

Department of Revenue

JLBC: Bob Hull

OSPB: Bret Cloninger

DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,134.0	1,148.0	1,148.0
Personal Services	32,257,600	34,027,200	34,027,200
Employee Related Expenditures	8,994,100	10,217,200	10,275,900
Professional and Outside Services	2,421,000	2,033,000	2,033,000
Travel - In State	210,800	344,500	344,500
Travel - Out of State	145,600	258,200	258,200
Other Operating Expenditures	10,624,500	10,782,000	10,734,600
Equipment	811,000	714,700	566,700
OPERATING SUBTOTAL	55,464,600	58,376,800	58,240,100
SPECIAL LINE ITEMS			
Revenue Generating Program	6,571,900	6,788,900	6,788,900
AGENCY TOTAL	62,036,500	65,165,700	65,029,000
FUND SOURCES			
General Fund	59,858,300	62,846,500	62,698,500
<u>Other Appropriated Funds</u>			
Estate and Unclaimed Property Fund	1,370,700	1,478,900	1,489,700
Liability Setoff Fund	379,300	391,800	384,100
Tobacco Tax and Health Care Fund	428,200	448,500	456,700
SUBTOTAL - Other Appropriated Funds	2,178,200	2,319,200	2,330,500
SUBTOTAL - Appropriated Funds	62,036,500	65,165,700	65,029,000
Other Non-Appropriated Funds	381,300	671,400	671,400
TOTAL - ALL SOURCES	62,417,800	65,837,100	65,700,400

CHANGE IN FUNDING SUMMARY

	FY 2005 to FY 2006 JLBC	
	\$ Change	% Change
General Fund	(148,000)	(0.2%)
Other Appropriated Funds	11,300	0.5%
Total Appropriated Funds	(136,700)	(0.2%)
Non Appropriated Funds	0	0.0%
Total - All Sources	(136,700)	(0.2%)

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 Actual	FY 2004 Actual	FY 2005 Estimate	FY 2006 JLBC
• Average calendar days to refund income tax	13.5	8.3	13	8.3
• % of non-audit revenue to total revenue	95.6	96.7	95.9	--
• % of written taxpayer inquiries answered within 30 calendar days of receipt	55	58	70	65
• % that collector contacts taxpayer within 30 calendar days of being assigned a delinquent account	43	NA	51	--
• % of delinquent accounts collected	10.8	10.0	11.0	11.0
• % of agency staff turnover	11.4	10.3	11	--
• Administration as a % of total cost	6.5	6.5	6.4	--
• Customer satisfaction rating for taxpayer information section (Scale 1-5).	4.6	4.6	4.6	4.6

Comments: The agency did not submit information for any measure labeled as "NA." Average calendar days to refund income tax decreased to 8.3 days in FY 2004 due to an increase in electronic filing. The percent of written taxpayer inquiries answered within 30 calendar days of receipt increased slightly to 58% in FY 2004. Delinquent accounts collected decreased slightly to 10% in FY 2004, but should improve with the Business Re-Engineering/Integrated Tax System (BRITS). Customer satisfaction rating for taxpayer information section remained steady at 4.6 on a scale of 1 to 5 in FY 2004.

RECOMMENDED CHANGES FROM FY 2005

Operating Budget

The JLBC recommends \$58,240,100 for the operating budget in FY 2006. This amount consists of:

General Fund	\$55,909,600
Estate and Unclaimed Property Fund	1,489,700
Liability Setoff Fund	384,100
Tobacco Tax and Health Care Fund	456,700

These amounts include the following adjustments:

Standard Changes	OF	FY 2006
		\$11,300
The JLBC recommends an increase of \$11,300 in FY 2006 for standard changes. This amount consists of:		

Estate and Unclaimed Property Fund	\$10,800
Liability Setoff Fund	(7,700)
Tobacco Tax and Health Care Fund	8,200

One-Time Costs **GF** **(148,000)**

The JLBC recommends a decrease of \$(148,000) from the General Fund in FY 2006 for one-time equipment for 14 new tobacco tax enforcement FTE Positions added in FY 2005.

