass.
- SB162 A process was established to review the dedication of state revenue for local government on an on-going basis to continue the simplification and streamlining accomplished in HB124.
- SB176 District court expenditures, except for the clerk of district court, the clerk’s staff, and basic office operating expenses, become state rather than county obligations. The district court program is placed within the Montana State Supreme Court.

During session, over 300 fiscal notes were written, and responses were provided to about 200 information requests concerning tax policy and revenue-related legislation. These activities inform legislators, lobbyists, and the public about the impact of tax policy proposals. During the 2001 biennium, good working relationships were established with local government officials.

Overall, the activities established a solid foundation for dealing with future tax policy by creating a simplified method of reimbursing local governments and schools for the financial impact of state tax policy changes. The policies enacted by the 2001 legislature are a big step in the development of integrated strategic revenue policies for Montana. Governments need to be diligent and build on this work to continue developing accepted integrated strategic revenue policies that transcend political parties and administration changes.

OBJECTIVE 3: Meet semiannually, with established Stakeholder Advisory Groups to formalize and make more systematic the department's efforts to build positive customer relationships;

Objective accomplished. ----- In calendar 1999 and 2000, we have hosted several Stakeholder Advisory Group Meetings on either One-Stop Licensing or Project Met). During this time, we have addressed or met with representatives of the following

organizations as well: Montana Tavern Association, Montana Association of Counties, Montana Society of CPAs.

As a department, we routinely seek opportunities to meet with stakeholders, stakeholder advisory groups, industry groups, trade associations, etc. to solicit their input, guidance, and help in identifying customers needs.

In April 1998, we established a "Stakeholders Advisory Council" to assist in guiding the department through its restructuring and reengineering efforts. The council is comprised of state legislators, state agency and local government officials, and trade association representatives. Since its inception, the advisory council has met eight times.

We have also established a "One-Stop Licensing Focus Group" and "One-Stop Licensing Board of Review" to provide input, guidance, and identify customer needs in the program development and implementation of DOR's One-Stop Licensing efforts. This focus group is comprised of fourteen business representatives affected by the One-Stop Licensing program (from gas stations grocery stores, etc.) and state agency employees involved in program development and implementation efforts. The review board is comprised of officials (directors) of ten state agencies affected by the program. The focus group was established in the spring of 1998 and has met several times since its inception. The board of review was established in November of 1997 and meets quarterly.

Compliance, Valuation and Resolution

OBJECTIVE 4: By 1/1/02, implement immediate retrieval capability for CVR data;

Continued progress. ----- This is an ongoing process. Development of the "Filenet" capability and integrating it into Phase II implementation of the Individual Income Tax and Corporation Tax application is progressing well. The software is purported to be ready; testing and interface efforts are expected this summer in anticipation of a fall implementation.

The completion date for this objective is still distant. Much of our success in achieving this objective is dependent upon the department wide implementation of POINTS Phase I and Phase II. POINTS Phase I was put on-line in early December 1999. With its implementation, CVR is able to retrieve data pertaining to customer registration, account maintenance, businesses/individuals, receivables, delinquent accounts, etc. for Unemployment Insurance, Withholding Tax, Delinquent Accounts Receivables, and the other tax functions brought up under this phase. With the implementation of POINTS Phase II by Fall 2001, corporate license tax (CLT) and individual income tax (ITT) modules will begin parallel implementation along with existing legacy systems. The contractor suspended the property tax module development phase but efforts to resolve issues with this project track are continuing.

OBJECTIVE 5: By 7/1/01, Expand taxpayer assistance programs by cross matching income tax and advocacy groups records (e.g. Veterans Administration, AARP, etc.). The cross match will identify taxpayers that will be targeted to receive application information based on income level;

No progress. ----- This objective was incorporated into the department's Compliance Strategy as a high priority. The target date for its implementation was moved forward to July 1, 2000. Unfortunately, this target date was not achieved. A new target date has not been established for this objective.

