

Department of the Treasury
Alcohol and Tobacco Tax and
Trade Bureau (TTB)

Congressional Justification
for Appropriations and
Annual Performance
Report and Plan

FY 2018

Table of Contents

Section I – Budget Request.....	3
A – Mission Statement.....	3
B – Summary of the Request	3
1.1 – Appropriations Detail Table.....	4
1.2 – Budget Adjustments Table.....	4
C – Budget Increases and Decreases Description.....	4
1.3 – Operating Levels Table.....	6
D – Appropriations Language and Explanation of Changes	7
E – Legislative Proposals.....	7
Section II – Annual Performance Plan and Report.....	8
A – Strategic Alignment	8
B – Budget and Performance by Budget Activity	8
2.1.1 Collect the Revenue Resources and Measures.....	8
Collect the Revenue Budget and Performance	8
2.1.2 Protect the Public Resources and Measures.....	11
Protect the Public Budget and Performance	12
Section III – Additional Information	15
A – Summary of Capital Investments.....	15

Section I – Budget Request

A – Mission Statement

To collect the taxes on alcohol, tobacco, firearms, and ammunition; protect the consumer by ensuring the integrity of alcohol products; and prevent unfair and unlawful market activity for alcohol and tobacco products.

B – Summary of the Request

Supporting the nation's economic vitality is at the core of the work performed by the Alcohol and Tobacco Tax and Trade Bureau (TTB). The Bureau's role in permitting, regulating, and taxing the alcohol, tobacco, and firearms industries facilitates a compliant and fair marketplace for those engaged in the manufacture and trade of these commodities, and ensures that the Federal Government has the resources needed to fund national priorities. TTB administers its mission according to two core strategic goals—"Collect the Revenue" and "Protect the Public"—both of which support Treasury in promoting economic growth and stability and in fairly and effectively reforming and modernizing Federal tax systems.

TTB is the third largest tax collection agency in the U.S. Government, after the Internal Revenue Service and U.S. Customs and Border Protection, collecting more than \$22 billion in excise tax revenues annually. As the most efficient means of tax administration, facilitating voluntary compliance will remain a priority for TTB in FY 2018. To this end, TTB will enhance its guidance related to Federal alcohol, tobacco, firearms, and ammunition laws and regulations, and explore opportunities to streamline regulations and requirements to reduce compliance burden. TTB will also focus on improving internal processes to contribute to continued positive returns on the investment in TTB.

Alcohol and tobacco diversion remain long-term tax enforcement challenges given the high profits to be gained from illegal activity, the relative ease of diversion, and the substantial revenue loss that it represents. Failure to address illicit trade not only deprives governments of revenue, but also gives non-compliant actors an unfair competitive advantage over their lawful counterparts. Given this, TTB will maintain its efforts to employ risk modeling to target its audits and investigations to remain focused on the highest risk activity. TTB will also prioritize its enforcement cases to most effectively deploy its criminal agents to detect and deter illicit trade.

As demand for TTB services has grown in line with the expanding alcohol industries, TTB has responded through updated policies to reduce burden, systems modernization, and streamlined processes to ensure the timely turnaround of applications for new and existing wineries, breweries, and distilleries. Delays can cause financial hardships for these businesses and create a barrier to compliant commerce. In FY 2018, TTB will revise its service standards in line with anticipated staffing levels and ensure the new standards are clearly communicated to industry in order to manage expectations and allow appropriate operational planning. TTB will further adjust its strategy for systems modernization to align with resource levels, continuing to focus on clear and consistent guidance to industry to facilitate the submission of compliant applications.

