

2013-2015 OPTION SUMMARY

DRS16000 - Department of Revenue Services
11000 - General Fund



Kevin Sullivan, Commissioner
Date: 09-28-2012

Priority	Option Title	2014 Base	2014 Adjust	2014 Revised	2015 Base	2015 Adjust	2015 Revised
REDUCTION							
0	OE- Reduction Option Out of State Audit Travel	189,584	-117,000	72,584	195,082	0	195,082
0	OE- Reduction Option Postage	848,268	-291,000	557,268	872,868	0	872,868
0	Reduction Option Audit Division	348,618	-305,822	42,796	356,826	0	356,826
0	Reduction Option Audit/C&E new hires	650,291	-650,291	0	0	0	0
0	Reduction Option C&E Division	391,089	-341,046	50,043	400,231	0	400,231
0	Reduction Option ISD	266,800	-256,709	10,091	274,207	0	274,207
0	Reduction Option Management Services	794,183	-776,702	17,481	820,869	0	820,869
0	Reduction Option Operations Division	846,711	-632,642	214,069	675,064	0	675,064
	OPTION TOTAL	4,335,544	-3,371,212	964,332	3,595,147	0	3,595,147

2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: John Kutsukos
Telephone: (860)297-4501

Priority: 0
09/21/2012

OE- Reduction Option Out of State Audit Travel

Statutory Reference: 4-77

ASSOCIATED PROGRAMS:

- 13036-Operations
- 13037-Information Systems
- 13038-Audit
- 13039-Collections & Enforcement
- 14000-Management Services

DESCRIPTION & REASON / MEASURE OF IMPACT

Operating Expense Reduction:

Reduction in Out of State Travel by Audit staff. The DRS is proposing to cut out of state travel by audit examiners even though history has shown that out of state travel has brought in larger revenue assessments than in state audit cases.

We anticipate that that this reduction will reduce revenues by at least \$75,000,000.

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	0	0	0	0	0	0	0	0
10020 - Other Expenses	182,274	185,587	189,584	-117,000	72,584	195,082	0	195,082
Option Total	182,274	185,587	189,584	-117,000	72,584	195,082	0	195,082

Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
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2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: Rosemary Cleary
Telephone: (860)297-4732

Priority: 0
09/24/2012

Reduction Option Operations Division

Statutory Reference: 4-77

ASSOCIATED PROGRAMS:

13036-Operations

DESCRIPTION & REASON / MEASURE OF IMPACT

Elimination of temps OT and Vacancies

With the elimination of temporary help DRS would not be able to process tax returns in a timely manner which delays the deposit of revenues and issuance of taxpayer bills and refunds.

Reduction Rationale

The above mentioned budget reductions were identified as having the least detrimental affect on the overall production of the Operations Division. Many of the functions performed in the Operations Division are mandated by statute and therefore cannot be eliminated. We must register taxpayers, issue refunds, deposit revenue within 24 hours of receipt, respond to taxpayer inquiries, etc. The proposed significant decrease in personnel services requires that certain activities currently performed be eliminated or drastically reduced. In order to maintain the core duties of the division, service to the public and timely deposit of state revenue, the following options are proposed. However, these options will have a negative impact on revenue and reduce the level of services currently provided to the Connecticut taxpayers.

Non-mandatory functions such as the review of tax returns and assorted bills and refunds which meet predefined criteria will be eliminated or reduced. Tax return information will be accepted as filed versus performing many of the Examiner validations currently completed prior to the issuance of bills and refunds.

The proposed reduction in temporary staff, traditionally hired for peak filing seasons, equates to a reduction of 25,234 work hours of production. To accomplish that, full time employees will have to be reassigned to the Processing and Deposit areas to perform the duties ordinarily performed by the temporary staff. This, in turn, creates additional backlogs in all operating units. Also, this will seriously impact the service provided to Connecticut taxpayers in the Taxpayer's Services Call Center.

The proposed 50% reduction in overtime will significantly impact production, primarily during the peak filing periods. Overtime assists in meeting mandated statutory requirements such as depositing all monies received within a twenty-four hour time period, issuing refunds within 90 days to avoid payment of interest, issuing timely bills, registering new taxpayers and issuing permits.

