

Director: Gale Garriott

JLBC Analyst: Juan Beltran

	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,164.0	1,164.0	863.0 ^{1/}
Personal Services	39,110,900	41,513,700	41,513,700
Employee Related Expenditures	15,258,200	15,652,000	15,659,400
Professional and Outside Services	3,673,000	3,331,800	3,331,800
Travel - In State	366,100	433,700	433,700
Travel - Out of State	309,300	410,600	410,600
Other Operating Expenditures	13,287,400	10,910,000	10,910,000
Equipment	89,600	497,900	497,900
OPERATING SUBTOTAL	72,094,500	72,749,700	72,757,100
SPECIAL LINE ITEMS			
BRITS Operational Support	2,223,700	2,223,700	3,623,700
Health Insurance Premium Tax Credit	30,000	30,000	30,000 ^{2/}
Legal Arizona Workers Act.	69,900	0	0
Litigation Expenses	886,500	0	0
Small Towns Revenue Sharing	850,000	0	0
Temporary Collectors	0	0	3,000,000 ^{3/}
Unclaimed Property Administration	2,652,900	1,634,000	0
Unclaimed Property Administration and Audit	0	0	2,963,200
Unclaimed Property Contract Auditors	1,770,000	1,770,000	0
Lump Sum Reduction	0	(9,707,600)	(16,144,000)
AGENCY TOTAL	80,577,500	68,699,800	66,230,000^{4/5/}
FUND SOURCES			
General Fund	74,352,100	64,433,200	40,661,500
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	0	0	24,500,000
Estate and Unclaimed Property Fund	4,422,900	3,191,700	0
Liability Setoff Fund	287,500	412,100	401,200
Risk Management Revolving Fund	886,500	0	0
Tobacco Tax and Health Care Fund	628,500	662,800	667,300
SUBTOTAL - Other Appropriated Funds	6,225,400	4,266,600	25,568,500
SUBTOTAL - Appropriated Funds	80,577,500	68,699,800	66,230,000
Other Non-Appropriated Funds	28,326,900	33,403,200	30,403,200
TOTAL - ALL SOURCES	108,904,400	102,103,000	96,633,200

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.

^{1/} Includes 34 FTE Positions funded from Special Line Items in FY 2010 prior to the lump sum reductions.
^{2/} Laws 2006, Chapter 378 appropriated \$30,000 for administering health insurance premium tax credits.
^{3/} The \$3,000,000 appropriated from the State General Fund for Temporary Collectors is to collect established debt. The department shall report its results to the Joint Legislative Budget Committee on or before January 31, 2010. (General Appropriations Act footnote)
^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency. As appropriated by Laws 2009, 1st Regular Session, Chapter 12.
^{5/} The department shall provide the department's General Fund revenue enforcement goals for FY 2010 for review by the Joint Legislative Budget Committee by July 31, 2009. The department shall provide an annual progress report to the Joint Legislative Budget Committee as to the effectiveness of the department's overall Enforcement and Collections Program for FY 2010 by July 31, 2010. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2010. (General Appropriation Act footnote)

PERFORMANCE MEASURES	FY 2006	FY 2007	FY 2008	FY 2010
	Actual	Actual	Actual	Approved
• Average calendar days to refund income tax	5.5	6.9	7.6	7.6
• % of written taxpayer inquiries answered within 30 calendar days of receipt	65	59	54	65
• Customer satisfaction rating for taxpayer information section (Scale 1-5)	4.7	4.85	4.75	4.7

Operating Budget

The budget includes \$72,757,100 and 1,130 FTE Positions for the operating budget in FY 2010. These amounts consist of:

	FY 2010
General Fund	\$50,128,100
DOR Administrative Fund	21,536,800
Liability Setoff Fund	424,900
Tobacco Tax and Health Care Fund	667,300

These amounts fund the following adjustments:

Fund Shift

The budget includes an increase of \$21,536,800 from the Department of Revenue (DOR) Administrative Fund and a corresponding General Fund decrease. Total funding for the operating budget was unchanged by this fund shift.