1.1 – Appropriations Detail Table

Dollars in Thousands

TTB Appropriated Resources	FY 2016		FY 2017		FY 2018		FY 2017 to FY 2018			
	Enacted		Annualized CR		Request		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Collect the Revenue	229	\$52,785	242	\$53,458	223	\$49,425	(19)	(\$4,034)	-7.85%	-7.55%
Protect the Public	241	\$53,654	252	\$52,779	233	\$49,233	(19)	(\$3,545)	-7.54%	-6.72%
Subtotal New Appropriated Resources	470	\$106,439	494	\$106,237	456	\$98,658	(38)	(\$7,579)	-7.69%	-7.13%
Other Resources:										
Reimbursables	10	\$6,992	10	\$6,972	10	\$6,972	0	\$0	0.00%	-00.00%
Subtotal Other Resources	10	\$6,992	10	\$6,972	10	\$6,972	0	\$0	0.00%	-00.00%
Total Budgetary Resources	480	\$113,431	504	\$113,209	466	\$105,630	(38)	(\$7,579)	-7.54%	-6.69%

Note: FY 2016 FTE and Other Resources are Actual

1.2 – Budget Adjustments Table

Dollars in Thousands

TTB	FTE	Amount
FY 2017 Annualized CR	494	\$106,237
Changes to Base:		
Maintaining Current Levels (MCLs):		\$2,102
Pay-Raise	-	\$909
Pay Annualization	-	\$333
Non-Pay	-	\$860
Efficiency Savings	-	(\$570)
Reduce Infrastructure Footprint	-	(\$250)
Reduce Support Services	-	(\$320)
Subtotal Changes to Base	-	1,532
Total FY 2018 Base	494	\$107,769
Program Changes:		
Program Decreases	(38)	(\$9,111)
Program Staff Attrition and Incentives	(38)	(\$4,150)
IT Development and Modernization	-	(\$2,500)
Program Contract Reductions	-	(\$2,461)
Subtotal Program Changes	(38)	(9,111)
Total FY 2018 Request	456	98,658

C – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$2,102,000 / +0 FTE

Pay Raise +\$909,000 / +0 FTE

Funds are requested for the proposed January 2018 pay-raise.

Pay Annualization +\$333,000 / +0 FTE

Funds are requested for annualization of the January 2017 pay-raise.

Non-Pay +\$860,000 / +0 FTE

Funds are requested for non-labor expenses such as travel, contracts, rent, supplies, and equipment.

Efficiency Savings-\$570,000 / -0 FTE

Reduce Infrastructure Footprint -\$250,000 / -0 FTE

TTB has implemented an aggressive telework program that has enabled the bureau to close half of its field offices, with the remaining field offices being vital to TTB's mission. TTB has also reconfigured and reduced the amount of office space needed to operate its headquarters in Washington, D.C., and the National Revenue Center in Cincinnati. In an ongoing effort to improve space utilization, TTB has identified additional opportunities to reduce leased space, resulting in additional savings of \$250,000.

Reduce Support Services -\$320,000 / -0 FTE

TTB will reduce its operating costs through savings in administrative overhead and decreased program support operations in line with anticipated program staff attrition.

Program Decreases-\$9,111,000 / -38 FTE

Program Staff Attrition and Incentives -\$4,150,000 / -38 FTE

TTB will implement a hiring freeze to achieve a workforce reduction of 38 FTE. This reduction, which equates to 8 percent of TTB's full-time positions, will be taken across multiple program areas. TTB will continuously evaluate the capacity of its workforce to absorb the workload associated with those positions lost through attrition and, as necessary, adjust its service standards to reflect anticipated staffing levels. This reduction also reduces performance incentives recognizing special acts and high-performing employees in order to minimize staffing losses.

IT Development and Modernization -\$2,500,000 / -0 FTE

TTB will cut IT development and modernization investments in its core business systems and focus on essential maintenance of existing systems. Planned system enhancements targeted at reducing compliance errors on permit, label, and formula applications and in tax filings will be postponed, which will impact timely service delivery and efficient tax enforcement.

Program Contract Reductions -\$2,461,000 / -0 FTE

TTB will reduce its contract services by reducing or re-scoping contracts for both its commercial vendors and government suppliers. These reductions will require reprioritization of the criminal case pipeline to ensure effective case management and resolution.