In effect, the division is losing 13.1 FTE's due to reassignment to cover the temporary employee functions.

The proposed reassignment of staff to replace temporary employees would have the following negative impact:

- 1) Thresholds for mathematically incorrect returns will be increased for Income Tax, Withholding, Corporation, Sales and Partnership returns. Many taxpayer errors on returns will not be detected and if the difference between the amount of tax due calculated by the taxpayer is less than the threshold amount. Therefore, approximately 40,000 less errors would be researched resulting in the generation of inaccurate refunds and bills;

2) The inability to review returns that suspend for questionable taxpayer identity, including Income Tax returns with no social security numbers, which could result in returns being applied to incorrect accounts; 19,000 such returns have been reviewed this year. Processing returns as filed will likely result in erroneous refunds and bills being generated and hinder the processing of correct returns;

3) The inability to validate refunds and bills that are systematically held for review which could result in erroneous bills, refunds or credits. This could result in a revenue loss in excess of \$3,500,000. The potential revenue loss for unreviewed offsets is \$1,000,000 and unbilled accounts another \$1,000,000;

4) The inability to review returns that have been processed and identified as potential fraudulent returns. Estimates of revenue loss due to refund theft have ranged from \$2,000,000 to \$4,000,000 annually;

5) Delays in implementing legislative changes;

6) Significant delays in registering taxpayers and updating taxpayer demographic information will result in a revenue loss, increased mailing costs and other unnecessary expenses;

7) Significant delays in processing bonds, responding to form requests and providing OPM and OFA with timely tax revenue and refund analyses, as well as reviewing registrants for delinquencies and deficiencies;

REVENUE LOSS

Implementation of the proposals outlined above will result in an estimated annual revenue loss of \$ 8 million dollars as well as increased operating expenses. In addition to the direct impact on revenue, the work performed by Operations directly impacts the ability of Audit and Collections to perform their compliance functions. All divisions will be impacted by reduced support levels.

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	20	2	2	-2	0	0	0	0
10010 - Personal Services	1,589,681	790,802	846,711	-632,642	214,069	675,064	0	675,064
Option Total	1,589,681	790,802	846,711	-632,642	214,069	675,064	0	675,064

Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Temps	451,509	487,721	512,108	-367,631	144,477	537,713	0	537,713
Overtime	108,112	111,575	137,351	-67,759	69,592	137,351	0	137,351
Vacancies	1,030,060	191,506	197,252	-197,252	0	0	0	0

2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: John Kutuskos
Telephone: (860)297-4561

Priority: 0
09/24/2012

Reduction Option Audit Division

Statutory Reference: 4-77

ASSOCIATED PROGRAMS:
13038-Audit

DESCRIPTION & REASON / MEASURE OF IMPACT

The proposed reduction of eliminating \$55K in Temporary services and overtime is anticipated to result in a reduction of \$14,000,000 in revenues. The temporary position currently processes audits for one of our field offices. Since the only other staffing are Revenue Examiners and a Tax Unit Manager there is no one else to enter this information. This function would have to be without this person a Revenue Examiner which would result in loss of audit production. Overtime is required by Union contract for all Revenue Examiner1 vs. "comp time" which is given to Revenue Examiners in higher classes when it is earned on out of state travel.

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	33	4	4	-4	0	0	0	0
10010 - Personal Services	2,263,835	745,711	348,618	-305,822	42,796	356,826	0	356,826
Option Total	2,263,835	745,711	348,618	-305,822	42,796	356,826	0	356,826

Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Temps	12,544	13,550	14,228	-14,228	0	14,939	0	14,939
Overtime	66,485	68,615	84,466	-41,670	42,796	84,466	0	84,466
Vacancies	2,184,806	663,546	249,924	-249,924	0	257,421	0	257,421

2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: John Kutsukos
Telephone: (860)297-4561

Priority: 0
09/24/2012

Reduction Option C&E Division

Statutory Reference: 4-77

ASSOCIATED PROGRAMS:
13039-Collections & Enforcement

DESCRIPTION & REASON / MEASURE OF IMPACT
Reduction Impact:

Temporary Employees and Overtime are primarily used to process correspondence of tax warrants and liens in order to reduce or eliminate backlogs.

