Director: Gale Garriott JLBC Analyst: Juan Beltran

	FY 2009 ACTUAL	FY 2010 ESTIMATE	FY 2011 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	1,164.0	873.0	935.0 1/
Personal Services	35,882,400	30,392,700	32,492,800
Employee Related Expenditures	14,547,600	13,028,800	15,707,900
Professional and Outside Services	2,196,300	2,727,700	2,727,700
Travel - In State	271,300	283,100	283,100
Travel - Out of State	212,100	222,500	222,500
Other Operating Expenditures	9,466,100	9,247,000	9,946,200
Equipment	579,500	650,200	650,200
OPERATING SUBTOTAL	**63,155,300**	**56,552,000**	**62,030,400**
SPECIAL LINE ITEMS			
BRITS Operational Support	2,223,300	3,620,900	5,577,700
Health Insurance Premium Tax Credit	30,000	30,000	30,000 2/
Temporary Collectors	0	2,994,900	2,914,300 3/
Unclaimed Property Administration and Audit	0	2,963,200	1,770,000 4/
Unclaimed Property Administration	1,401,200	0	0
Unclaimed Property Contract Auditors	698,600	0	0
5th Special Session Reduction	0	(4,887,100)	(4,887,100)
AGENCY TOTAL	**67,508,400**	**61,273,900**	**67,435,300** 5/6/
FUND SOURCES			
General Fund	64,339,400	37,543,400	43,709,000
Other Appropriated Funds			
Department of Revenue Administrative Fund	0	22,662,500	22,662,500
Estate and Unclaimed Property Fund	2,099,800	0	0
Liability Setoff Fund	407,700	400,700	390,600
Tobacco Tax and Health Care Fund	661,500	667,300	673,200
SUBTOTAL - Other Appropriated Funds	3,169,000	23,730,500	23,726,300
SUBTOTAL - Appropriated Funds	**67,508,400**	**61,273,900**	**67,435,300**
Other Non-Appropriated Funds	22,489,700	29,937,700	27,437,700
TOTAL - ALL SOURCES	89,998,100	91,211,600	94,873,000

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 38 GF FTE Positions funded from Special Line Items in FY 2011.
2/ Includes $30,000 appropriated by Laws 2006, Chapter 378 for administering health insurance premium tax credits.
3/ The $2,914,300 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, 2011. (General Appropriations Act footnote, as adjusted for statewide allocations).
4/ If 12.5% of the total dollar value of properties recovered by unclaimed property contract auditors exceeds $1,770,000, the excess amount shall be transferred from the State General Fund to the DOR Administrative Fund and appropriated to the department for contract auditor fees. (General Appropriation Act footnote)
5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
6/ The department shall report the department's General Fund revenue enforcement goals for FY 2011 to the Joint Legislative Budget Committee by July 31, 2010. 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 2011 by July 31, 2011. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2011. (General Appropriation Act footnote)

Operating Budget

The budget includes $62,030,400 and 897 FTE Positions for the operating budget in FY 2011. These amounts consist of:

	FY 2011
General Fund	$38,236,600
DOR Administrative Fund	22,730,000
Liability Setoff Fund	390,600
Tobacco Tax and Health Care Fund	673,200

These amounts fund the following adjustments:

Unclaimed Property Administration Transfer
The budget includes a transfer of $1,193,200 and 14 FTE Positions from the DOR Administrative Fund from the Unclaimed Property Administration and Audit line item to the operating budget in FY 2011. The transfer results in no net change in DOR's overall funding level.

Audit Staff Increase
The budget includes an increase of $4,352,200 and 71 FTE Positions from the General Fund in FY 2011 to increase audit staff. It was projected that increasing the audit staff would result in additional gross General Fund revenues of $6,150,400 in FY 2011, for a net gain of $1,798,200.

Collections Staff Increase
The budget includes an increase of $360,000 and 7 FTE Positions from the General Fund in FY 2011 in order to increase collections staff. It was projected that increasing the collections staff would result in additional gross General Fund revenues of $1,554,700 in FY 2011, for a net gain of $1,194,700.

Tax Administration
The budget includes an increase of $515,500 from the General Fund in FY 2011 for the implementation of various tax administration programs. It was projected that these 6 programs would result in additional gross General Fund revenues of $15,267,300 in FY 2011, for a net gain of $14,751,800.

(Please see the General Fund Revenue section for more details on the prior 3 issues.)