1.3 – Operating Levels Table

Dollars in Thousands

TTB Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 - Full-time permanent	46,047	49,280	47,556
11.5 - Other personnel compensation	801	1,060	500
11.9 - Total personnel compensation	46,848	50,340	48,056
12.0 - Personnel benefits	14,976	14,720	13,981
13.0 - Benefits for former personnel	5	5	5
Total Personnel and Compensation Benefits	\$61,829	\$65,065	\$62,042
21.0 - Travel and transportation of persons	1,688	1,746	1,700
22.0 - Transportation of things	20	33	30
23.1 - Rental payments to GSA	3,941	4,303	4,053
23.3 - Communication, utilities, and misc charges	1,337	1,732	1,732
24.0 - Printing and reproduction	215	268	268
25.2 - Other services from non-Federal sources	27,728	23,880	20,136
25.3 - Other goods and services from Federal sources	6,892	7,129	6,616
26.0 - Supplies and materials	432	456	456
31.0 - Equipment	2,012	1,625	1,625
Total Non-Personnel	\$44,265	\$41,172	\$36,616
New Budgetary Resources	\$106,094	\$106,237	\$98,658

FTE	470	494	456
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Note: This table includes total annually appropriated funding (actuals for FY 2016 and estimates for FY 2017 Annualized CR and FY 2018).

D – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY ALCOHOL AND TOBACCO TAX AND TRADE BUREAU <i>Federal Funds</i></p> <p style="text-align: center;">SALARIES AND EXPENSES</p> <p><i>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, \$98,658,000; of which not to exceed \$6,000 for official reception and representation expenses; not to exceed \$50,000 for cooperative research and development programs for laboratory services; and provision of laboratory assistance to State and local agencies with or without reimbursement.</i></p> <p>Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.</p>	<p>The 2018 Budget proposes to remove the \$5 million earmark for accelerating the processing of formula and label applications.</p>

E – Legislative Proposals

TTB has no legislative proposals.

Section II – Annual Performance Plan and Report

A – Strategic Alignment

TTB is responsible for administering and enforcing the sections of the Internal Revenue Code associated with the collection of excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration Act, which provides for the regulation of the alcohol beverage industry for the protection of U.S. consumers. TTB administers its jurisdiction according to two strategic goals—“Collect the Revenue” and “Protect the Public”—both of which serve to support economic growth and stability. TTB’s strategic goal to collect the revenue ensures that the Federal Government has the resources needed to fund national priorities and supports Treasury in improving the execution of the tax code. TTB’s strategic goal to protect the public ensures that lawful U.S. alcohol businesses are competitive and thriving in the global marketplace.

The FY 2018 - 2022 strategic plan is currently under development. The annual performance plan will be updated in the FY 2019 Budget to reflect the new priorities.

B – Budget and Performance by Budget Activity

2.1.1 Collect the Revenue Resources and Measures

Dollars in Thousands

Resource Level	FY 2012 Actuals	FY 2013 Actuals	FY 2014 Actuals	FY 2015 Actuals	FY 2016 Actuals	FY 2017 Annualized CR	FY 2018 Request
Appropriated Resources	\$50,939	\$48,927	\$51,721	\$50,976	\$53,385	\$53,458	\$49,425
Reimbursable Resources	\$2,464	\$3,277	\$3,506	\$3,681	\$3,143	\$3,835	\$3,835
Transfer from TEOAF-Super Surplus Fund	\$0	\$0	\$468	\$0	\$0	\$0	\$0
Budget Activity Total	\$53,403	\$52,204	\$55,695	\$54,657	\$56,528	\$57,293	\$53,260

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Activity of Revenue Collected Per Program Dollar	449.0	457.0	457.0	437.0	414.0	400.0	400.0	400.0	
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue)	92.0	92.0	90.0	88.0	87.0	92.0	90.0	90.0	

Key: DISC - Discontinued, B - Baseline

Collect the Revenue Budget and Performance

(\$49,425,000 from direct appropriations, \$3,835,000 from reimbursable resources):

This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the Federal tax code for alcohol, tobacco, firearms, and ammunition products. TTB collects approximately \$22 billion in Federal tax revenue annually from nearly 13,000 businesses. TTB’s tax base includes distilleries, breweries, and wineries, which have boomed in recent years, as well as manufacturers and importers of tobacco and firearms. TTB

extends the reach of its enforcement resources through advanced analytics and risk-based audits and investigations. To ensure a level playing field for all those engaged in the trade of these strictly regulated commodities, TTB also takes appropriate enforcement action to detect and address diversion activity to ensure all products sold in the marketplace are properly taxpaid.

