

Department of Revenue

JLBC: Juan Beltran

OSPB: Illya Riske

	FY 2009 ACTUAL	FY 2010 ESTIMATE	FY 2011 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,164.0	873.0	857.0
Personal Services	35,882,400	30,443,700	31,131,000
Employee Related Expenditures	14,547,600	13,038,900	13,359,400
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	9,432,400
Equipment	579,500	650,200	650,200
OPERATING SUBTOTAL	63,155,300	56,613,100	57,806,300
SPECIAL LINE ITEMS			
BRITS Operational Support	2,223,300	3,623,700	5,623,700
Health Insurance Premium Tax Credit	30,000	30,000	30,000
Temporary Collectors	0	3,000,000	3,000,000
Unclaimed Property Administration and Audit	0	2,963,200	1,770,000
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	61,342,900	63,342,900
FUND SOURCES			
General Fund	64,339,400	37,611,900	39,611,900
<u>Other Appropriated Funds</u>			
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	401,200	401,200
Tobacco Tax and Health Care Fund	661,500	667,300	667,300
SUBTOTAL - Other Appropriated Funds	3,169,000	23,731,000	23,731,000
SUBTOTAL - Appropriated Funds	67,508,400	61,342,900	63,342,900
Other Non-Appropriated Funds	22,489,700	29,937,700	27,437,700
TOTAL - ALL SOURCES	89,998,100	91,280,600	90,780,600

CHANGE IN FUNDING SUMMARY

	FY 2010 to FY 2011 Baseline	
	\$ Change	% Change
General Fund	2,000,000	5.3%
Other Appropriated Funds	0	0.0%
Total Appropriated Funds	2,000,000	3.3%
Non-Appropriated Funds	(2,500,000)	(8.4%)
Total - All Sources	(500,000)	(0.5%)

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.

Operating Budget

The Baseline includes \$57,806,300 and 819 FTE Positions for the operating budget in FY 2011. These amounts consist of:

General Fund	\$34,007,800
DOR Administrative Fund	22,730,000
Liability Setoff Fund	401,200
Tobacco Tax and Health Care Fund	667,300

FY 2011 adjustments would be as follows:

Unclaimed Property Administration Transfer OF 1,193,200

The Baseline 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 would result in no net change in DOR's overall funding level.

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes \$5,623,700 and 38 FTE Positions from the General Fund for operational support of BRITS in FY 2011. FY 2011 adjustments would be as follows:

BRITS Internal Support GF 2,000,000

The Baseline includes an increase of \$2,000,000 from the General Fund in FY 2011 for BRITS internal technical support. This adjustment would allow 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 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. Since DOR anticipates hiring an additional 22 FTE Positions for BRITS internal support in FY 2010, DOR's FTE authority has been adjusted accordingly in both FY 2010 and FY 2011. 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. As a result, this adjustment would not represent a new net cost to the General Fund. (Please see "Other Issues for Legislative Consideration – Business Reengineering/Integrated Tax System" 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 Baseline 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 will not appear in the FY 2011 General Appropriation Act.

Temporary Collectors

The Baseline includes \$3,000,000 from the General Fund for Temporary Collectors in FY 2011. This amount is unchanged from FY 2010.

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 Baseline includes \$1,770,000 from the DOR Administrative Fund for Unclaimed Property Administration and Audit in FY 2011. FY 2011 adjustments would be as follows:

Unclaimed Property Administration Transfer OF (1,193,200)

The Baseline 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 would result 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 Baseline 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 Baseline 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 Baseline includes \$(4,887,100) in FY 2011 to continue the 5th Special Session FY 2010 Lump Sum Reduction. This amount consists of:

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

This lump sum reduction would be allocated to specific line items in the FY 2011 General Appropriation Act.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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, 2011.

The department shall provide the department’s General Fund revenue enforcement goals for FY 2011 for review by 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.

New Footnotes

If the 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 General Fund to the DOR Administrative Fund and appropriated to the department for contract auditor fees. (This provision was included in the FY 2010 Revenues BRB as session law. Prior to FY 2010, 12.5% of the dollar value of the properties recovered by unclaimed property auditors was appropriated from the Estate and Unclaimed Property Fund).

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.

Estimate of BRITS Costs	
<u>Original Contract</u>	<u>Costs</u>
BRITS Base Contract Interest	\$122,664,700
Interest	<u>7,000,000</u>
Subtotal Original Contract	129,664,700
<u>Amendments or Extensions</u>	
Approved Contracts to Date	<u>32,463,100</u>
Total ^{1/}	\$162,127,800
<small>^{1/} Total includes \$6,633,800 in BRITS contract funds for document imaging and customer relationship management.</small>	

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.

