

## Department of Revenue

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| DESCRIPTION                           | FY 2008<br>ACTUAL  | FY 2009<br>ESTIMATE | FY 2010<br>JLBC    |
|---------------------------------------|--------------------|---------------------|--------------------|
| <b>OPERATING BUDGET</b>               |                    |                     |                    |
| <i>Full Time Equivalent Positions</i> | 1,164.0            | 1,164.0             | 1,164.0            |
| Personal Services                     | 39,110,900         | 41,513,700          | 41,513,700         |
| Employee Related Expenditures         | 15,258,200         | 15,652,000          | 15,652,000         |
| 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            |
| <b>OPERATING SUBTOTAL</b>             | <b>72,094,500</b>  | <b>72,749,700</b>   | <b>72,749,700</b>  |
| <b>SPECIAL LINE ITEMS</b>             |                    |                     |                    |
| BRITS Operational Support             | 2,223,700          | 2,223,700           | 3,623,700          |
| Health Insurance Premium Tax Credit   | 30,000             | 30,000              | 30,000             |
| Legal Arizona Workers Act             | 69,900             | 0                   | 0                  |
| Litigation Expenses                   | 886,500            | 0                   | 0                  |
| Small Towns Revenue Sharing           | 850,000            | 0                   | 0                  |
| Unclaimed Property Administration     | 2,652,900          | 1,634,000           | 1,634,000          |
| Unclaimed Property Contract Auditors  | 1,770,000          | 1,770,000           | 1,770,000          |
| <b>AGENCY TOTAL</b>                   | <b>80,577,500</b>  | <b>78,407,400</b>   | <b>79,807,400</b>  |
| <b>FUND SOURCES</b>                   |                    |                     |                    |
| General Fund                          | 74,352,100         | 73,918,600          | 75,318,600         |
| <u>Other Appropriated Funds</u>       |                    |                     |                    |
| Estate and Unclaimed Property Fund    | 4,422,900          | 3,404,000           | 3,404,000          |
| Liability Setoff Fund                 | 287,500            | 422,000             | 422,000            |
| Risk Management Revolving Fund        | 886,500            | 0                   | 0                  |
| Tobacco Tax and Health Care Fund      | 628,500            | 662,800             | 662,800            |
| SUBTOTAL - Other Appropriated Funds   | 6,225,400          | 4,488,800           | 4,488,800          |
| <b>SUBTOTAL - Appropriated Funds</b>  | <b>80,577,500</b>  | <b>78,407,400</b>   | <b>79,807,400</b>  |
| Other Non-Appropriated Funds          | 28,326,900         | 33,403,200          | 30,403,200         |
| <b>TOTAL - ALL SOURCES</b>            | <b>108,904,400</b> | <b>111,810,600</b>  | <b>110,210,600</b> |

### CHANGE IN FUNDING SUMMARY

|                          | FY 2009 to FY 2010 JLBC |          |
|--------------------------|-------------------------|----------|
|                          | \$ Change               | % Change |
| General Fund             | 1,400,000               | 1.9%     |
| Other Appropriated Funds | 0                       | 0.0%     |
| Total Appropriated Funds | 1,400,000               | 1.8%     |
| Non-Appropriated Funds   | (3,000,000)             | (9.0%)   |
| Total - All Sources      | (1,600,000)             | (1.4%)   |

**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.

| <b>PERFORMANCE MEASURES</b>   | FY 2006 | FY 2007 | FY 2008 | FY 2010 |
|---|---------|---------|---------|---------|
|   | Actual  | Actual  | Actual  | JLBC    |
| • 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 JLBC includes \$72,749,700 and 1,130 FTE Positions for the operating budget in FY 2010. These amounts consist of:

|                                  |              |
|----------------------------------|--------------|
| General Fund                     | \$71,664,900 |
| Liability Setoff Fund            | 422,000      |
| Tobacco Tax and Health Care Fund | 662,800      |

These amounts are unchanged from FY 2009.

### ***Business Reengineering/Integrated Tax System (BRITS) Operational Support***

The JLBC includes \$3,623,700 and 16 FTE Positions from the General Fund for operational support of BRITS in FY 2010. The FY 2010 adjustments would be as follows:

#### **Data Center Increase                      GF      1,400,000**

This adjustment would increase Data Center funding by \$1,400,000 from the General Fund in FY 2010. 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. (See "Other Issues for Legislative Consideration - BRITS Contract Extensions or Modifications" for more 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 JLBC 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 will not appear in the FY 2010 General Appropriation Act.

