

Department of Revenue

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OSPB: Bret Cloninger

DESCRIPTION	FY 2003	FY 2004	FY 2005	
	ACTUAL	ESTIMATE	OSPB	JLBC
OPERATING BUDGET				
<i>Full Time Equivalent Positions</i>	1,145.1	1,134.0		1,134.0
Personal Services	32,275,800	32,256,800		32,256,800
Employee Related Expenditures	7,916,200	9,657,600		9,657,600
Professional and Outside Services	1,899,300	2,119,100		2,119,100
Travel - In State	192,200	258,600		258,600
Travel - Out of State	157,500	250,200		250,200
Other Operating Expenditures	11,539,000	11,082,500		11,039,800
Equipment	847,900	455,000		455,000
OPERATING SUBTOTAL	54,827,900	56,079,800		56,037,100
SPECIAL LINE ITEMS				
Alternative Fuel Tax Credit	384,200	0		0
Revenue Generating Program	3,275,800	6,552,000		6,537,000
AGENCY TOTAL	58,487,900	62,631,800		62,574,100
FUND SOURCES				
General Fund	56,365,700	60,362,400		60,305,500
<u>Other Appropriated Funds</u>				
Estate and Unclaimed Property Fund	1,349,500	1,448,200		1,450,400
Liability Setoff Fund	371,100	385,800		382,800
Tobacco Tax and Health Care Fund	401,600	435,400		435,400
SUBTOTAL - Other Appropriated Funds	2,122,200	2,269,400		2,268,600
SUBTOTAL - Appropriated Funds	58,487,900	62,631,800		62,574,100
Other Non-Appropriated Funds	833,400	689,800		689,800
TOTAL - ALL SOURCES	59,321,300	63,321,600		63,263,900

CHANGE IN FUNDING SUMMARY

FY 2004 to FY 2005 JLBC

	\$ Change	% Change
General Fund	(56,900)	(0.1%)
Other Appropriated Funds	(800)	0.0%
Total Appropriated Funds	(57,700)	(0.1%)
Non Appropriated Funds	0	0.0%
Total - All Sources	(57,700)	(0.1%)

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 2003	FY 2003	FY 2004	FY 2005
	Appropriation	Actual	Appropriation	Recommend.
• Average calendar days to refund income tax	19.4	13.5	14	13.0
• % of non-audit revenue to total revenue	97.3	95.6	95.8	95.9
• % of written taxpayer inquiries answered within 30 calendar days of receipt	--	55	70	70
• % that collector contacts taxpayer within 30 calendar days of being assigned a delinquent account	95	43	51	51
• % of delinquent accounts collected	20	10.8	10	11
• % of agency staff turnover	16	11.4	12	11
• Administration as a % of total cost	5.8	6.5	6.4	6.4
• Customer satisfaction rating for taxpayer information section (Scale 1-5).	6.0	4.6	4.6	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 average calendar days to refund income tax continued to benefit from electronic filing and 2D bar coding, despite the use of fewer temporary employees to process returns.

RECOMMENDED CHANGES FROM FY 2004

Operating Budget

The JLBC recommends \$56,037,100 for the operating budget in FY 2005. This amount includes \$53,768,500 from the General Fund, \$1,450,400 from the Estate and Unclaimed Property Fund, \$382,800 from the Liability Setoff Fund and \$435,400 from the Tobacco Tax and Health Care Fund. These amounts would fund the following adjustments:

Lease Costs	GF	\$(41,900)
	OF	(800)

The JLBC recommends a decrease of \$(41,900) from the General Fund for lease costs.

The JLBC recommends a decrease of \$(800) from Other Funds for lease costs in the Other Operating Expenditures line. The Other Funds change includes \$2,200 from the Estate and Unclaimed Property Fund and \$(3,000) from the Liability Setoff Fund.

Special Line Items

Alternative Fuel Tax Credit

The JLBC recommends no funding from the General Fund for the Alternative Fuel Tax Credit in FY 2005. Funding for this line item was eliminated in FY 2004 due to the substantial completion of the program.