As shown above, the state would realize approximately \$341k in savings from salaries and related expenses. To achieve this savings, the state would forego approximately \$10M in revenue.

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	11	3	3	-3	0	0	0	0
10010 - Personal Services	881,530	577,132	391,089	-341,046	50,043	400,231	0	400,231
Option Total	881,530	577,132	391,089	-341,046	50,043	400,231	0	400,231

Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Temps	16,417	17,734	18,621	-18,621	0	19,552	0	19,552
Overtime	77,744	80,234	98,769	-48,726	50,043	98,769	0	98,769
Vacant	787,369	479,164	273,699	-273,699	0	281,910	0	281,910

2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: Gary Dowling
Telephone: (860)297-4732

Priority: 0
09/24/2012

Reduction Option ISD

Statutory Reference: 4-77

ASSOCIATED PROGRAMS:
13037-Information Systems

DESCRIPTION & REASON / MEASURE OF IMPACT
Elimination of OT and Vacancies.

Reduction Impact:

A reduction of services in the following areas will result if the above reductions are implemented.

1. Data Security - Delay in completing current and pending data security reviews and implementation of data security and data loss protection technologies.
2. ITAS Infrastructure Re-engineering - decrease in qualified resources to support the completion of a major re-engineering of the infrastructure that currently supports all DRS tax systems and to support newly implemented technologies.
3. Expansion of E-Commerce - decrease in qualified resources necessary to develop and support the backend system that current E-commerce systems depend on.

Summary:

All functional areas of DRS are dependent upon the agency's advanced, highly integrated technological infrastructure. Every effort is made by the Information Services Division to keep this mission critical resource current and reliable. Reducing the resources responsible for administering and maintaining the agency's technological environment could compromise its overall integrity and reliability

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	13	4	4	-4	0	0	0	0
10010 - Personal Services	974,074	255,872	266,800	-256,709	10,091	274,207	0	274,207
Option Total	974,074	255,872	266,800	-256,709	10,091	274,207	0	274,207

Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Overtime	15,675	16,177	19,915	-9,824	10,091	19,915	0	19,915
Vacant	958,399	239,695	246,885	-246,885	0	254,292	0	254,292

2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: Gary Dowling
Telephone: (860)297-4732

Priority: 0
09/24/2012

Reduction Option Management Services

ASSOCIATED PROGRAMS:
14000-Management Services

DESCRIPTION & REASON / MEASURE OF IMPACT

The Management Services Program is comprised of the following functional areas:

- Executive Office
- Administrative Division
- Appellate Division
- Legal Division
- Litigation Division
- Taxpayer Services Division
- Research Unit

The reduction option is the elimination of Temporary help, Overtime pay and Vacancies. This will have a detrimental affect on our services in many areas. Taxpayer Services relies heavily on temporary help to get them though the tax season without that help the need would have to be forgone or filled by Revenue Examiners in the field offices. This would take away from revenue producing tasks. Our Records Division relies primarily on temporary staff to fulfill the "quality assurance" review function of our outsourced returns. Since our budgets have been reduced over the past several years DRS has had to use Overtime pay to supplement the lost positions. Basic Administrative functions will not be performed. The reduction in overtime would also affect staffing necessary to implement legislative and annual changes, provide timely returns processing and taxpayer services during peak processing periods and work the inventory of overdue accounts.

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	21	10	10	-10	0	0	0	0
10010 - Personal Services	1,439,932	739,080	794,183	-776,702	17,481	820,869	0	820,869
Option Total	1,439,932	739,080	794,183	-776,702	17,481	820,869	0	820,869
Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Temps	165,391	178,656	187,450	-187,450	0	196,969	0	196,969
Overtime	27,157	28,027	34,502	-17,021	17,481	34,502	0	34,502
Vacant	1,247,384	532,397	572,231	-572,231	0	589,398	0	589,398

2013/2014-2014/2015 Budget Options

Reduction Option

DRS16000 - Department of Revenue Services
11000 - General Fund

Contact: John Kutuskos
Telephone: (860)297-4501

Priority: 0
09/27/2012

Reduction Option Audit/C&E new hires

Statutory Reference: 4-77

ASSOCIATED PROGRAMS:

- 13038-Audit
- 13039-Collections & Enforcement

DESCRIPTION & REASON / MEASURE OF IMPACT

Elimination of the 15 positions approved in last years budget.