GOAL IV: To maintain and value a high quality workforce;

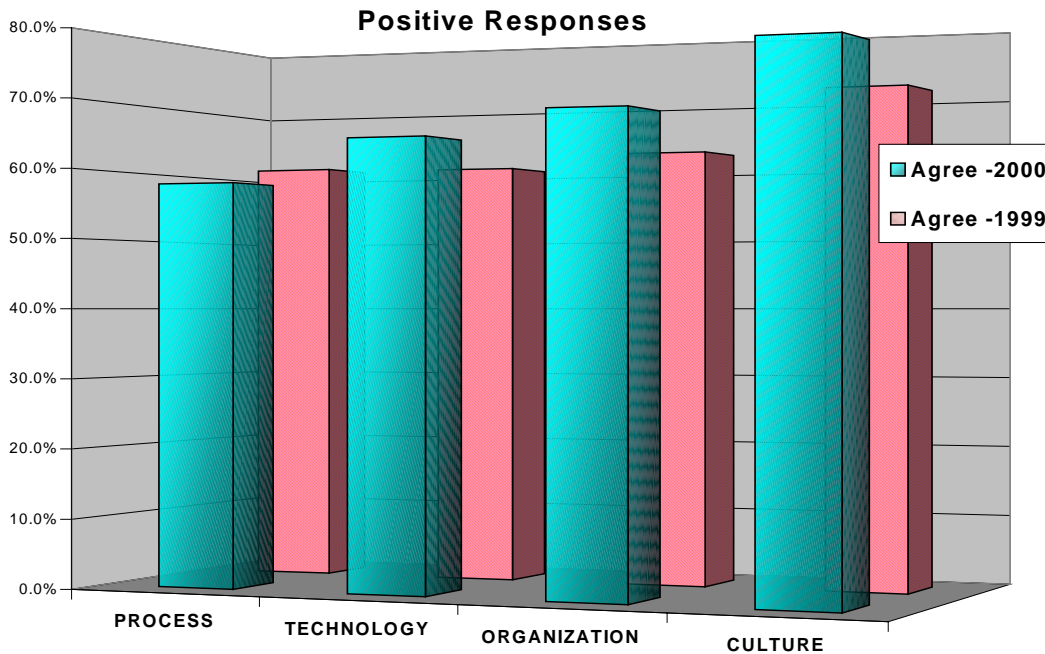
Director's Office

OBJECTIVE 1: Identify by 12/31/99, internal stakeholder issues related to retention/recruitment of employees, technology effectiveness, and employee morale issues;

Objective accomplished. ----- Our annual comprehensive Employee Feedback Assessment Survey was conducted during June 2000. The survey identifies strengths and issues in key areas of process, technology, organization, and culture. A comparison of the baseline (1999) survey to the current survey showed significant improvement in three of the four areas of measurement. Many of the key issues identified in the survey have been developed into action plans in order to address employee concerns. The department will continue to conduct this survey in 2001 to measure the pulse of the organization, identify areas of improvement, and address areas where change is needed.

Areas of Measurement

- **Process** - The ability of the processes to coordinate, plan, perform and work together efficiently and effectively as one organization.
- **Technology** - The department's ability to adapt and implement up-to-date technology and provide access to meet employee and customer needs.
- **Organization** - The extent to which everyone in the department promotes a quality organization. Leadership style and behavior supports an organization in which employees are provided necessary education or training to make knowledgeable, informed decisions.
- **Culture** - Characteristics of department employees such as personal satisfaction, motivation, initiative, and commitment to the organization.



OBJECTIVE 2: In conjunction with the comprehensive strategic plan identify, by 6/30/00, specific ways to address any issues related to employee retention/recruitment, technology effectiveness and employee morale;

Continued progress. ----- The competency team met their goal of creating a competency based pay plan project by January 1, 2001. The department has made significant progress in our negotiation efforts and is in the process of implementing the career path and Performance Appraisal (PA) competency project components developed by the competency team. Both of these components address many of the key issues related to employee retention/recruitment, technology effectiveness and employee moral. The creation of career paths for all roles within the department provides greater flexibility to attract and retain qualified and competent employees. Performance appraisals reflect those competencies identified by the role assigned. Employees with a score of 3.0 or higher were rewarded with a bonus.

We also have an employee recognition program where we identify employees that have attained a certain level of service and expertise with the DOR. The first employee recognition program was initiated after PAs were completed.

