

# Department of Revenue

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Subcommittee: Health & Welfare

DESCRIPTION	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004	
			OSPB	JLBC
<b>PROGRAM BUDGET</b>				
<b>Department of Revenue</b>	60,497,100	61,027,400	61,118,800	61,098,800
Alternative Fuel Tax Credit SLI	418,500	462,300	462,300	0
<i>Program Subtotal - Department of Revenue</i>	60,915,600	61,489,700	61,581,100	61,098,800
<b>6th SS Lump Sum Reduction SLI</b>	0	(5,082,200)	(5,082,200)	(5,082,200)
<b>AGENCY TOTAL</b>	<b>60,915,600</b>	<b>56,407,500</b>	<b>56,498,900</b>	<b>56,016,600</b>

## OPERATING BUDGET

<i>Full Time Equivalent Positions</i>	1,108.0	992.1	992.1	981.1
Personal Services	32,993,700	35,021,500	35,021,500	35,021,500
Employee Related Expenditures	7,877,100	8,240,200	8,359,600	8,425,400
Professional and Outside Services	2,714,900	2,712,800	2,712,800	2,712,800
Travel - In State	362,000	424,300	424,300	424,300
Travel - Out of State	395,200	462,000	462,000	462,000
Other Operating Expenditures	14,128,000	13,399,300	13,371,300	13,297,500
Equipment	2,026,200	767,300	767,300	755,300
<b>OPERATING SUBTOTAL</b>	60,497,100	61,027,400	61,118,800	61,098,800
Special Line Items (SLI)	418,500	(4,619,900)	(4,619,900)	(5,082,200)
<b>AGENCY TOTAL</b>	<b>60,915,600</b>	<b>56,407,500</b>	<b>56,498,900</b>	<b>56,016,600</b>

## FUND SOURCES

General Fund	58,838,000	54,090,600	54,193,400	53,810,400
<u>Other Appropriated Funds</u>				
Estate and Unclaimed Property Fund	1,334,100	1,511,600	1,493,400	1,412,800
Liability Setoff Fund	347,300	390,500	397,300	376,100
Tobacco Tax and Health Care Fund	396,200	414,800	414,800	417,300
SUBTOTAL - Other Appropriated Funds	2,077,600	2,316,900	2,305,500	2,206,200
<b>SUBTOTAL - Appropriated Funds</b>	<b>60,915,600</b>	<b>56,407,500</b>	<b>56,498,900</b>	<b>56,016,600</b>
Other Non-Appropriated Funds	630,400	560,100	NA	560,100
<b>TOTAL - ALL SOURCES</b>	<b>61,546,000</b>	<b>56,967,600</b>	<b>NA</b>	<b>56,576,700</b>

## CHANGE IN FUNDING SUMMARY

	FY 2003 to FY 2004 JLBC	
	\$ Change	% Change
General Fund	(280,200)	(0.5%)
Other Appropriated Funds	(110,700)	(4.8%)
Total Appropriated Funds	(390,900)	(0.7%)

**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 2002	FY 2002	FY 2003	FY 2004
	Appropriation	Actual	Appropriation	Recommend.
• Average calendar days to refund income tax	19.4	10.6	19.4	14
• Total tax documents processed (millions)	5.8	6.3	5.8	--
• % of non-audit revenue to total revenue	97.2	95.6	97.3	95.8
• % of private taxpayer rulings completed within 45 calendar days of receipt	90	96	90	--

<b>PERFORMANCE MEASURES (Continued)</b>	FY 2002 Appropriation	FY 2002 Actual	FY 2003 Appropriation	FY 2004 Recommend.
• % of written taxpayer inquiries answered within 30 calendar days of receipt (NEW)		60		70
• % that collector contacts taxpayer within 30 calendar days of being assigned a delinquent account	75	50	95	51
• % of delinquent accounts collected	20	9.5	20	10
• % of agency staff turnover	16	13	16	12
• Administration as a % of total cost	5.8	6.4	5.8	6.4
• Customer satisfaction rating for taxpayer information section (Scale 1-8). In FY 2004, scale will be 1-5.	6.0	7.3	6.0	4.6

**Comments:** The agency reports that they must manually collect data to report on collectors contacting taxpayers within 30 calendar days and on delinquent accounts collected, which makes the results somewhat variable. The agency expects to be able to measure both of these items more easily and accurately in the future using their Business Reengineering/Integrated Tax System (BRITS) computer project. The agency reports that the use of more electronic filing and 2D bar coding to replace some manual data entry, plus a fully staffed processing section contributed to the shorter amount of time to issue income tax refunds.

