

Department of Revenue

A.R.S. § 42-102

Director: Mark Killian

JLBC Analyst: Bob Hull

| | FY 2001 Actual | FY 2002 Estimate | FY 2003 Approved |
|--|-------------------|---------------------|-----------------------------------|
| PROGRAM BUDGET | | | |
| External Services | 7,613,600 | 8,587,100 | 8,963,900 |
| Processing | 5,905,900 | 8,022,500 | 8,279,900 |
| Education and Compliance | | | |
| <u>Subprograms</u> | | | |
| Education/Outreach | 401,300 | 398,600 | 412,300 |
| Audit/Assessing | 12,753,600 | 13,316,400 | 13,767,600 |
| Alternative Fuel Tax Credit SLI | 490,200 | 551,800 | 462,300 |
| <u>Subprogram Subtotal</u> | <u>13,243,800</u> | <u>13,868,200</u> | <u>14,229,900</u> |
| Collections | 7,194,000 | 7,823,200 | 8,169,800 |
| Enforcement | 572,900 | 724,700 | 755,400 |
| <u>Program Subtotal - Education and Compliance</u> | <u>21,412,000</u> | <u>22,814,700</u> | <u>23,567,400</u> |
| Agency Support | | | |
| <u>Subprograms</u> | | | |
| Information Services | 9,779,100 | 9,288,000 | 8,334,100 |
| All Other Agency Support | 15,468,800 | 13,298,700 | 13,344,400 |
| <u>Program Subtotal - Agency Support</u> | <u>25,247,900</u> | <u>22,586,700</u> | <u>21,678,500</u> |
| Lump Sum Reduction | 0 | 0 | (1,000,000) |
| TOTAL APPROPRIATIONS | 60,179,400 | 62,011,000 | 61,489,700 |
| OPERATING BUDGET | | | |
| Full Time Equivalent Positions | 1,258.0 | 1,108.0 | 1,042.1 ^{1/} |
| Personal Services | 32,459,100 | 33,044,400 | 33,855,300 |
| Employee Related Expenditures | 7,581,600 | 7,765,500 | 8,189,500 |
| Professional and Outside Services | 3,198,300 | 3,185,900 | 3,185,900 |
| Travel - In State | 396,600 | 486,600 | 486,600 |
| Travel - Out of State | 565,100 | 675,500 | 675,500 |
| Other Operating Expenditures | 12,874,800 | 15,732,200 | 15,509,100 |
| Equipment | 2,613,700 | 569,100 | 125,500 |
| Lump Sum Reduction | 0 | 0 | (1,000,000) |
| <u>Operating Subtotal</u> | <u>59,689,200</u> | <u>61,459,200</u> | <u>61,027,400</u> |
| Special Line Items (SLI) | 490,200 | 551,800 | 462,300 |
| TOTAL APPROPRIATIONS | 60,179,400 | 62,011,000 | 61,489,700 ^{2/3/} |
| FUND SOURCES | | | |
| General Fund | 58,491,200 | 59,846,800 | 59,172,800 |
| <u>Other Appropriated Funds</u> | | | |
| Estate and Unclaimed Property Fund | 1,023,800 | 1,403,600 | 1,511,600 |
| Tobacco Tax and Health Care Fund | 385,900 | 397,500 | 414,800 |
| Liability Setoff Fund | 278,500 | 363,100 | 390,500 |
| <u>Subtotal - Other Appropriated Funds</u> | <u>1,688,200</u> | <u>2,164,200</u> | <u>2,316,900</u> |
| TOTAL APPROPRIATIONS | 60,179,400 | 62,011,000 | 61,489,700 |

^{1/} Includes 11 FTE Positions funded from Special Line Items in FY 2003.

^{2/} General Appropriation Act (Laws 2002, Chapter 327) funds are appropriated as a Lump Sum by Agency with Special Line Items.

^{3/} The Department of Revenue may contract with a third party vendor to accept credit card payment for taxes only if there is no cost to the state General Fund for accepting credit card payments. Before contracting, the department shall report to the Joint Legislative Budget Committee on this program. (General Appropriation Act footnote)

AGENCY DESCRIPTION — *The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.*

| PERFORMANCE MEASURES | FY 1999 | FY 2000 | FY 2001 | FY 2002-03 |
|---|-------------|-------------|-------------|------------|
| | Est./Actual | Est./Actual | Est./Actual | Estimate |
| • Average calendar days to refund income tax | 13/13.5 | 13/19.2 | 19.3/19.3 | 19.4 |
| • Total tax documents processed (millions) | 6.3/5.5 | 5.6/5.7 | 5.8/NA | 5.8 |
| • % of non-audit revenue to total revenue | 96.6/98.6 | 96.8/97.0 | 97.1/95.9 | 97.2/97.3 |
| • % of private taxpayer rulings completed within 45 calendar days of receipt | 95/86 | 95/85 | 90/NA | 90 |
| • % that collector contacts taxpayer within 30 calendar days of being assigned a delinquent account | 90/72 | 90/49 | 65/NA | 75/95 |
| • % of delinquent accounts collected | NA | NA | 10/NA | 20 |
| • % of agency staff turnover | NA/13.2 | NA/12 | 16/12.5 | 16 |
| • Administration as a % of total cost | 5.77/NA | 5.77/NA | 5.77/NA | 5.8 |
| • Customer satisfaction rating for taxpayer information section (Scale 1-8) | NA | NA | NA | 6.0 |