OBJECTIVE 3: By 6/30/01 implement formalized 360-degree employee evaluation procedures;

Continued progress. ----- The department's objective to implement 360-degree

employee evaluation procedures is completed and will be implemented as part of the departments competency based system although the department continues to negotiate with union representatives to fully implement the competency-based pay component.

The foundation for the new competency-based system that comprised career paths, performance appraisal process and pay was completed on January 1, 2001 and has been revised to be implemented under pay plans 60 and 68. The objective to implement 360-degree employee evaluation procedures in conjunction with the competency based pay efforts is also in the process of implementation under both those pay plans. The department continues to negotiate with union representatives to fully implement competency-based pay under pay plan 20 for all department employees.

Resource Management

OBJECTIVE 4: By 6/30 of each year of the biennium, assist workforce transition to the new environment by providing regular organizational and work related training; and employ evaluation and assessment techniques to determine the type of training necessary by employee groups;

Continued progress. ----- The training and education team has completed the curriculums for each role and will gather information to ensure all employee-training records are accurate and complete. Within the next six months, the department will begin a "on the job training" project (OJT); where we will have a consistent, documented, and accountable program for all new employees. Besides the curriculums and OJT, we also have the priorities of Legislative Changes and POINTS II.

Three main training categories have been identified. They are: Core Training (all employees are required to attend); Role Specific Training (training that is assigned to each role); and Cultural Training (those subjects that help the employee deal with their environment, such as Teambuilding, Performance Appraisals, Dealing with Change, etc.). We currently have 30 classes developed and operating and approximately 40 under development. We will use approximately 28 trainers within the department to assure that we offer specialized training to our employees given by the experts in each area within the DOR.

OBJECTIVE 5: Encourage mentoring of employees by offering incentives to mentors whose efforts result in a demonstrated benefit to the department by 12/31/99 (e.g. mentored successfully recruits for other positions; department vacancies decline in the department due to the work of the mentor; improved employee morale and productivity demonstrated by performance mentoring or information on 360 degree performance evaluations);

The department has implemented several activities that cover the approach of "mentoring."

We have addressed the mentoring process by utilizing the TSP process (Tactical Strategy Plan). TSP, is a tool that establishes several performance steps that Process/Sub-Process/Regional Leads must accomplish in the arena of mentoring. In addition, we are developing a mentoring team to assist the Statewide teams in the application of our new structure. We are monitoring our turnover rate and asking for feedback from our employees through the use of employee surveys to determine how effective our mentoring program is operating. That data is currently being accumulated and will be available in the near future.

Continued progress. -----To date, the department continues several activities, which cover the topic “mentoring”. The Tactical Strategy Plan (TSP) establishes several performance steps that process/sub-process/regional leads must accomplish in the area of mentoring. In August 2000, the leadership of the department attended a presentation on mentoring to help enhance their abilities in this area. In addition to the TSP, we continue to monitor the agency’s turnover rate to establish the effectiveness of our department’s mentoring program.

All DOR employees participated in the Performance Appraisal process in November 2000. This process helps identify and evaluate employee strengths and determines areas of focus concerning the employee’s knowledge, skills and abilities. The process also helps employees work with their supervisors to identify goals and objectives for the next review process. A 360-degree evaluation is used in this process to help ensure that employees are evaluated from a variety of sources. In the 360-degree review employees choose some raters and some are selected by the employee’s supervisor.

The department has also been working with employees to review the current roles. The roles outline the essential duties, competencies, key relationships, training, and core competencies. From the role, a career path is developed giving employees a clearer focus for future goal setting. The career path outlines the duties to be performed as well as the proficiency levels of the competencies needed to perform successfully at each level.

Continued progress has ended.

OBJECTIVE 6: “Develop a competency based plan that identifies roles, career paths, and the evaluation of staff through performance appraisals. This also includes the mentoring of employees to improve morale and productivity.”

The first competency-based Performance Appraisal (PA) process was held for all DOR employees in November 2000. This process helps identify and evaluate employee strengths and areas of focus concerning the knowledge skills and abilities that they have. The process also helps employees work with their supervisors to identify goals and objectives for the next review process. Components of a 360-degree evaluation process are used to help ensure that employees are evaluated from a variety of sources. In this type of review employees have the ability to choose raters while others are selected by the

employee's supervisor.