### ***Legal Arizona Workers Act***

The JLBC 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 JLBC 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 JLBC 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, Winkelman, 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.

### ***Unclaimed Property Administration***

The JLBC includes \$1,634,000 and 18 FTE Positions from the Estate and Unclaimed Property Fund for Unclaimed Property Administration in FY 2010. These amounts are unchanged from FY 2009.

Monies in this line item are used for the administrative costs of handling, publicizing and selling of unclaimed or abandoned property. 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.

**Unclaimed Property Contract Auditors**

The JLBC includes \$1,770,000 from the Estate and Unclaimed Property Fund to pay unclaimed property contract auditor fees in FY 2010. This amount is unchanged from FY 2009.

Monies in this line item are used to pay contract auditors, who mainly audit large financial and insurance companies headquartered out of state. The actual appropriation is 12.5% of the dollar value of the properties recovered by unclaimed property contract auditors. The amount displayed is the amount that DOR paid unclaimed property contract auditors in FY 2005. A standard footnote specifies that 12.5% of the dollar value of the properties recovered by unclaimed property contract auditors is the amount appropriated.

\* \* \*

**FORMAT** — Operating Lump Sum with Special Line Items by Agency

**FOOTNOTES**

*Standard Footnotes*

An amount equal to 12.5% of the dollar value of the properties recovered by unclaimed property contract auditors is appropriated from the Estate and Unclaimed Property Fund to pay unclaimed property contract auditor fees in accordance with A.R.S. § 44-313, requiring that administrative expenses be appropriated. This amount is currently estimated at \$1,770,000 in FY 2010.

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.

**STATUTORY CHANGES**

The JLBC would:

- As session law, continue to require JLBC review of any BRITS contract extensions or modifications that increase the contractor’s share of gain-sharing from state revenues during FY 2010.
- As permanent law, require all unclaimed property proceeds to be distributed to the General Fund.

Currently, unclaimed property proceeds are distributed to the Housing Trust Fund and a variety of racing programs.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**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.

| <b>Estimate of BRITS Costs</b>  |                      |
|---|----------------------|
| <b>Original Contract</b>  | <b>Costs</b>         |
| BRITS Base Contract   | \$122,664,700        |
| Interest  | <u>7,000,000</u>     |
| Subtotal Original Contract  | 129,664,700          |
| <b>Amendments or Extensions</b>   |                      |
| Approved Contracts to Date  | <u>32,463,100</u>    |
| <b>Total <sup>1/</sup></b>  | <b>\$162,127,800</b> |
| <sup>1/</sup> 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.

Laws 2008, Chapter 290 requires that before executing any BRITS contract extensions or modifications that increase the contractor’s share of gain-sharing proceeds from state revenues during FY 2009, DOR shall submit the proposed changes for Joint Legislative Budget Committee review, retroactive to June 30, 2008. Contract extensions have allowed DOR to use additional General Fund resources on this project without a legislative appropriation. Chapter 290 also permits DOR to use up to \$1.6 million in General Fund revenue proceeds to pay Data Center charges, pending Committee review. 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. Effective November 10, 2008, DOR contracted with a new vendor for data housing services and relocated the existing Data Center from Mesa to Tempe. At the December 19, 2008 Joint Legislative Budget Committee

meeting, the Committee favorably reviewed DOR's request of \$1.2 million for the remaining 7.5 months of FY 2009. (See BRITS Operational Support Special Line Item for more information.)