The impact is a \$13,000,000 revenue loss associated with these postitions.

SID Code / Title	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised
Number of Full Time Positions	0	15	15	-15	0	0	0	0
10010 - Personal Services	0	650,291	650,291	-650,291	0	0	0	0
Option Total	0	650,291	650,291	-650,291	0	0	0	0
Quantifiable Statistics	2012 Actual	2013 Estimated	2014 Base	2014 Option	2014 Revised	2015 Base	2015 Option	2015 Revised



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES



OFFICE OF THE
COMMISSIONER

September 28, 2012

Honorable Ben Barnes
Office of Policy and Management
450 Capitol Avenue
Hartford, CT 06106-1308

RE: Budget Reduction Options

Dear Secretary *Barnes*

As requested, the Department of Revenue Services (DRS) submits the attached Budget Reduction Option equal to 5% of our FY 2014 appropriations. This reduction takes into consideration the restrictions imposed by provisions of the SEBAC concession agreement that prohibit certain Personal Service reductions. This option represents expenditure reductions totaling \$3,371,212. (\$2,963,212 PS and \$408,000 OE).

I understand the need for continued fiscal restraint and the reasons why this 5% reduction option has been requested. As you know from documentation that I have previously provided to you, the Department has already sustained one of the largest proportionate budget reductions among state agencies – especially in Personal Services funding. In addition, Department budget reductions generally equate to larger revenue reductions.

The Department simply cannot absorb this 5% without significant adverse impact on operations and revenue collection. The overwhelming majority (88%) of the Department of Revenue Services (DRS) budget provides essential Personnel Services. With agency staffing already substantially reduced over the past several years there is no room left to reduce personnel services funding or other expenses without severely impacting the Department's capacity to perform its core functions – that of tax revenue generation and collection.

More specifically, a 5% reduction would significantly impact revenue collection in many ways including, but not limited to, the following:

- Reduction in travel expenditures for compliance activities that will reduce audit amounts collected through assessments and taxes remitted voluntarily totaling an estimated \$75,000,000 annually.
- Elimination of the 2012 legislatively approved 15 revenue examiner and revenue agents that are expected to generate \$13,000,000 of tax revenue in FY2014 and beyond.

- Reduction in temporary employees necessary to augment permanent staffing levels during peak tax processing seasons would result in delay, degradation of service levels and diversion of other staffing from other areas of revenue collection.
- Inability to fill vacant positions that directly and indirectly support the revenue generation and return processing.
- Reduction in overtime would affect staffing necessary to implement legislative and annual changes, provide timely returns processing and taxpayer services during peak processing periods and work the inventory of overdue accounts.
- Further reductions in printing and postage that cannot be implemented without the passage of proposed DRS legislation regarding electronic tax return filing and payments.

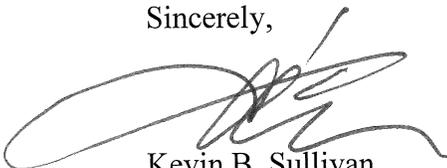
While unable to sustain a further 5% budget cut, the Department is fully prepared to document the feasibility of a lesser but still significant range of budget reduction options for review by OPM and the Governor.

Please note that DRS has not proposed any revenue enhancement or reduction options for FY 2014 and FY 2015. While DRS has demonstrated that investment in our agency generates additional revenue, we understand the current budget constraints and are gratefully assimilating the restored staff recently approved for the Department.

As always, we are prepared to provide whatever additional information may be required as you prepare for the Governor's FY 2014-15 proposal biennial budget.

Let me add my appreciation for the positive working relationships that you and OPM have developed with our state agencies.

Sincerely,



Kevin B. Sullivan
Commissioner

Attachment

