

Department of Revenue

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	935.0	860.3	860.3
Personal Services	29,550,300	31,783,000	31,783,000
Employee Related Expenditures	13,383,800	14,058,700	14,058,700
Professional and Outside Services	5,455,700	4,355,900	4,355,900
Travel - In State	300,500	320,700	320,700
Travel - Out of State	319,800	489,800	489,800
Other Operating Expenditures	7,713,800	8,664,300	8,664,300
Equipment	2,133,000	269,600	269,600
OPERATING SUBTOTAL	58,856,900	59,942,000	59,942,000
SPECIAL LINE ITEMS			
BRITS Operational Support	5,577,000	7,452,200	7,452,200
Ch. 176 Government Land; Private Land; Study	0	132,200	0
Temporary Collectors	2,880,600	2,887,700	2,887,700
Unclaimed Property Administration and Audit	392,500	1,770,000	1,770,000
AGENCY TOTAL	67,707,000^{1/}	72,184,100^{2/}	72,051,900
FUND SOURCES			
General Fund	45,076,000	45,442,100	45,309,900
Other Appropriated Funds			
Department of Revenue Administrative Fund	21,609,100	24,990,700	24,990,700
Liability Setoff Fund	342,500	1,080,100	1,080,100
Tobacco Tax and Health Care Fund	679,400	671,200	671,200
SUBTOTAL - Other Appropriated Funds	22,631,000	26,742,000	26,742,000
SUBTOTAL - Appropriated Funds	67,707,000	72,184,100	72,051,900
Other Non-Appropriated Funds	40,483,000	41,150,000	42,150,000
TOTAL - ALL SOURCES	108,190,000	113,334,100	114,201,900

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 \$59,942,000 and 805.3 FTE Positions in FY 2014 for the operating budget. These amounts consist of:

	FY 2014
General Fund	\$36,771,200
DOR Administrative Fund	21,419,500
Liability Setoff Fund	1,080,100
Tobacco Tax and Health Care Fund	671,200

These amounts are unchanged from FY 2013.

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes \$7,452,200 and 55.0 FTE Positions in FY 2014 for operational support of BRITS. These amounts consist of:

General Fund	5,651,000
DOR Administrative Fund	1,801,200

These amounts are unchanged from FY 2013.

^{1/} Includes a total of \$1,106,700 GF and \$531,700 OF appropriated in FY 2012 for costs associated with an additional pay period. These expenditures were not reflected in the individual agency tables in the *FY 2012 Appropriations Report*.

^{2/} In addition to these amounts, the FY 2013 General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance premium holiday and employee retention payments. The adjustments include a reduction of \$(633,400) GF for the premium holiday and an increase of \$1,169,300 GF and \$35,600 OF for the employee retention payment.

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. BRITS is the state's computer system for collecting and processing tax data. (See *Other Issues for Legislative Consideration for discussion of BRITS Automation update.*)

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

FOOTNOTES

Standard Footnotes

The \$2,887,700 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, 2014.

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.

The department shall report the department's General Fund revenue enforcement goals for FY 2014 to the Joint Legislative Budget Committee by July 31, 2013. 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 2014 by July 31, 2014. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2014.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

BRITS Automation

At the June 26, 2012 JLBC meeting, DOR received a favorable review of the proposed Arizona Department of Administration (ADOA) expenditure plan for the Automation Projects Fund. In total, \$28,100,000 in FY 2013, \$20,000,000 in FY 2014, \$20,000,000 in FY 2015, and \$23,000,000 in FY 2016 was appropriated to the Automation Projects Fund. Under the ADOA plan, DOR will expend \$3,431,200 in FY 2013 and \$1,702,800 in FY 2014 to upgrade BRITS. Specifically, the monies will be used to upgrade the Taxpayer Application System (the main accounting system in BRITS), AZ Taxes (the web-based system for electronic filing), and application integration software; and to purchase hardware for the move to the ADOA Data Center.

These amounts are in addition to the \$1,801,200 and 17 FTE Positions from the DOR Administrative Fund for BRITS operational support first appropriated in FY 2013.