Other Resources (Offsetting Collections/Reimbursables)..... \$3,835,000

Other resources that fund this budget activity include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly \$400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported to the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and funding from the Department of the Treasury’s Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses, data systems, and training.

Description of Performance – Collect the Revenue:

TTB’s measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. TTB’s strategies for achieving results for both measures include applying technology to streamline internal and external processes and leveraging data sources to direct our outreach and enforcement efforts. At the FY 2018 funding level, TTB will review these strategies and their timelines to ensure continued effectiveness in tax administration and to ensure resources are deployed efficiently to maximize the deterrent effect.

Improve Efficiency of Tax Collection

In FY 2016, TTB met this performance measure. The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2016, TTB achieved a return on investment of \$414 for every program dollar spent on collection activities, which exceeded its annual performance target of \$400. Tobacco revenues have steadily declined in line with shifts in consumption patterns, product manufacturing, and trade. There was a significant increase in FY 2010 due to the tax increases in 2009, but the long-term trend is downward.

In setting its FY 2018 performance target, TTB examined historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. As illustrated by the below table, the 2009 changes to the Federal tax rates saw increases tobacco tax collections in dollar terms but even at the higher tax rate, these collections have generally declined each year since then. Accounting for these types of marketplace shifts, TTB established a targeted performance level of 400:1 for fiscal years 2017 – 2018.

Excise Tax and Other Collections by Fiscal Year

Dollars in Thousands

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2007	\$ 7,232,138	\$ 7,194,081	\$287,835	\$ 2,808	\$ -	\$ 32	\$ 14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
2016	8,075,476	13,274,371	749,789	258	245	505	22,100,644
Average	<u>\$ 7,685,436</u>	<u>\$ 12,679,405</u>	<u>\$519,292</u>	<u>\$ 550</u>	<u>\$ 121,677</u>	<u>\$ 469</u>	<u>\$ 21,006,829</u>

FAET – Firearms and Ammunition Excise Tax; SOT – Special Occupational Tax; FST – Floor Stocks Tax

In FY 2018, to meet its performance target of \$400, TTB will continue to improve efficiencies and results in its tax enforcement program through process improvements related to tax verification. On the front end, TTB will evaluate and develop options to increase automation in the detection, notification, assessment, and collection of excise taxes due to preserve staff time for substantive tax analysis. On the back end, TTB will continue to use data analytics and other intelligence to efficiently deploy its enforcement resources.

A primary focus for TTB tax enforcement continues to be exported alcohol and tobacco products. In FY 2016, TTB made significant inroads into identifying tax evasion schemes that involve the diversion of non-taxpaid products intended for export. In just over two years, TTB's enforcement efforts into the export trade, including tobacco export warehouses that are permitted by TTB, have identified over \$50 million in additional liabilities to date as well as numerous criminal cases.

In future years, TTB will develop a plan to modernize TTB's tax systems to increase automation and improve tax verification and improve its capacity to develop and build risk models that support the identification of high-risk activity for audit, investigation, and criminal prosecution.

Increase Voluntary Compliance from Taxpayers

Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely metric shows the rate of compliance by large taxpayers (i.e., those that pay more than \$50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2016, TTB achieved a compliance rate of 87 percent from its large taxpayers, which fell below the performance target of 92 percent. The declining compliance rate in recent years is due to improvements in TTB's tax reconciliation and enforcement functions related to identifying late, missing, and erroneous tax returns and payments. These efforts often result in identifying taxpayers who have not filed returns and have not previously been included in the compliance rate calculations. Including these taxpayers reduces the calculated compliance rate even when TTB succeeds in obtaining overdue returns. TTB anticipates that taxpayers targeted by enforcement efforts will begin filing timely returns in future years, and that, combined with

planned enhancements to online guidance, will increase voluntary compliance rates going forward.