### RECOMMENDED CHANGES FROM FY 2003

<b>Standard Changes</b>	<b>GF</b>	<b>FY 2004</b> <b>\$181,100</b>
	<b>OF</b>	<b>(11,200)</b>

**Legal Services Cost Allocation**      **GF**      **1,000**  
The JLBC recommends a General Fund increase to cover higher Attorney General legal services due to the cost allocation of the Attorney General's Risk Management charge to client agencies.

**Equipment**      **OF**      **(99,500)**  
The JLBC recommends a Liability Setoff Fund and Estate and Unclaimed Property Fund decrease for the elimination of one-time computer network and personal computer equipment.

**Alternative Fuel Tax Credit**  
**Special Line Item**      **GF**      **(462,300)**  
The JLBC recommends a General Fund decrease and (11) FTE Positions for substantially completing the review of all income tax returns that claim an alternative fuel tax credit in each year the credits are authorized by law. DOR will finish reviewing most income tax returns for vehicle and refueling station refundable credits in FY 2003. DOR will use their database to continue to monitor taxpayers' use of any remaining unused carry-forward non-refundable tax credits for neighborhood electric vehicles, which may be carried forward up to 5 years, through FY 2006. This

monitoring workload will decrease as any remaining unused carry-forward tax credits are depleted. The JLBC recommends that DOR absorb this task.

DOR has not been verifying items, such as the percentage of alternative fuel use and continuing vehicle ownership, pending the outcome of a class action lawsuit regarding alternative fuel tax credits. DOR could not estimate a timeline for resolving this suit. These and other issues can be addressed when the suit is resolved.

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**JLBC RECOMMENDED FORMAT** — Detailed Line Item by Agency (*In the FY 2003 budget, the department had a Lump Sum by Agency with Special Line Items format.*)

### JLBC RECOMMENDED FOOTNOTES

#### *Standard Footnotes*

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.

SUMMARY OF FUNDS	FY 2002 Actual	FY 2003 Estimate
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**Client County Equipment Capitalization (RVA2457/A.R.S. § 42-11057) Non-Appropriated**

**Source of Revenue:** Monies received over \$0.60 per parcel pursuant to an intergovernmental agreement between the department and the county assessor for data processing services. The first \$0.60 per parcel is deposited to the General Fund.

**Purpose of Fund:** To upgrade data processing equipment in the counties, which contract with the department to provide data processing services to their county assessors. Any unencumbered fiscal year-end balance over \$300,000 shall be transferred to the General Fund. The department shall file an annual report by October 1 to the Information Technology Authorization Committee accounting for all receipts and disbursements from the fund.

<b>Funds Expended</b>	498,700	400,100
<b>Year-End Fund Balance</b>	215,400	215,400

**DOR Estate and Unclaimed Property (RVA1520/A.R.S. § 44-301) Partially-Appropriated**

**Source of Revenue:** The fund consists of monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered “abandoned” after 5 years. Notwithstanding the title of this fund, it no longer includes the proceeds of escheated estates. Those funds are deposited to the department’s Escheated Estates Fund.

**Purpose of Fund:** The appropriated portion of the fund covers the department's administrative costs including the handling, publicizing and selling of abandoned property. The department retains not less than \$100,000 in the non-appropriated portion of the fund to pay allowed claims, while the state attempts to locate abandoned property owners. Once monies are determined to be “unreturnable” they are disbursed as follows: Monies associated with unclaimed utility deposits are transferred to the Utility Assistance Fund. Monies from unclaimed shares and dividends of Arizona corporations are transferred to the Permanent State School Fund. Unclaimed victim restitution monies are transferred to the Arizona Criminal Justice Commission’s Victim Compensation and Assistance Fund. The department shows the Victim Compensation and Assistance Fund with a negative distribution of \$(18,400) in FY 2002, since they paid out more in claims than they received in unclaimed victim restitution monies. The remaining monies are transferred to the following funds in the following percentages: Housing Trust Fund (55%), State General Fund (25%), and Racing Fund (20%).