The second PA process began in June 2001. The process will be consistent with the first process held in 2000. The PA form has been modified as requested by staff to shorten the amount of time necessary for employees to complete co-worker reviews. The PA process is designed to give employees the most accurate review possible using a variety of ratings collected through a well-organized and efficient system.

The department has also continued its work with employees to review the current roles. The roles outline the essential duties, competencies, key relationships, training, and core competencies. From the role, a career path is developed giving employees a clearer focus for future goal setting. The career path outlines the duties to be performed as well as the proficiency levels of the competencies needed to perform successfully at each level. This allows the employee to work with their supervisor and enhance two-way communication. The employee can share their personal goals with the supervisor, and the supervisor can, in turn, share their expectations to clearly guide the employee along the career path.

In addition the department's Education and Training team has a managerial curriculum established to improve department leaderships' level of knowledge and ability using professional, evaluation, and mentoring skills and methods.

GOAL V: To continually seek greater efficiency in agency programs, helping to ensure that resources are used wisely;

Director's Office

OBJECTIVE 1: By 12/31/99, develop an automated performance tracking system for wage based taxes, including an automated reporting function;

Objective accomplished. ----- The automated performance tracking system and automated reporting functions for wage based taxes were developed in POINTS Phase I.

OBJECTIVE 2: Analyze annually the performance trends for each process to identify areas for improvement, and implement necessary process changes identified through the performance analysis;

Continued progress. ----- This is an ongoing objective in the department. In our new business process structure, we continually analyze performance trends to emphasize our strengths and minimize (or eliminate) our weaknesses. Examples of our efforts in this area include:

- In May 2001, an internal survey was conducted on selected areas of the organization to gather information and measure the department successes and areas for

improvement in accountability, expertise and team structure. It is the intent of the department to review the organization, including what is working and what is not, and to make necessary changes to the structure so we can operate more effectively and efficiently.

- In June 2000, the department conducted our annual employee survey and identified strengths, issues and concerns from the employee perspective. This provides a feedback mechanism as well as platform to initiate the continuous improvement process.
- In 1999/2000, surveys were conducted and public education was performed relating to the implementation of SB184 and SB200 legislation. We utilized the results of our survey efforts to identify issues and areas of concern and implement improvements.
- Document and Information Processing (DIP) is currently establishing performance standards and measures for process activities that will allow DIP to measure and analyze performance trends in order to continually improve its process activities.
- The Balanced Scorecard concept was initially introduced to the department in May 2000. This new concept encouraged discussions regarding what are the relevant measures that will drive the future performance and help the department to accomplish its vision. The scorecard identifies four areas in the organization -- Customer Service, Learning and Growth, Internal Business Process and Compliance Results -- and reports progress in these areas. This reporting system was implemented in January 2001 and continues to be updated on a quarterly basis.
- It is the department's intent to participate in benchmarking activities for state tax agencies through the Federation of Tax Administrators (FTA) web site, which contains benchmarking projects. This will enable the department to research and exchange information and ideas with other taxing agencies and participate in best practice studies. Comparing projects and measuring the results on a larger scale will keep the department in tune with the current trends and techniques available in the taxing industry. It is our desire to be an active member of the FTA benchmarking project in July 2001.

OBJECTIVE 3: Develop by 6/30/00, an agency comprehensive strategic plan, which focuses on stakeholders;

Continued progress. ----- The department has established a Communication Strategy, a Compliance Strategy, E-Commerce Strategy and, most recently, a Public Education Strategy. These strategies are moving the organization forward in a proactive manner and helping us achieve our vision. All of these strategies contain stakeholder-focused goals and objectives.

Compliance, Valuation and Resolution

OBJECTIVE 4: By 6/30/01, implement the appropriate technology to facilitate the 8 Region organizational structure;

Continued progress. ----- A region lead for Region 8 was hired to assume the responsibilities of the SMI teams in the Mitchell Building in 2000.

We continue to make progress achieving this objective through the replacement of PC's, printers, faxes and other computer equipment in all 8 regions. These replacements are being made in conjunction with our four-year cyclical hardware replacement plan.