For FY 2018, TTB has set a performance target of a 90 percent voluntary compliance rate for its large taxpayers. TTB will focus on promoting electronic filing options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance, particularly for the large number of newly permitted industry members; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts is required to ensure that TTB strikes the appropriate balance between supporting new businesses in establishing compliant operations while ensuring adequate coverage of the high-risk activity that undermines lawful business activity.

A reduced enforcement presence may diminish the deterrent effect that results in voluntary compliance. In addition to fewer audits and investigations, TTB will need to curtail its criminal investigations. Since TTB commenced its criminal enforcement program in FY 2011, these investigations have resulted in nearly \$600 million in tax liabilities (a 4:1 return on investment achieved with just a handful of agents) and criminal convictions, which are an essential component of tax enforcement.

2.1.2 Protect the Public Resources and Measures

Dollars in Thousands

Resource Level	FY 2012 Actuals	FY 2013 Actuals	FY 2014 Actuals	FY 2015 Actuals	FY 2016 Actuals	FY 2017 Annualized CR	FY 2018 Request
Appropriated Resources	\$48,939	\$45,727	\$47,279	\$47,451	\$52,709	\$52,779	\$49,233
Reimbursable Resources	\$2,464	\$2,670	\$3,236	\$2,451	\$2,577	\$3,137	\$3,137
Transfer from TEOAF-Super Surplus Fund	\$0	\$0	\$432	\$0	\$0	\$0	\$0
Budget Activity Total	\$51,403	\$48,397	\$50,947	\$49,902	\$55,286	\$55,916	\$52,370
FTE	245	241	246	243	246	257	238

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Percent of Electronically Filed Permit Applications (Note 1)	59.0	73.0	80.0	81.0	81.0	87.0	82.0	85.0	
Percentage of Permit Applications Processed within Service Standards	61.0	50.0	58.0	47.0	32.0	85.0	85.0	85.0	
Customer Satisfaction Rate with TTB Permitting Process	N/A	N/A	N/A	76.0	71.0	80.0	80.0	80.0	
Percent of Electronically Filed Label and Formula Applications	88.0	90.0	93.0	94.0	97.0	95.0	95.0	95.0	
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards	83.0	49.0	67.0	75.0	75.0	85.0	85.0	85.0	

Key: DISC - Discontinued, B - Baseline

Note 1: Reported results revised for FY12–FY15 due to an error identified in the source data for paper-filed original permit applications.

Protect the Public Budget and Performance

(\$49,233,000 from direct appropriations, and \$3,137,000 from reimbursable resources):

This budget activity funds the programs that ensure the integrity of the products and industry members in the marketplace; promote compliance with Federal laws and regulations by the approximately 82,000 businesses that TTB regulates; facilitate fair and lawful domestic and international trade in the alcohol and tobacco commodities; and provide full and accurate alcohol beverage product information to the public as a means to prevent consumer deception.

Other Resources (Offsetting Collections/Reimbursables)..... \$3,137,000

Other resources that support this budget activity include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly \$400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and imported into the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and funding from the Department of the Treasury’s Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses, data systems and training.

Description of Performance – Protect the Public:

TTB has five principal performance measures of its public protection activities. These measures help TTB monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications; the impact that electronic filing initiatives are having on improved service delivery; and the level of satisfaction that prospective industry members have with TTB’s permitting process. TTB’s strategies to achieve its performance targets include streamlining internal processes, implementing enhancements to online filing systems, modernizing filing requirements, and providing clearer guidance to industry members. At the FY 2018 funding level, TTB will review these strategies and their timelines, as well as adjust service standards, to set realistic expectations for the businesses that rely on TTB approvals.