Ch. 176 Government Land; Private Land; Study

The Baseline includes no funding for distribution to county assessors for a Property Status Study Report in FY 2014. This amount funds the following adjustments:

Elimination of One-Time Monies GF (132,200)

The Baseline includes a reduction of \$(132,213) from the General Fund in FY 2014 for the elimination of one-time funds for a Property Status Study Report.

Laws 2012, Chapter 176 requires DOR to enter into a contract with each of the county assessors for the purpose of conducting a property status study report. The report will identify the total amount of private property, private property that is tax exempt, private property that is in conservation status, federally held lands in conservation areas, and municipal and county held lands in conservation areas within each county. DOR is to report the results of the study to the Governor and Legislature by December 31, 2013. The monies are to be used to help defray the costs for county assessors.

To offset the appropriation, the bill reverts the \$132,213 remaining from the FY 2008 appropriation to the Arizona Department of Water Resources for the Upper San Pedro Water District technical assistance line item.

Temporary Collectors

The Baseline includes \$2,887,200 from the General Fund in FY 2014 for Temporary Collectors. This amount is unchanged from FY 2013.

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 in FY 2014 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2013.

Monies in this line item are used for the administrative costs of unclaimed or abandoned property. Contract auditors retain 12.5% of the dollar value of properties they recover. This amount is currently estimated at \$1,770,000.

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 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 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.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Department of Revenue Administrative Fund (RVA1993/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 3 years. Each year, \$24,500,000 in unclaimed property proceeds are deposited into this fund. Laws 2011, Chapter 28 removed the fund's exemption from A.R.S. § 35-190 relating to the lapsing of appropriations.		
Purpose of Fund: To cover the Department of Revenue's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.		
Funds Expended	21,609,100	24,990,700
Year-End Fund Balance	2,504,100	2,504,100
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 \$299,400 in FY 2012.		
Funds Expended	299,400	0
Year-End Fund Balance	299,400	0
Estate and Unclaimed Property Fund (RVA1520/A.R.S. § 44-301)		Non-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 3 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: To pay allowed claims. The department retains not less than \$100,000 of the fund 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. Beginning in FY 2012, A.R.S. § 44-313 requires that the first \$2,000,000 in unclaimed property proceeds be deposited into the Seriously Mentally Ill Housing Trust Fund, the next \$2,500,000 into the Housing Trust Fund, the next \$24,500,000 into the DOR Administrative Fund and all remaining monies be redirected to the General Fund.		
Funds Expended	40,049,500	41,000,000
Year-End Fund Balance	2,250,100	2,250,100
I Didn't Pay Enough Fund (RVA6001/A.R.S. § 43-211)		Non-Appropriated
Source of Revenue: Voluntary contributions from taxpayers.		
Purpose of Fund: Up to 10% of annual deposits may be used by DOR to administer the fund. Any unexpended monies revert to the General Fund at the close of the fiscal year.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
IGA and ISA Fund (RVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Transfer of funds from Arizona Early Childhood Development and Health Board.		
Purpose of Fund: To assist the Revenue Tobacco unit in enforcement compliance.		
Funds Expended	123,000	150,000
Year-End Fund Balance	123,000	150,000
Liability Setoff Fund (RVA2179/A.R.S. § 42-1122)		Appropriated
Source of Revenue: Fees collected from agencies, political subdivisions or taxpayers utilizing the setoff procedure. The Department of Revenue withholds taxpayer refunds to satisfy debts owed by the taxpayers to certain state and local 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	342,500	1,080,100
Year-End Fund Balance	1,137,700	1,244,000
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	10,800	0
Year-End Fund Balance	11,100	11,100
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. § 42-1004B3. 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 2012.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Statewide Employee Recognition Gifts/Donations Fund (RVA2449/§ 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	300	0
Year-End Fund Balance	300	0
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	679,400	671,200
Year-End Fund Balance	700	700
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 \$8,518,900 in FY 2012, including \$298,200 to DEQ and \$8,220,700 to counties.		
Funds Expended	0	0
Year-End Fund Balance	0	0