Risk Management **GF** **0**
OF **0**

The JLBC recommends \$368,100 in FY 2006 for the Risk Management payment to the Arizona Department of Administration. This amount is unchanged from FY 2005 and consists of:

General Fund	\$359,300
Estate and Unclaimed Property Fund	4,600
Liability Setoff Fund	1,700
Tobacco Tax and Health Care Fund	2,500

The Arizona Department of Administration proposed an increase of \$855,700 in FY 2006 for DOR's Risk Management payment to partially reimburse the Arizona Department of Administration Risk Management for \$2 million paid in FY 2004 by Risk Management for plaintiff attorneys' fees in the Ladewig v. State of Arizona settlement. Laws 2003, Chapter 263 as transmitted to the Governor allocated \$75 million for Ladewig for FY 2004. Of this amount, up to \$7.3 million was for administrative costs, and the remainder would be set aside for future taxpayer refunds. The Governor line-item vetoed the FY 2004 set-aside in order to provide an additional \$75 million in the General Fund balance. Subsequently, DOR paid \$2 million for plaintiff attorneys' fees in FY 2004, which was reimbursed to DOR by Risk Management.

The JLBC also recommends a new footnote that the Department of Revenue shall pay no more than \$368,100 from all funds in FY 2006 for their Risk Management payment to the Arizona Department of Administration

Special Line Items

Revenue Generating Program

The JLBC recommends \$6,788,900 and 153 FTE Positions from the General Fund for the Revenue Generating Program in FY 2006. This amount is unchanged from FY 2005. The Revenue Generating Program is expected to generate \$53,249,000 for the General Fund in FY 2006.

* * *

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

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

Included in the total appropriation of \$65,029,000 for FY 2006 is \$6,788,900 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 2006. 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 2006. The reports are due within 30 days after the end of each calendar quarter.

New Footnotes

The Department of Revenue shall pay no more than \$368,100 from all funds in FY 2006 for their Risk Management payment to the Arizona Department of Administration. *(This would prevent DOR from partially reimbursing the Arizona Department of Administration Risk Management for \$2 million paid in FY 2004 by Risk Management for plaintiff attorneys' fees in the Ladewig v. State of Arizona settlement. See the Risk Management Policy Issue for additional information.)*

Deletion of Prior Year Footnotes

The JLBC recommends deleting the footnote that the appropriations in FY 2005 did not include funding for a North Phoenix office. *(DOR reports that they vacated the North Valley office on August 20, 2004.)*

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Ladewig Settlement

Based on the 2001 Arizona Supreme Court decision in the Ladewig v. State of Arizona case, the state is required to refund individual income taxes paid on non-Arizona dividends earned for the years 1986 through 1989. Payments and related costs associated with this case were capped not to exceed \$350 million over 5 years.

The Department of Revenue estimates the total cost of the Ladewig Settlement at \$308.5 million. The numbers are not yet final. The \$16.3 million of expenditures in FY 2003 and FY 2004 solely cover administrative costs and attorney fees. Refunds to taxpayers began in FY 2005. The estimated cost is \$134.7 million in FY 2005, \$58.3 million in FY 2006, and \$99.2 million in FY 2007.

The JLBC recommends allocating another \$58.3 million from the General Fund in FY 2006 for the Ladewig v. State of Arizona settlement, with any unused amount to be held in reserve for future payments. The \$58.3 million includes up to \$1.8 million to be used for department administrative costs upon review by the Joint Legislative Budget Committee.

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 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	211,500	486,000
Year-End Fund Balance	300,000	300,000

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
------------------	-------------------	---------------------

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 and unclaimed property in a self-storage unit 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%). Racing's 20% share is distributed to 8 different Racing funds which are capped at specific levels of revenue, with any excess being deposited to the General Fund. Racing deposited \$4,640,900 in FY 2004 to the General Fund.

Appropriated Funds Expended	1,370,700	1,478,900
Non-Appropriated Funds Expended	0	0
TRANSFERS TO:		
General Fund	8,044,000	9,171,600
Housing Trust Fund	20,708,300	20,177,400
Utility Assistance Fund	1,307,900	1,322,400
Racing Fund	7,530,300	7,337,200
Permanent State School Fund	52,800	53,400
Victim Compensation and Assistance Fund	547,200	553,300
Year-End Fund Balance	2,071,800	2,008,800

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	214,100	214,100
Year-End Fund Balance	357,500	357,500

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	379,300	391,800
Year-End Fund Balance	704,600	862,800

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	169,400	185,000
Year-End Fund Balance	23,300	8,300

SUMMARY OF FUNDS	FY 2004 Actual	FY 2005 Estimate
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 \$2,800 in FY 2004, including \$400 in collection fees and \$2,400 in net collections.		
Funds Expended	400	400
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	428,200	448,500
Year-End Fund Balance	3,800	5,000
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	272,500	273,300
Counties	7,512,600	7,534,400
Year-End Fund Balance	7,700	0

[Click here to return to the Table of Contents](#)