Improve Efficiency and Effectiveness of Permitting Process

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. In FY 2016, TTB processed more than 8,500 original permit applications, performing investigations into high-risk applicants to meet TTB’s business integrity objective. TTB monitors its timeliness in processing permit applications through its measure of the Percentage of Permit Applications Processed within Service Standards. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure provides important data related to a key outcome for TTB and its stakeholders. In FY 2016, TTB met its 75-day service standard for 32 percent of original permit applications, a significant year-to-year decline and well below the 85 percent performance target. The increased volume of submissions, particularly in the more complex alcohol manufacturing application types, has caused processing times to increase.

Processing times are expected to worsen as the backlog of applications continues to grow, with particular challenges resulting from resource levels that have not kept up with industry expansion. In FY 2018, TTB will establish a new service standard of 130 days to represent its current and projected processing times based on staffing levels. TTB will strive to meet this new

standard for 85 percent of permit applications through internal workflow changes and industry education efforts to improve submission compliance and, therefore, reduce reprocessing work.

According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the e-filing rate for new business applications, TTB has generally reached a plateau in performance, with approximately 81 percent of permit applications received via Permits Online. Although trending up slightly, this rate reflects marginal gains achieved over the past three years. TTB is reviewing its strategies to increase the benefits associated with electronic filing, including faster processing times and improved application compliance, and expects improvement on both fronts as a result of a major system release planned for the end of FY 2017. These system changes, combined with effective online guidance and training, will support TTB in achieving its targeted electronic filing rate of 85 percent in FY 2018.

Increase Customer Satisfaction with TTB Service Delivery

TTB also measures its performance in its permitting function by surveying the businesses that apply for a TTB permit. TTB monitors the Customer Satisfaction Rate with TTB's Permitting Process by using an e-mail survey to assess how satisfied businesses are when applying for a permit through Permits Online. Satisfaction rates in FY 2016 were below the annual target of 80 percent, with 71 percent of applicants filing for an original permit satisfied with the application process, including the level of service received and timeliness of TTB's response. Satisfaction rates have declined year-to-year as processing times have lengthened, and they are expected to remain below target until timely service improves. In FY 2018, to achieve its performance target of 80 percent, TTB will continue to implement internal workflow improvements to reduce processing times. Further, TTB expects the release of a new version of Permits Online to increase satisfaction rates by improving system-based guidance as well as overall customer experience with the system. TTB will also aim to improve the level of service provided to customers seeking live assistance with the permit application process via TTB's call center, although wait times may increase at the FY 2018 staffing levels.

Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing

TTB protects U.S. consumers by ensuring that the alcohol beverage products sold at retail outlets are properly labeled and comply with federal production standards. In FY 2016, TTB received more than 161,000 label applications and more than 14,500 formula applications, an increase in submissions that reflects the ongoing expansion of the alcohol beverage industry. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB monitors its ability to provide timely and consistent service through its measure of the Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards. TTB combines label and formula applications in this measure given the interdependent nature of these approvals. TTB set a service standard for a label approval at 30 days and 45 days for a formula approval.

In FY 2016, TTB met its service standards of 30 days and 45 days approximately 75 percent of the time. At these service levels, the majority of wineries, breweries, and distilleries waited three months on average from the time they filed for a formula approval to being able to bottle, label, and distribute a new product. Performance in labeling declined slightly to 76 percent of label approvals meeting the 30-day service standard compared to the 80 percent achieved last year.

TTB met its 45-day service standard for formula applications 63 percent of the time, compared to just 15 percent in FY 2015. TTB was able to lift certain filing requirements in areas deemed low-risk to consumers and the revenue, but industry growth combined with market trends toward formulated products have resulted in increased submissions that have offset these reductions.

TTB has begun to make significant progress to accelerate label and formula processing, and remains on track to achieve its performance goal of a 10-day turnaround for label and formula applications by the end of FY 2017. This progress was achieved through revised filing requirements, updated guidance, and system enhancements, as well as additional staff hired in FY 2016 to support performance improvements in the labeling program.