<b>Appropriated Funds Expended</b>	1,334,100	1,511,600
<b>Non-Appropriated Funds Expended</b>	0	0
<b>TRANSFERS TO:</b>		
General Fund	7,746,000	5,257,900
Housing Trust Fund	19,762,000	10,211,200
Utility Assistance Fund	868,400	727,800
Racing Fund	7,186,000	3,558,100
Permanent State School Fund	5,900	16,500
Victim Compensation and Assistance Fund	(18,400)	(3,700)
<b>Year-End Fund Balance</b>	1,997,900	2,362,500

**Escheated Estates (RVA3745/A.R.S. § 12-885) Non-Appropriated**

**Source of Revenue:** The fund consists of monies from the sale of escheated estates. Property escheats or reverts to the state, after 5 years when there is no will to transmit the property and there are no legal heirs to inherit it.

**Purpose of Fund:** To deposit proceeds from the sale of escheated property and hold them in the fund for 12 months, from which payment of claims may be made, before being transferred to the Permanent State School Fund. In FY 2002, no money was transferred to the Permanent State School Fund.

<b>Funds Expended</b>	0	0
<b>Transfer To Permanent State School Fund</b>	0	0
<b>Year-End Fund Balance</b>	28,800	28,800

**Liability Setoff (RVA2179/A.R.S. § 42-1122) Appropriated**

**Source of Revenue:** Fees collected from agencies or taxpayers utilizing the setoff procedure. The Department of Revenue withholds taxpayer refunds to satisfy debts owed by the taxpayers to certain state agencies, such as delinquent child support payments owed to the Department of Economic Security.

**Purpose of Fund:** To cover the Department of Revenue's costs of administering the Liability Setoff program.

<b>Funds Expended</b>	347,300	390,500
<b>Year-End Fund Balance</b>	355,000	310,700

SUMMARY OF FUNDS	FY 2002 Actual	FY 2003 Estimate
<b>Revenue Publications Revolving (RVA2166/A.R.S. § 42-1004)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Receipts from the sale of department tax-related publications.		
<b>Purpose of Fund:</b> To offset costs of publishing and distributing tax-related publications.		
<b>Funds Expended</b>	109,900	138,200
<b>Year-End Fund Balance</b>	78,500	93,300
<b>Special Collections (RVA2168/A.R.S. § 42-1004)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> This fund consists of all monies received pursuant to contingent fee contracts to collect delinquent state taxes, penalties and interest due under A.R.S. Title 43 (taxation of income) and Title 42, Chapter 8, Article 1 (transaction privilege taxes).		
<b>Purpose of Fund:</b> To pay all fees and court costs provided for in contingent fee collection contracts authorized by A.R.S. § 42-104.B.3. The remainder of the collected amounts are distributed to the state or political subdivisions according to the distribution proportions for the tax collected. Contracted collections totaled \$146,400 in FY 2002, including \$21,800 in collection fees and \$124,600 in net collections.		
<b>Funds Expended</b>	21,800	21,800
<b>Year-End Fund Balance</b>	0	0
<b>Tobacco Tax and Health Care (RVA1306/A.R.S. § 36-771)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> The fund consists of tobacco taxes retained by the department to administer the tobacco tax program.		
<b>Purpose of Fund:</b> To monitor and enforce tobacco tax laws.		
<b>Funds Expended</b>	397,500	414,800
<b>Year-End Fund Balance</b>	0	0
<b>Waste Tire (RVA2356/A.R.S. § 44-1305)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Collections from a fee on new tire purchases and penalties for violations.		
<b>Purpose of Fund:</b> Up to 3.5% of the monies in the fund are transferred quarterly to the Department of Environmental Quality to monitor and enforce the requirements of A.R.S. Title 44, Chapter 9, Article 8, Waste Tire Disposal. The remainder is distributed quarterly to counties to establish and implement waste tire programs. Monies in the fund are exempt from lapsing under A.R.S. § 35-190.		
<b>Funds Expended</b>	0	0
<b>TRANSFERS TO:</b>		
Department of Environmental Quality	223,700	223,700
Counties	6,168,900	6,168,900
<b>Year-End Fund Balance</b>	0	0

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