

DEPARTMENT OF REVENUE

Mark Killian, Director

A.R.S. § 42-102

JLBC Analyst: Bob Hull

**General Fund and Other
Appropriated Funds****FY 1998
Actual****FY 1999
Estimate****FY 2000
Approved****FY 2001
Approved**Program Summary

Director's Office	3,280,700	4,380,700	4,322,000	4,422,400
Administrative Services	12,247,700	11,681,300	11,671,600	11,679,800
Data Management	13,206,800	5,264,700	5,415,300	5,505,300
Information Technology	0	8,713,700	9,300,000	8,700,900
Property Valuation and Equalization	3,061,600	3,605,700	3,572,700	3,637,500
Compliance	7,855,100	8,705,700	8,886,600	9,079,200
Taxation	13,247,000	6,431,700	6,422,500	6,553,200
Transaction Privilege Tax	0	6,616,700	6,615,900	6,755,600
Taxpayer Support	3,066,700	3,309,900	3,836,200	3,845,100

Total Appropriations**55,965,600****58,710,100****60,042,800****60,179,000**Expenditure Detail

FTE Positions	1,255.0	1,255.0	1,247.0	1,247.0
Personal Services	30,682,600	33,070,500	34,137,800	34,823,200
Employee Related Expenditures	7,105,800	7,977,300	7,784,800	8,074,400
Professional and Outside Services	2,447,300	2,466,700	3,086,700	2,509,700
Travel - In State	370,600	462,300	468,800	468,800
Travel - Out of State	618,600	784,000	786,000	786,000
Other Operating Expenditures	11,232,200	12,328,500	12,452,100	12,415,200
Equipment	2,012,200	257,700	184,000	177,000

Operating Subtotal**54,469,300****57,347,000****58,900,200****59,254,300**

Building Permits Database	164,900	273,500	0	0
Attorney General Legal Services	145,000	145,000	145,600 ^{1/}	147,700 ^{1/}
Federal Employee Retirement Contribution Refund Project	1,023,400	67,600	0	0
Three Year 2000 Compliance Projects	163,000	877,000	0	0
Computer Network and Phone System Upgrade	0	0	780,000	777,000

Total**55,965,600****58,710,100****59,825,800****60,179,000****Additional Appropriations -**

Consolidation of Property Tax Classifications, Ch. 344	0	0	217,000 ^{2/}	0
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Total Appropriations**55,965,600****58,710,100****60,042,800^{3/}****60,179,000^{3/}**Fund Summary

General Fund	54,637,700	57,287,100	58,077,000	58,276,700
Tobacco Tax and Health Care Fund	344,100	358,200	381,100	387,200
Estate and Unclaimed Property Fund	983,800	1,064,800	1,146,800	1,150,200
Liability Setoff Fund	0	0	437,900	364,900

Total Appropriations**55,965,600****58,710,100****60,042,800****60,179,000**^{1/} Includes an adjustment for Office of the Attorney General Legal Services. (See the Salary Adjustment table at the front of this report for more information.)^{2/} This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Laws 1999, Chapter 344 footnote)^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

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Agency Description — *The Department of Revenue 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. The department is organized along functional lines.*

Reorganization — The approved amount includes a reduction of (15) FTE Positions beginning in FY 2000 due to the reorganization done by the department during the past 2 years. The department reallocated the associated Personal Services and Employee Related Expenditures monies to cover reorganization costs.

Unclaimed Property Workload — The approved amount includes \$71,300 from the Estate and Unclaimed Property Fund in FY 2000 for 2 new FTE Positions for workload increases. In FY 2001, this amount is reduced by \$(7,000) due to one-time equipment.

Liability Setoff Revolving Fund — The approved amount includes a base adjustment of \$437,100 and 5 FTE Positions in FY 2000 for the first time appropriation of the Liability Setoff Revolving Fund. In FY 2001, this amount is reduced by \$(77,000) due to one-time automation costs.

Mainframe Computer System Integration — The approved FY 2000 amount includes one-time funding of \$500,000 from the General Fund to explore mainframe computer system integration both within the department and within a multi-agency statewide system. The department has proposed reengineering its computerized tax systems, from separate systems based on tax type to an integrated customer based system which would cut across tax types. The department cites the current systems as old, complex to maintain, incompatible with each other, and lacking in customer service. The department reports that cost estimates for similar projects in 3 other states range from \$33,500,000 to \$64,000,000. The Government Information Technology Agency provisionally approved the project's concept and direction in a September 29, 1998 letter to the department. They stated, however, that provisional approval does not authorize commencement of the project or expenditure of funds. The \$500,000 appropriation is for an initial in-depth assessment of current operations, and a thorough evaluation of all the technology options of this proposed project.

Building Permits Database — The approved FY 2000 amount from the General Fund moves funding for 6 FTE Positions for the continuing operation of the department's central electronic database of building permit information from a Special Line Item to the operating budget. This is continued in FY 2001.

Attorney General Legal Services — The approved amounts from the General Fund provide for an Attorney General intergovernmental service agreement for legal services.

Federal Employee Retirement Contribution Refund Project — The approved amount from the General Fund includes a reduction of \$(67,600) beginning in FY 2000 due to completion of the Federal Employee Retirement Contribution Refund Project.

Three Year 2000 Compliance Projects — The approved amount from the General Fund includes a reduction of \$(877,000) beginning in FY 2000 to remove one-time FY 1999 supplemental funding for making 3 automated systems Year 2000 compliant, including the automated collections system, remittance processing and data entry system, and 3 specialized phone systems.

Computer Network and Phone System Upgrade — The approved FY 2000 amount from the General Fund includes an increase of \$550,000 for the department's debt service payments on a 5-year financing of its computer network upgrade. This amount is continued in FY 2001.

The approved amount from the General Fund also includes \$230,000 in FY 2000 for on-going operating costs of the phone system upgrade for charges made by the Arizona Department of Administration. In FY 2001, this amount is reduced by \$(3,000) due to lower charges.

Additional Appropriations: Consolidation of Property Tax Classifications (Chapter 344) — Appropriates \$217,000 from the General Fund in FY 2000 for the software, hardware and programming necessary to combine property classes 1, 2 and 3 into a new single class 1. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Additional Legislation: Tax Sharing; Indian Tribal Colleges (Chapter 183) — Provides for a qualifying Indian tribe to enter into a compact with the state to receive up to \$1,750,000 of the state transaction privilege tax revenues collected on the Indian reservation in any fiscal year, beginning with FY 2001. The monies must be used for the maintenance, renewal, and capital expenses of the Indian tribe's community college. If necessary, the compact shall provide for reimbursing the department up to \$150,000 for implementation costs, from revenues that would otherwise be paid to the qualifying Indian tribe.

Data Processing; County Assessors (Chapter 240) — Establishes a non-appropriated Client County Equipment Capitalization Fund. Revenue consists of monies in excess of \$0.60 per parcel charged by the department through intergovernmental agreements for data processing services provided to county assessors. The purpose is to upgrade

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client county computer equipment. Any unencumbered fiscal year-end balance over \$300,000, is to be transferred to the General Fund. The department is required to make an annual report by October 1 to the Information Technology Authorization Committee on receipts and disbursements from the fund.