Statewide Adjustments
The budget includes a decrease of $(942,500) in FY 2011 for statewide adjustments. This amount consists of:

General Fund	(938,300)
Liability Setoff Fund	(10,100)
Tobacco Tax and Health Care Fund	5,900

(Please see the General Provisions section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes $5,577,700 and 38 FTE Positions from the General Fund for operational support of BRITS in FY 2011. These amounts fund the following adjustments:

BRITS Internal Support
The budget includes an increase of $2,000,000 from the General Fund in FY 2011 for BRITS internal technical support. This adjustment allows DOR to continue to replace contractual staff with lower cost departmental staff. The FY 2010 Revenues Budget Reconciliation Bill (BRB) (Laws 2009, 4th Special Session, Chapter 3) included a provision that, as session law, allowed DOR to divert 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. These support 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. This adjustment does not represent a new net cost to the General Fund as the General Fund Revenue diversion will be eliminated. *(Please see "Other Issues – Business Reengineering/Integrated Tax System" for more details.)*

Statewide Adjustments
The budget includes a decrease of $(43,200) from the General Fund in FY 2011 for statewide adjustments.

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 2011 as appropriated by Laws 2006, Chapter 378. This amount is unchanged from FY 2010. As a result of the appropriation in Chapter 378, this funding does not appear in the FY 2011 General Appropriation Act. FY 2011 is the final year of appropriations in Chapter 378.

Temporary Collectors

The budget includes $2,914,300 from the General Fund for Temporary Collectors in FY 2011. This amount funds the following adjustments:

Statewide Adjustments
The budget includes a decrease of $(80,600) from the General Fund in FY 2011 for statewide adjustments.

Monies in this line item are used to hire temporary collectors to assist in the collection of already established debt.

Unclaimed Property Administration and Audit

The budget includes $1,770,000 from the DOR Administrative Fund for Unclaimed Property Administration and Audit in FY 2011. These amounts fund the following adjustments:

Unclaimed Property Administration Transfer

The budget includes a transfer of $(1,193,200) and (14) FTE Positions from the DOR Administrative Fund from the Unclaimed Property Administration and Audit line item to the operating budget in FY 2011. The transfer results in no net change in DOR's overall funding level.

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.

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.

Unclaimed Property Administration

The budget includes no funding for Unclaimed Property Administration from the Estate and Unclaimed Property Fund in FY 2011. This amount is unchanged from FY 2010.

Unclaimed Property Contract Auditors

The budget includes no funding for Unclaimed Property Contract Auditors from the Estate and Unclaimed Property Fund in FY 2011. This amount is unchanged from FY 2010.

5th Special Session Reduction

The budget includes $(4,887,100) in FY 2011 to continue the 5th Special Session FY 2010 Lump Sum Reduction. This amount was allocated to the operating budget in the General Appropriation Act pending agency decisions on how to allocate. This amount consists of:

General Fund	(3,049,600)
DOR Administrative Fund	(1,837,500)

Fund Transfers

The budget includes transfers from this agency's funds to the General Fund. *(Please see the Fund Transfers section at the back of this report for more details.)*

Other Issues

5% FTE Position Reduction

Laws 2009, 3rd Special Session, Chapter 11, Section 17 mandated a 5% General Fund FTE Position reduction by February 1, 2010. This provision required DOR to reduce 12 General Fund FTE Positions in FY 2010 and an additional 16 General Fund FTE Positions in FY 2011. These changes have been incorporated in the agency's budget.

Business Reengineering/Integrated Tax System (BRITS)

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 *Table 1*, DOR's revised estimated total cost of $162,127,800 included $122,664,700 for the base contract, $7,000,000 for estimated interest, and $32,463,100 for BRITS contract extensions.

Table 1

Revised Estimate of BRITS Contract Costs

Original Contract	**Costs**
BRITS Base Contract	$122,664,700
Interest	7,000,000
Subtotal Original Contract	$129,664,700
Amendments or Extensions	
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 had been financed by the contractor who, in turn, was paid from the increased revenues generated by BRITS. Payments were made to the contractor based on 85% of tax enforcement revenues above an established baseline amount. These payments were 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.

DOR reports that no additional payments are being made to the vendor out of the original gain sharing agreement. According to DOR, the actual cost of BRITS was $154,303,200, which is $(7,824,600) below DOR's revised

estimate of $162,127,800 and $20,638,500 above the original estimate of $133,664,700. The savings as compared to DOR's revised estimate are mainly a result of DOR not implementing document imaging and customer relationship management as well as a decrease in interest charges of $(914,800).

Table 2

BRITS Expenditures and Savings

Contract Expenditures	**Costs**
Base Contract and Amendments/Extensions	$148,218,000
Interest	6,085,200
Total Contract Expenditures	**154,303,200**
Savings	
Foregone Interest	914,800
Foregone Funds for Document Imaging and Customer Relationship Management	6,633,800
Additional Contract Savings	276,000
Total Savings	**7,824,600**
Total Revised BRITS Contract Costs	**$162,127,800**

In FY 2010 DOR was allowed to use 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. This plan was favorably reviewed on February 2, 2010 and has allowed DOR to replace existing contractual staff with lower cost departmental staff. To make this a permanent change, the budget includes a General Fund appropriation of $2,000,000 in FY 2011. This adjustment would not represent a new net cost to the General Fund as General Fund revenues would no longer be reduced by $2,000,000. *(Please see the BRITS Operational Support line item for more details.)*