For FY 2018, TTB will maintain its established target of 85 percent for the percentage of label and formula applications that meet the established service standards. However, TTB expects to adjust its service standards for both labels and formulas to a 30-day turnaround for FY 2018, rather than 10-day turnaround projected for FY 2017, based on projected staffing and the projected growth in submissions. To meet the performance target, TTB will focus on facilitating compliance of initial applications, thus reducing the workload associated with processing resubmissions. In FY 2018, TTB will focus exclusively on online guidance to improve compliant label and formula applications. This strategy is critical to managing the total workload associated with label and formula applications, which will be necessary to achieve the performance target. TTB also intends to proceed with its labeling modernization project, which will update and streamline the labeling regulations to reflect current TTB policy and modern industry practices.

Further, TTB will continue to employ its strategy to increase electronic filing to manage workloads and ensure service standards are met. These efforts include improving online and system guidance to help industry in filing label and formula applications, focusing on streamlining and clarifying communications between TTB and industry members each time a label or formula is returned due to application errors or other compliance issues. In FY 2016, TTB exceeded its target by achieving a combined electronic filing rate of 97 percent, as tracked by its measure of Percent of Electronically Filed Label and Formula Applications. TTB expects that these planned improvements will help TTB continue to attract new industry members to its online systems and maintain performance above its 95 percent target in FY 2018.

Section III – Additional Information

A – Summary of Capital Investments

Information Technology

TTB's Strategic Plan establishes the vision and objectives for the bureau. TTB's Information Technology (IT) Strategic Plan is a five-year plan based on its business strategy, which includes the bureau's mission, vision, goals, and objectives from an IT perspective. This plan charts the course the bureau will follow in the coming years to develop and implement IT solutions that are aimed at streamlining the collection of data, leveraging web technologies, and making the Internet the method of choice for the reporting and exchanging of information. By aligning business and technical strategy, TTB is able to leverage technology to enable the bureau to meet its objectives in the most efficient and cost-effective manner while identifying ways to minimize system redundancy.

TTB has no major IT investments based on the OMB and the Department of Treasury criteria. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of the bureau. These include:

TTB Tax System: This investment consists of several component applications that ensure fair and proper collection of revenue from the industry members for alcohol, tobacco, firearms, and ammunition excise taxes and to ensure compliance with the excise tax regulations.

TTB Regulatory System: This investment includes applications that streamline the beverage and nonbeverage alcohol formula approval process and COLA issuance for tax and regulatory compliance.

TTB General Support Services: This investment provides TTB users with the infrastructure applications necessary to conduct daily business.

TTB Enterprise Architecture: This investment supports strategic management of IT operations (e.g., business process redesign efforts not part of an individual investment, enterprise architecture development, capital planning and investment control processes, procurement management, and IT policy development and implementation) and costs for Chief Information Officer functions.

In addition to leveraging IT to support the mission, strategy, and day-to-day operations of the bureau, TTB supports and maintains strategy alignment with OMB and Treasury through enterprise-wide IT initiatives. These include: Cyber Security; IT Infrastructure; Electronic Identity and Access Management (HSPD-12); Enterprise-wide Contracts and Services; and Program Metrics and Milestones.

Scientific Equipment for Laboratories

This investment will enable chemists to provide accurate and reproducible scientific data and laboratory results to support regulatory compliance, tax enforcement, tax classification, rulemaking, and investigations for both the alcohol and tobacco commodities. Laboratory instruments require periodic replacement, as they have finite lifecycles due to use and as

scientific advances continue to evolve. Technologies applied at these laboratories eventually become obsolete and the instruments are not serviceable as vendors stop carrying parts and software. Periodic replacement of the existing technologies is essential for TTB laboratories to remain state-of-the-art and effective to support the bureau's mission, strategy, and day-to-day operations.

A summary of capital investment resources, including major information technology and non-technology investments can be found at:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.