Efforts to complete this objective are dependent upon the implementation of POINTS Phase II. Phase II started the week of April 24, 2000 and is projected to be completed by the fall of 2001. During the implementation of this phase, every effort will be made to ensure that the appropriate technology is utilized to facilitate the needs of our regional organization structure.

OBJECTIVE 5: By 6/30/01, implement the alternative service options required to correctly size local presence to meet customer demand in the various districts, regions, and branch offices;

Continued progress. ----- The local office in Missoula County now has a new Customer Service representative who is knowledgeable regarding different taxes. This person assists in the income tax, miscellaneous tax and property tax areas within this office.

The July 1999 implementation of statewide teams around our nine core functions was the first important step to planning our work in a way that will lead to successfully accomplishing this objective. In November 1999, the department's Compliance, Valuation, and Resolution (CVR) process put in place compliance strategies to further the successful achievement of this objective. CVR and the Customer Service Center (CSC) are currently identifying tasks performed at the department's central, regional, and local offices. They are also analyzing the demand for customer services to determine employee (local presence) requirements to meet these demands in various regions. The results of this analysis will be used to identify and implement any required alternative service options.

OBJECTIVE 6: By 6/30/01, eliminate duplicate manual entry of data into state and local government computer systems;

Continued progress. ----- This objective is being addressed in the department's Compliance Strategy. Compliance, Valuation, and Resolution (CVR) is currently reviewing all existing administrative and business processes to ensure redundancies have been

eliminated and processes have been streamlined to eliminate handoffs. In conjunction with this effort, they are identifying the tasks that need to be performed at the department's central, regional, and local locations. These efforts will produce a plan that implements changes needed to eliminate duplicate manual entry of data into state and local government computer systems, as well as other redundant activities and inefficiencies that may exist.

Customer Service and Information Processing

OBJECTIVE 7: By 12/31/99, implement a revenue processing center for the receipt of revenue and related information, and the collection of state debt for all state agencies;

Objective accomplished ----- With the passage of House Bill 2 and House Bill 168, the state bad debt collection efforts of the Department of Administration and the Department of Revenue have been consolidated into our department's Customer Service Center. Bad debt collection operates as part of the department's Internal Service Fund, which provides receipting of revenue, data capture, and debt collection on behalf of the department and its other customers. We are ahead of the target date and are now performing some or all of these services on behalf of the Department of Public Health and Human Services (DPHHS), Fish Wildlife and Parks (FW&P), Department of Labor and Industry (DOLI), and the Department of Corrections.

Statutory Authorizations	
2-15-1301, MCA	The authority for the establishment of the Department of Revenue
2-15-1302, MCA	The authority for the Director of the Department of Revenue
Title 15, Chapter 1	Concerns tax administration and addresses the Department of Revenue, investigations and hearings, protest payments, actions to recover, and alternative remedies. Also addressed are the disposition of tax records, multistate tax compacts and collection of delinquent taxes including warrant for distraint.
Chapter 2	Concerns the composition and organization, powers and duties, and appeal procedure for the State Tax Appeal Board (STAB).
Chapter 6	Concerns property subject to taxation and addresses classification and tax exempt property.
Chapter 7	Concerns appraisal and discusses general methods, greenbelt appraisal, the Realty Transfer Act and appraisal of residential property in areas of changing use.
Chapter 8	Concerns assessment procedure and addresses when, how, where, and to whom property is assessed. The chapter also addresses assessment revision and assessment and map books.
Chapter 9	Concerns equalization.
Chapter 10	Concerns property tax levies and addresses statewide levies, statement of levies, entry of taxes and limitation on property taxes.
Chapter 15	Concerns property tax appeals to the county tax appeal board.
Chapter 23	Concerns centrally assessed property and addresses railroads, public utilities, airlines, mine net proceeds, oil and gas net proceeds, coal gross proceeds, and metal mines gross proceeds.
Chapter 24	Concerns special property tax applications and addresses twenty separate items. These items are: motor vehicle fleets; mobile homes; migratory personal property; insurance companies; production credit associations; building and loan associations; livestock; leasehold and other interests in U.S. property; state and other exempt property; new industry--real property development; remodeling of building or structures; historic properties; commercial property; business incubators; industrial parks; local economic development organizations; value-added manufacturing; and trucks and truck trailers.
Chapter 25	Concerns the dangerous drug tax.
Chapter 30	Concerns individual income tax and addresses rate and return of tax, withholding and estimated tax, and administration and collection.
Chapter 31	Concerns corporation license or income tax and addresses corporation licenses, collection of delinquent taxes including warrant for restraint, tax rate and return, small business corporations, allocation and apportionment of income and corporation income tax. The chapter also addresses lists of corporations and banks and savings and loan associations.
Chapter 32	Concerns energy-related and ecological incentives and addresses investment in energy conservation or alternative energy, tax credit for purchasing Montana produced organic fertilizer, wind-generated electricity and recycling of material.
Chapter 33	Concerns small business investment incentives and in particular addresses, small