Revenue Generating Program

The JLBC recommends \$6,537,000 from the General Fund for the Revenue Generating Program in FY 2005. This amount would fund the following adjustments:

One-Time Costs **GF (15,000)**

The JLBC recommends a decrease of \$(15,000) from the General Fund for one-time training costs in the Revenue Generating Program.

The Revenue Generating Program includes 153 FTE Positions and is expected to generate \$53,249,000 for the General Fund in FY 2005.

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JLBC RECOMMENDED FORMAT — Operating Lump Sum with Special Line Items by Agency

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

Included in the total appropriation of \$62,574,100 for FY 2005 is \$6,537,000 from the state General Fund and 153 FTE Positions for the Revenue Generating Program. This program is expected to generate \$53,249,000 for the state General Fund in FY 2005. The department shall provide quarterly progress reports to the Joint Legislative Budget Committee as to the effectiveness of the Revenue Generating Program and the department's overall Enforcement and Collections Program. The reports shall include a comparison of projected and actual revenue enforcement collections for FY 2005. The reports are due within 30 days after the end of each calendar quarter. *(This would continue the current year reporting requirement in FY 2005.)*

Deletion of Prior Year Footnotes

The JLBC recommends deleting the footnote concerning the department reporting to the Committee prior to accepting credit card payments for taxes. *(The department reported to the Committee in November 2003 on their plan to begin accepting credit card payments for taxes at no*

cost to the General Fund beginning January 2004 as part of their Business Reengineering/Integrated Tax System (BRITS) project.)

SUMMARY OF FUNDS	FY 2003 Actual	FY 2004 Estimate
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 property tax 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.		
Funds Expended	619,900	478,300
Year-End Fund Balance	169,500	161,500
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. Laws 2003, 1st Special Session, Chapter 2, Section 10, notwithstanding any other statutes, requires that the first \$5,000,000 received in Fiscal Year 2003 shall be deposited in the General Fund. The Department of Revenue reports that the first \$5,000,000 was not deposited to the General Fund in FY 2003. It is unclear how the department intends to address this issue.		
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 remaining monies are transferred to the following funds in the following percentages: Housing Trust Fund (55%), State General Fund (25%), and Racing Fund (20%).		
Appropriated Funds Expended	1,349,500	1,448,200
Non-Appropriated Funds Expended	0	0
TRANSFERS TO:		
General Fund	6,745,700	7,141,600
Housing Trust Fund	17,950,700	18,818,000
Utility Assistance Fund	1,119,000	1,000,000
Racing Fund	6,527,500	6,842,900
Permanent State School Fund	34,700	214,000
Victim Compensation and Assistance Fund	2,128,000	200,000
Year-End Fund Balance	2,064,100	1,821,400
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.		
Funds Expended	0	0
Transfer To Permanent State School Fund	28,700	214,100
Year-End Fund Balance	214,100	121,400
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.		
Funds Expended	371,100	385,800
Year-End Fund Balance	538,700	707,700

SUMMARY OF FUNDS	FY 2003 Actual	FY 2004 Estimate
Revenue Publications Revolving (RVA2166/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: Receipts from the sale of department tax-related publications.		
Purpose of Fund: To offset costs of publishing and distributing tax-related publications.		
Funds Expended	194,000	192,000
Year-End Fund Balance	34,300	14,300
Special Collections (RVA2168/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: 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).		
Purpose of Fund: 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 \$130,800 in FY 2003, including \$19,500 in collection fees and \$111,300 in net collections.		
Funds Expended	19,500	19,500
Year-End Fund Balance	0	0
Tobacco Tax and Health Care (RVA1306/A.R.S. § 36-771)		Appropriated
Source of Revenue: The fund consists of tobacco taxes retained by the department to administer the tobacco tax program.		
Purpose of Fund: To monitor and enforce tobacco tax laws.		
Funds Expended	401,600	435,400
Year-End Fund Balance	0	0
Waste Tire (RVA2356/A.R.S. § 44-1305)		Non-Appropriated
Source of Revenue: Collections from a fee on new tire purchases and penalties for violations.		
Purpose of Fund: 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.		
Funds Expended	0	0
TRANSFERS TO:		
Department of Environmental Quality	245,300	245,300
Counties	6,762,100	6,762,100
Year-End Fund Balance	0	0

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