The FY 2010 budget presumed the passage of legislation which would have established the DOR Administrative Fund and redirected \$24,500,000 each year in unclaimed property proceeds to this fund (SB 1025, 3rd Special Session). Of this amount, \$21,536,800 was appropriated to DOR for operating expenses and the remaining \$2,963,200 was appropriated for the Unclaimed Property Administration and Audit line item. The Governor vetoed this bill. *(Please see the Unclaimed Property Administration and Audit line item.)*

Statewide Health Insurance Adjustments

The budget includes an increase of \$7,400 for state employee health insurance statewide adjustments in FY 2010. This amount consists of:

Liability Setoff Fund	2,900
Tobacco Tax and Health Care Fund	4,500

(Please see the General Provisions section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes \$3,623,700 and 16 FTE Positions from the General Fund for operational support of BRITS in FY 2010. These amounts fund the following adjustments:

Data Center Increase

The budget includes an increase of \$1,400,000 from the General Fund in FY 2010 for Data Center charges. The Data Center is the facility housing the BRITS computer servers which operate the programs, such as transaction privilege tax, withholding tax, and corporate income tax. These services were previously paid out of a General Fund cost-sharing contract, which pays the vendor 85% of tax enforcement revenues above an established baseline amount off the top of General Fund revenues. As a result, this contract does not represent a new net cost to the General Fund. *(Please see Additional Legislation for additional information.)*

Monies in this line item are used for annual server and printer replacement costs, increased BRITS data storage requirements, and information technology personnel to operate and maintain the BRITS system.

Health Insurance Premium Tax Credit

The budget includes \$30,000 from the General Fund for the Health Insurance Premium Tax Credit in FY 2010 as appropriated by Laws 2006, Chapter 378. This amount is unchanged from FY 2009. As a result of the appropriation in Chapter 378, this funding does not appear in the FY 2010 General Appropriation Act.

Legal Arizona Workers Act

The budget includes no funding from the General Fund for the Legal Arizona Workers Act (Laws 2007, Chapter 279) in FY 2010. This amount is unchanged from FY 2009.

Monies in this line item were used to provide employers with notice of the new requirements of the Legal Arizona Workers Act by October 1, 2007.

Litigation Expenses

The budget includes no funding from the Risk Management Revolving Fund for Litigation Expenses in FY 2010. This amount is unchanged from FY 2009.

Laws 2007, Chapter 256 provided \$1,000,000 from the Risk Management Revolving Fund in FY 2007 for supplemental funding for litigation expenses.

Small Towns Revenue Sharing

The budget includes no funding from the General Fund for Small Towns Revenue Sharing in FY 2010. This amount is unchanged from FY 2009.

Monies in this line item were used for distribution to towns with a population of 1,500 or less. Towns included in the Small Town Revenue Sharing program are: Jerome, Winkleman, Duncan, Hayden, Patagonia, and Fredonia. Laws 2008, Chapter 290 permanently established a minimum annual distribution of Urban Revenue Sharing funds to these cities. Chapter 290 also reduced the distribution of Urban Revenue Sharing to other cities and towns by the increased distribution amounts required to meet this minimum distribution to small cities and towns.

Temporary Collectors

The budget includes \$3,000,000 from the General Fund for Temporary Collectors in FY 2010. This amount funds the following adjustments:

Temporary Collectors Increase

The budget includes an increase of \$3,000,000 from the General Fund in FY 2010 for Temporary Collectors. Monies in this line item are used to hire temporary collectors to assist in the collection of already established debt. It is projected that temporary collectors will generate approximately \$45,000,000 in additional General Fund revenue in FY 2010.

Unclaimed Property Administration

The budget includes no funding for Unclaimed Property Administration from the Estate and Unclaimed Property Fund in FY 2010. (Please see the Unclaimed Property Administration and Audit line item for additional information.)