In FY 2010, DOR may 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. This allows DOR to replace existing contractual staff with lower cost departmental staff. In order to make this a permanent change, the Baseline 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.

5% FTE Position Reduction

DOR was originally budgeted 569 General Fund FTE Positions in FY 2010. Laws 2009, 3rd Special Session, Chapter 11, Section 17 mandates a 5% General Fund FTE Position reduction by February 1, 2010. Given the mid-year implementation, this provision requires DOR to reduce an additional 12 FTE Positions in FY 2010 and 28 General Fund FTE Positions in FY 2011. This reduction is allocated to the operating budget; the agency may allocate to Special Line Items.

SUMMARY OF FUNDS	FY 2009 Actual	FY 2010 Estimate
Client County Equipment Capitalization Fund (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 of Revenue (DOR) 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 DOR 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.		
Funds Expended	116,100	142,000
Year-End Fund Balance	248,100	106,100
Department of Revenue Administrative Fund (RVA2463/A.R.S. § 42-1116.01)		Appropriated
Source of Revenue: 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 2009, 4 th Special Session, Chapter 3 establishes the DOR Administrative Fund and redirects \$24,500,000 each year in unclaimed property proceeds to this fund.		
Purpose of Fund: To cover DOR's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.		
Funds Expended	0	22,662,500
Year-End Fund Balance	0	0
Escheated Estates Fund (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. Transfers to the Permanent School Fund totaled \$366,200 in FY 2009.		
Funds Expended	0	0
Year-End Fund Balance	800	800
Estate and Unclaimed Property Fund (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 DOR's administrative costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property. DOR 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 \$5,498,500 in FY 2009 to the General Fund. Transfers totaled \$49,970,300 in FY 2009, including \$10,879,200 to the General Fund, \$28,554,100 to the Housing Trust Fund, \$0 to the Utility Assistance Fund, \$10,383,300 to the Racing Fund, \$9,100 to the Permanent State School Fund, and \$144,600 to the Victim Compensation and Assistance Fund. The total amount transferred to the General Fund in FY 2009 includes a statutorily mandated transfer of \$1,125,000 from Laws 2009, 1 st Special Session, Chapter 1. Laws 2009, 4 th Special Session, Chapter 3 now requires that the first \$10,500,000 in unclaimed property proceeds be deposited into the Housing Trust Fund and the next \$24,500,000 into the DOR Administrative Fund beginning in FY 2010. Since Racing would no longer receive neither pari-mutuel nor unclaimed property revenues, the FY 2010 General Appropriation Act (Laws 2009, 1 st Regular Session, Chapter 12) appropriated General Fund monies to current Racing fund recipients. Chapter 3 also accelerates by 2 years the length of time for all property types to be presumed abandoned and therefore unclaimed. It revises the holding period for traveler's checks from 14 years to 3 years as well as the holding period for money orders from 6 years to 3 years. Shortening these periods is expected to result in additional General Fund revenues of \$73,589,200 in FY 2010.		
Appropriated Funds Expended	2,099,800	0
Non-Appropriated Funds Expended	22,267,200	29,767,200
Year-End Fund Balance	2,250,100	830,800

SUMMARY OF FUNDS	FY 2009 Actual	FY 2010 Estimate
Liability Setoff Fund (RVA2179/A.R.S. § 42-1122)		Appropriated
Source of Revenue: Fees collected from agencies or taxpayers utilizing the setoff procedure. DOR 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 DOR's costs of administering the Liability Setoff program.		
Funds Expended	407,700	401,200
Year-End Fund Balance	212,700	426,300
Revenue Publications Revolving Fund (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	104,900	28,500
Year-End Fund Balance	12,100	13,600
Special Collections Fund (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. No revenue was collected from contracted collections in FY 2009.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Statewide Employee Recognition Gifts/Donations Fund (RVA2449/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.		
Funds Expended	1,500	0
Year-End Fund Balance	4,100	4,100
Tobacco Tax and Health Care Fund (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	661,500	667,300
Year-End Fund Balance	646,000	32,600
Waste Tire Fund (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 (DEQ) 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 \$7,890,100 in FY 2009, including \$276,200 to DEQ and \$7,613,900 to counties.		
Funds Expended	0	0
Year-End Fund Balance*	(75,100)	(75,100)

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