Unfunded FTE Positions — The approved amount includes a General Fund decrease of (53.9) FTE Positions below FY 2002 due to the statewide elimination of unfunded FTE Positions. For details on the methodology used to calculate the reduction, please see the *General Provisions* section at the front of the *Appropriations Report*.

External Services Program — This program provides services to customers outside the department, including property tax oversight, estate tax and unclaimed property administration, econometric analysis, transaction privilege and bingo license processing, and taxpayer dispute resolution. The program is funded from the General Fund and from the Estate and Unclaimed Property Fund.

Processing Program — This program receives and processes tax forms and electronic tax filings, enters data into computer systems, generates tax refunds and correction notices, and operates the state's debt setoff program. The program is funded from the General Fund and from the Liability Setoff Fund.

Education and Compliance Program — This program seeks taxpayer compliance with tax laws through taxpayer education and enforcement activities. The program includes the Education/Outreach, Audit/Assessing, Collections, and Enforcement Subprograms, and the Alternative Fuel Tax Credit Special Line Item. The program is funded from the General Fund, from the Estate and Unclaimed Property Fund, and from the Tobacco Tax and Health Care Fund.

Education/Outreach Subprogram — This subprogram supports the agency's tax education seminars and publications for taxpayers and tax practitioners. The subprogram is funded from the General Fund.

Audit/Assessing Subprogram — This subprogram performs audits and related functions for corporate and individual income taxes, sales and luxury taxes, and unclaimed property. The subprogram is funded from the General Fund, from the Estate and Unclaimed Property Fund, and from the Tobacco Tax and Health Care Fund.

Alternative Fuel Tax Credit Special Line Item — Monies in this line item allow the department to review all income tax returns that claim an alternative fuel tax credit in each year the credits are authorized by law. The line item is funded from the General Fund. The approved amount includes a General Fund decrease of \$(109,700) due to a reduction in the projected cost for the year. This Special Line Item is expected to be greatly reduced or eliminated in FY 2004.

Collections Subprogram — This subprogram contacts taxpayers to collect delinquent taxes and returns, and identifies and licenses previously unlicensed businesses. The subprogram is funded from the General Fund.

Enforcement Subprogram — This subprogram enforces tobacco tax laws and works with the Attorney General to prosecute tax cases. The subprogram is funded from the General Fund and from the Tobacco Tax and Health Care Fund.

Agency Support Program — This program supports the department's core functions through the information services, and the all other agency support subprograms. The program is funded from the General Fund.

Information Services Subprogram — This subprogram runs the department's computer and telecommunications operations, and maintains, microfilms and stores the department's tax records.

Computer Loan — The approved amount includes a General Fund decrease of \$(275,000) due to budget shortfalls. This amount was originally appropriated to the department for the last 2 payments on their 5-year loan, which was to upgrade their local area computer network and to replace their personal and laptop computers.

Mainframe Consolidation — The approved amount includes a General Fund decrease of \$(797,300) and (12) FTE Positions due to estimated savings from consolidating DOR's mainframe computer system into the state's central data center in FY 2002. The Arizona Department of Administration (ADOA) administers the consolidated data center and allocates their costs to DOR and all other participating agencies.

All Other Agency Support Subprogram — This subprogram provides internal agency support including accounting, budgeting, purchasing, inventory, human resources, and director's office functions.

Technical Policy Issues — The approved amount includes a General Fund decrease of \$(190,500) due to general agency administration reductions in areas such as liens, travel, postage, and toll-free calls. The approved amount also includes a General Fund decrease of \$(268,100) due to the deferral of equipment replacement and remodeling.

Operating Budget Issues

Additional Legislation: Budget Reconciliation: 2002 (Chapter 321) — Allocates \$75,000,000 in FY 2003 to the Department of Revenue to cover the first year payments and costs associated with the case of Ladewig v. State of Arizona. The department may use up to \$15,000,000 of this \$75,000,000 allocation for administration and review of payments. Before the expenditure of up to \$15,000,000 for administrative expenses, the Department of Revenue shall present an expenditure plan for Joint Legislative Budget Committee approval that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for this case. Additional administrative funding may be required as part of future allocations.

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