Unclaimed Property Administration and Audit

The budget includes \$2,963,200 and 18 FTE Positions from the DOR Administrative Fund for Unclaimed Property Administration and Audit in FY 2010. These amounts fund the following adjustments:

Unclaimed Property Administration and Audit Fund Shift

The budget includes an increase of \$2,963,200 and 18 FTE Positions from the DOR Administrative Fund in FY 2010 for unclaimed property administration and contract auditor fees. This amount replaces funding of \$1,634,000 and 18 FTE Positions from the Estate and Unclaimed Property Fund for unclaimed property administration and \$1,770,000 from the Estate and Unclaimed Property Fund for unclaimed property contract auditors. The total amount shifted to the DOR Administrative Fund is the amount that would have otherwise been appropriated from the Estate

and Unclaimed Property Fund less a reduction of \$(440,800) in FY 2010.

Monies in this line item are used for the administrative costs of handling, publicizing and selling of unclaimed or abandoned property and to pay contract auditors, who mainly audit large financial and insurance companies headquartered out of state. Abandoned property can include 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.

An amount equal to 12.5% of the dollar value of properties recovered by unclaimed property contract auditors is used to pay unclaimed property contract auditor fees. This amount is currently estimated at \$1,770,000. The FY 2010 budget presumed the passage of legislation which states that if 12.5% of the total dollar value of properties recovered by unclaimed property auditors exceeded \$1,770,000 in FY 2010, the excess amount would be transferred from the General Fund to the DOR Administrative Fund and appropriated to DOR for contract auditor fees (SB 1025, 3rd Special Session). The Governor vetoed this bill.

Unclaimed Property Contract Auditors

The budget includes no funding for Unclaimed Property Contract Auditors from the Estate and Unclaimed Property Fund in FY 2010. (Please see the Unclaimed Property Administration and Audit line item for additional information.)

Lump Sum Reduction

The budget includes an agencywide lump sum reduction of \$(9,707,600) for the midyear FY 2009 revisions and \$(16,144,000) for FY 2010. The latter reduction reflects the adjustment to the originally enacted FY 2009 appropriation.

	FY 2009	FY 2010
Lump Sum Reduction		
General Fund	\$(7,391,900)	\$(11,087,900)
Fund Reduction and Transfer		
Estate and Unclaimed Property Fund	(170,200)	0
Personnel Expense Reduction		
General Fund	(2,093,500)	(5,032,400)
Estate and Unclaimed Property Fund	(42,100)	0
Liability Setoff Fund	(9,900)	(23,700)

FTE Position Reduction

The budget includes a decrease of (301) FTE Positions for a lump sum FTE Position reduction. (Please see the General Provisions section.)

Laws 2009, 3rd Special Session, Chapter 11, Section 17 requires every General Fund supported agency, board, commission, or other state entity to reduce its number of FTE Positions by 5% on or before February 1, 2010. This reduction has not been recorded in the summary table above. The actual impact of this provision is to be determined.

Fund Transfers

The budget includes the following midyear FY 2009 revisions and FY 2010 transfers to the General Fund from the funds listed below:

	<u>FY 2009</u>	<u>FY 2010</u>
Client County Equipment Capitalization - EBT*	\$(147,500)	\$0
Escheated Estates - EBT*	(189,600)	0
Estate and Unclaimed Property - EBT	(1,125,000)	(1,011,000)
Estate and Unclaimed Property - FRAT	(170,200)	0
Estate and Unclaimed Property - Salary	(42,100)	0
Liability Setoff - EBT	(123,500)	(177,500)
Liability Setoff - Salary	(9,900)	(23,700)

* These transfers are from non-appropriated funds.