Statutory Authorizations	
	business investment companies, and tax exemptions.
Chapter 35	Concerns the coal severance tax and in particular the New Coal Production Incentive Tax Credit Act.
Chapter 36	Concerns oil and gas severance tax.
Chapter 37	Concerns mining license tax and addresses metalliferous mines and micaceous mineral mines.
Chapter 38	Concerns resource indemnity trust tax (RITT) and addresses the resource indemnity trust fund.
Chapter 44	Concerns forest land tax.
Chapter 50	Concerns public contractor's fees and tax and addresses tax on contractors and contractor's tax return.
Chapter 51	Concerns electrical energy producer's tax.
Chapter 53	Concerns telephone company license tax.
Chapter 59	Concerns cement taxes and addresses cement and gypsum producers and also cement dealers.
Chapter 60	Concerns nursing facility utilization fee and addresses collection of the fee.
Chapter 65	Concerns the lodging facility use tax.
Title 16, Chapter 1	Concerns administration and taxation and addresses scope and code and exemptions, Department of Revenue powers, duties and limitations and taxation of alcoholic beverages.
Chapter 2	Concerns state liquor stores and addresses operation of stores, price of liquor and sale of table wine.
Chapter 3	Concerns control of liquor, beer, and wine and addresses official seal and other controls, regulation of brewers, beer importers, and beer wholesalers. It also addresses retail sales restrictions and sale of table wine.
Chapter 4	Concerns license administration and addresses beer and wine licenses, all-beverage licenses, special licenses, licensing criteria and licensing fees. Distribution of a portion of the beer and liquor taxes to incorporated cities and towns based on population.
Chapter 6	Concerns enforcement and addresses investigations, prosecutions and miscellaneous prohibitions and penalties.
Title 30 - Labor	Concerns the administration of the Old Fund Liability Tax.
Title 39 Chapter 51 Parts 11 through 13	Concerns the administration of employer contributions and classification, experience ratings for Unemployment Insurance.
	Abandoned property (Uniform Unclaimed Property Act)- Authority for this tax is found in 70-9-105, MCA.
	Cigarette tax- Authority for this tax is found under 16-1 part 1, MCA.
	Cigarette wholesaler and retailer license- Authority for this tax is found under 16-11-120, MCA.

Statutory Authorizations	
	Consumer counsel tax- Authority for this tax is found under 69-1-101 through 69-1-404, MCA.
	Department of Public Service Regulation tax- Authority for this tax is found under 69-1, MCA.
	Escheated estates- Authority for this tax is found under 72-14 Parts 1-3, MCA.
	Emergency 911 phone service regulation tax- Authority for this tax is found under 10-4 201 through 10-4-212, MCA.
	Inheritance tax- Authority for this tax is found under 72-16, MCA.
	Minimum cigarette price law- Authority for this tax is found under 16-10-2, MCA.
	National housing tax- Authority for this tax is found under 17-3-301, MCA.
	Rural electric and telephone cooperative license tax- Authority for this tax is found under 35-18, MCA.
	Telephone company license tax- Authority for this tax is found under 15-1 and 15-53, MCA.
	Tobacco products tax- Authority for this tax is found under 16-11-1 and 16-11-2, MCA.
30 USC §1735	Contracted Federal royalty audit activities
-Montana Constitution, Art X, §11 -§77-1-202(1), MCA -§77-1-301, MCA	State Lands royalty audit activities