| SUMMARY OF FUNDS  | FY 2008<br>Actual | FY 2009<br>Estimate           |
|---|-------------------|-------------------------------|
| <b>Client County Equipment Capitalization Fund</b> (RVA2457/A.R.S. § 42-11057)  |                   | <b>Non-Appropriated</b>       |
| <b>Source of Revenue:</b> 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.  |                   |                               |
| <b>Purpose of Fund:</b> 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.  |                   |                               |
| <b>Funds Expended</b>   | 284,600           | 216,700                       |
| <b>Year-End Fund Balance</b>  | 298,100           | 294,900                       |
| <b>Escheated Estates Fund</b> (RVA3745/A.R.S. § 12-885)   |                   | <b>Non-Appropriated</b>       |
| <b>Source of Revenue:</b> 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.   |                   |                               |
| <b>Purpose of Fund:</b> 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. Transfers to the Permanent School Fund totaled \$544,800 in FY 2008   |                   |                               |
| <b>Funds Expended</b>   | 0                 | 0                             |
| <b>Year-End Fund Balance</b>  | 379,200           | 379,200                       |
| <b>Estate and Unclaimed Property Fund</b> (RVA1520/A.R.S. § 44-301)   |                   | <b>Partially-Appropriated</b> |
| <b>Source of Revenue:</b> 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. Laws 2007, Chapter 260, as session law, requires that all proceeds from the sale of securities in FY 2008 be deposited into the General Fund instead of the statutory split between the General Fund, Department of Housing, and Department of Racing. This generated increased revenue of \$47,132,500 to the General Fund in FY 2008. 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.   |                   |                               |
| <b>Purpose of Fund:</b> The appropriated portion of the fund covers the department's administrative costs including unclaimed property contract auditors and 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 Department funds which are capped at specific levels of revenue, with any excess being deposited to the General Fund. Racing deposited \$8,407,800 in FY 2008 to the General Fund. Transfers totaled \$103,031,600 in FY 2008, including \$56,887,900 to the General Fund, \$33,684,300 to the Housing Trust Fund, \$26,300 to the Utility Assistance Fund, \$12,248,800 to the Racing Fund, \$11,200 to the Permanent State School Fund, and \$173,100 to the Victim Compensation and Assistance Fund. The total amount transferred to the General Fund in FY 2008 does not include a statutorily mandated transfer of \$1,132,800 from Laws 2008, Chapter 285. |                   |                               |
| <b>Funds Expended</b>   | 4,422,900         | 3,404,000                     |
| <b>Non-Appropriated Funds Expended</b>  | 27,859,500        | 33,000,000                    |
| <b>Year-End Fund Balance</b>  | 2,250,000         | 2,250,000                     |
| <b>Liability Setoff Fund</b> (RVA2179/A.R.S. § 42-1122)   |                   | <b>Appropriated</b>           |
| <b>Source of Revenue:</b> 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.   |                   |                               |
| <b>Purpose of Fund:</b> To cover the Department of Revenue's costs of administering the Liability Setoff program.   |                   |                               |
| <b>Funds Expended</b>   | 287,500           | 422,000                       |
| <b>Year-End Fund Balance</b>  | 896,400           | 246,900                       |

| SUMMARY OF FUNDS  | FY 2008<br>Actual | FY 2009<br>Estimate     |
|---|-------------------|-------------------------|
| <b>Revenue Publications Revolving Fund (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>   | 181,100           | 185,500                 |
| <b>Year-End Fund Balance</b>  | 10,800            | 11,800                  |
| <b>Risk Management Revolving Fund (ADA4216/A.R.S. § 41-622)</b>   |                   | <b>Appropriated</b>     |
| <b>Source of Revenue:</b> Actuarial charges assessed to agencies insured under the state's risk management system, as well as recoveries by the state through litigation.   |                   |                         |
| <b>Purpose of Fund:</b> One-time \$1,000,000 supplemental appropriation for litigation expenses. This appropriation was exempt from lapsing.  |                   |                         |
| <b>Funds Expended</b>   | 886,500           | 0                       |
| <b>Year-End Fund Balance</b>  | 0                 | 0                       |
| <b>Special Collections Fund (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 is distributed to the state or political subdivisions according to the distribution proportions for the tax collected. No revenue was collected from contracted collections in FY 2008.   |                   |                         |
| <b>Funds Expended</b>   | 0                 | 0                       |
| <b>Year-End Fund Balance</b>  | 0                 | 0                       |
| <b>Statewide Employee Recognition Gifts/Donations Fund (RVA2449/A.R.S. § 35-149)</b>  |                   | <b>Non-Appropriated</b> |
| <b>Source of Revenue:</b> Gifts and donations from public and private entities.   |                   |                         |
| <b>Purpose of Fund:</b> For employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.   |                   |                         |
| <b>Funds Expended</b>   | 1,700             | 1,000                   |
| <b>Year-End Fund Balance</b>  | 1,200             | 1,200                   |
| <b>Tobacco Tax and Health Care Fund (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>   | 628,500           | 662,800                 |
| <b>Year-End Fund Balance*</b>   | (44,700)          | 0                       |
| <b>Waste Tire Fund (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. Transfers totaled \$8,779,800 in FY 2008, including \$379,800 to the Department of Environmental Quality and \$8,400,000 to counties. |                   |                         |
| <b>Funds Expended</b>   | 0                 | 0                       |
| <b>Year-End Fund Balance</b>  | 75,100            | 75,100                  |

\*As reported by the agency. Actual ending balance will not be negative