Additional Legislation

Business Reengineering/Integrated Tax System (BRITS) Contract Extensions or Modifications

BRITS is the computer system being implemented by DOR to integrate their separate tax systems. The overall cost of the original BRITS contract was approximately \$133,664,700, including \$122,664,700 for the base contract and \$11,000,000 for estimated interest. The system was implemented in FY 2003. The original contract called for BRITS to be completed in FY 2007.

As shown in the following table, DOR currently estimates a total cost of \$162,127,800 including \$122,664,700 for the base contract, \$7,000,000 for estimated interest, and \$32,463,100 for BRITS contract extensions.

Estimate of BRITS Costs

<u>Original Contract</u>	<u>Costs</u>
BRITS Base Contract	\$122,664,700
Interest	7,000,000
Subtotal Original Contract	129,664,700
<u>Amendments or Extensions</u>	
Approved Contracts to Date	32,463,100
Total ^{1/}	\$162,127,800

^{1/} Total includes \$6,633,800 in BRITS contract funds for document imaging and customer relationship management.

The cost of BRITS is being financed by the contractor who, in turn, is paid from the increased revenues generated by BRITS. Payments are made to the contractor based on 85% of tax enforcement revenues above an established baseline amount. These payments are not dependent on the enforcement revenue being directly related to the BRITS project. Enforcement revenue represents collections received through the tax audit and collection processes.

The FY 2010 budget presumed the passage of legislation which would have continued to require that before executing any BRITS contract extensions or modifications that increase the contractor's share of gain-sharing proceeds from state revenues during FY 2010, DOR submit the proposed changes for JLBC review, retroactive to June 30, 2009 (SB 1025, 3rd Special Session). Contract extensions have allowed DOR to use additional General Fund resources on this project without a legislative appropriation. The Governor vetoed this bill.

Business Reengineering/Integrated Tax System (BRITS) Internal Support

The FY 2010 budget presumed the passage of legislation, which would have permitted DOR to utilize up to \$2,000,000 of General Fund revenues to pay internal BRITS operational support after review of an expenditure plan by the Joint Legislative Budget Committee (SB 1025, 3rd Special Session). The Governor vetoed this bill.

Unclaimed Property

The FY 2010 budget presumed the passage of legislation which would have accelerated by 2 years the length of time for all property types to be presumed abandoned and therefore unclaimed. It would have also revised the holding period for traveler's checks from 14 years to 3 years as well as the holding period for money orders from 6 to 3 years (SB 1025, 3rd Special Session). It was projected that shortening these holding periods would result in additional General Fund revenues of \$73,589,200. The Governor vetoed this bill.

Additionally, the FY 2010 budget presumed the passage of legislation to modify the distribution of unclaimed property collections. As permanent law, the first \$10,500,000 in unclaimed property collections would have

been deposited into the Housing Trust Fund, the next \$24,500,000 in the newly established DOR Administrative Fund, and the remaining monies would have been redirected to the General Fund (SB 1025, 3rd Special Session). Prior to any changes to unclaimed property collections distributions, Housing got a percentage of collections (55%), Racing funds got a percentage (20%) up to specific caps on 8 funds, and the General Fund got a percentage (25%). The General Fund also got the portion of the Racing funds which are over the specific caps for each of their 8 funds. The Housing percentage did not have a dollar cap. In FY 2009, the General Fund received \$9,527,000. Unclaimed property collections distributions to the Victims Compensation and Assistance Fund, the Utility Assistance Fund, and the Permanent School Fund would have continued to be distributed as under current law. The Governor vetoed this bill.

Tax Amnesty

Laws 2009, 1st Special Session, Chapter 3 established a tax amnesty program which allowed DOR to abate or waive all or part of penalties and to impose reduced interest payments for tax liabilities for all qualifying taxpayers. To qualify for the program, a taxpayer needed to pay the total amount due plus any additional interest on or before June 1, 2009. The tax amnesty program was originally estimated to generate \$5,000,000 in additional General Fund revenue in FY 2009. The actual amount of additional General Fund revenue generated by the tax amnesty program was estimated at \$27,291,500.