

FY2010 FY2011 Budget Reductions

Fund:		DOR Administrative Fund			FY2010			FY2011			FY2012				
Priority	Division	Issue	One-time v. Ongoing	Statutory Change Needed	Reduction:			Reduction:			Reduction:				
					FTE	Revenue Impact	Appropriation Impact	FTE	Revenue Impact	Appropriation Impact	FTE	Revenue Impact	Appropriation Impact		
							9,774.2			19,548.5			19,548.5		
Service Reductions															
1	Agency	Excess Health Insurance Allocation	On-going	No	-	-	(2,651.8)	-	-	(2,651.8)	-	-	(2,651.8)		
2	Agency	Accrued Vacancy Savings	One-time	No	-	-	(880.9)								
3	Agency	Hiring Freeze	One-time	No	-	(1,567.8)	(2,285.1)	The FY2011 proposed service reductions focus on maintaining the Department's most core operations, processing the State's \$12 billion in tax revenue. With so much of FY2010 elapsed and with statutory mandates still in place, however, the Department is unable to implement the proposed FY2011 service reductions in adequate time to meet the FY2010 15% reduction target. As such, FY2010 reductions are one-time in nature (except where noted). If the proposed FY2010 reductions are annualized, then core processing functions will be							
4	Process	Microfilm Delay	One-time	No	-	-	(540.0)								
5	Process	Reassign Collectors and Auditors to Processing	One-time	No	-	(8,916.2)	(534.6)								
6	Agency	Furlough all Divisions but Processing for 14 days	One-time	No	-	(3,682.3)	(1,757.0)								
7	Collections	Layoff Temporary Collectors	One-time	No	(74.0)	(17,893.0)	(1,231.9)	-	-	-	-	-	-		
8	Agency	Close East Valley Office	On-going	No	-	-	-	-	-	232.0	-	-	(492.6)		
9	Agency	Close Tucson Office	On-going	No	-	-	-	-	-	(390.3)	-	-	(390.3)		
10	Property	Eliminate the Property Tax Division & RIF Employees	On-going	Yes	-	-	-	(43.0)	-	(3,063.2)	(43.0)	-	(3,355.4)		
11	External	Reduce External Svcs Division by 62% & RIF Employees	On-going	Yes	-	-	-	(15.0)	-	(1,306.5)	(15.0)	-	(1,420.8)		
12	Tax Pol.	Reduce Tax Policy Division by 69% & RIF Employees	On-going	Yes	-	-	-	(28.0)	-	(1,612.2)	(28.0)	-	(1,843.4)		
13	Taxpyr Svc	RIF East Valley Office Taxpayer Services Employees	On-going	No	-	-	-	(2.0)	-	(98.9)	(2.0)	-	(106.6)		
14	Taxpyr Svc	RIF Tucson Office Taxpayer Services Employees	On-going	No	-	-	-	(12.0)	-	(598.8)	(12.0)	-	(644.9)		
15	Taxpyr Svc	Reduce Phoenix Taxpayer Services by 19%	On-going	No	-	-	-	(23.0)	-	(1,191.3)	(23.0)	-	(1,279.6)		
16	Audit	Eliminate Audit Division & RIF Employees	On-going	Yes	-	-	-	(159.0)	(61,736.7)	(9,901.7)	(159.0)	(61,736.7)	(10,824.8)		
17	Admin	Eliminate the Hearing Office & RIF Employees	On-going	Yes	-	-	-	(2.0)	-	(102.8)	(2.0)	-	(119.4)		
Service Reduction Totals							(74.0)	(32,059.3)	(9,881.3)	(284.0)	(61,736.7)	(20,685.5)	(284.0)	(61,736.7)	(23,129.6)

**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

Department of Revenue

Issue Title: Liability Setoff Fund

Issue Priority: 1

Reduction Amounts:

Liability Setoff Fund : \$30,375

Liability Setoff Fund : \$29,370

Total: \$59,745

Issue Description and Statement of Effects

Reduce Software Licenses (\$30,375) - In FY 2009, the Liability Setoff Fund purchased new software. For FY 2010, \$30,375 has been set aside to purchase additional software if necessary. It now appears that this purchase may not be necessary or can be delayed until FY2011. Should this purchase be necessary in FY2011, the Department believes monies within the fund can be reallocated to purchase the software.

Professional & Outside Services - Other Miscellaneous (\$29,370) - The Department believe that these "administrative overhead" type expenses can be reduced in FY2010 and future years with minimal impact to the fund's administration.

**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

Department of Revenue

Issue Title: Unclaimed Property Fund (UCP)

Issue Priority: N/A

Reduction Amounts:

Unclaimed Property Fund: \$11,587,235

Total: \$11,587,235

Issue Description and Statement of Effects

The Department of Revenue does not believe that UCP revenues should be considered part of any budget reduction. These are revenues generated and are not from an appropriated fund.

Furthermore, although vetoed, SB 1025 would have directed that the first \$10.5 million goes to the Housing Trust Fund, the next \$24.5 million to the Department of Revenue Administrative Fund and all remaining Unclaimed Property Revenues go to the State General Fund. Should the provisions of SB 1025 be enacted, since all remaining monies in the UCP Fund would transfer to the General Fund, it would seem that this reduction would be redundant.

If the provisions of SB 1025 are not enacted and current statutory distributions remain in effect, then the Housing Trust Fund and the Racing Fund will need to address this reduction as they are currently the primary recipients of Unclaimed Property revenues

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Excess Health Insurance Allocation

Issue Priority: Service Reduction #1

Reduction Amount: \$2,651,800 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

Issue description and Statement of Effects

In FY2009, the Department's staff was reduced by 301 positions after health insurance costs had already been expended (swept). In FY2010, with 301 less employees, the health insurance costs have been significantly reduced leaving the Department with \$2.6 million in excess health insurance funding.

Unless the Department is provided funding for additional staff, this can be a permanent budget reduction.

Functions Eliminated:

N/A

Effects of Eliminated Functions:

N/A

Functions Reduced:

Reducing the Department's budget by these funds will not impact current service levels.

Effects of Reduced Functions:

N/A

Alternative Funding:

N/A

Location:

N/A

Legal Citations:

N/A

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Accrued Vacancy Savings

Issue Priority: Service Reduction #2

Reduction Amount: \$880,900 One-time

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

Issue description and Statement of Effects

The accrued vacancy savings is primarily the result of two factors. In FY2010, the Department was provided \$3 million funding to hire temporary collectors. While every effort was made to hire the collectors as quickly as possible, the amount of time it took the Department to advertise, interview and hire resulted in accrued vacancy savings dollars.

In addition, because the budget reductions of FY2009 had to be implemented in the last 4 months of the fiscal year, the Department was forced to cut deeper than it otherwise would have on an annualized basis. Beginning in FY2010 the Department began re-hiring revenue generating and other essential positions such as information technology. This hiring process has resulted in further accrued vacancy savings

Functions Eliminated:

N/A

Effects of Eliminated Functions:

N/A

Functions Reduced:

N/A

Effects of Reduced Functions:

N/A

Alternative Funding:

N/A

Location:

N/A

Legal Citations:

N/A

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Hiring Freeze

Issue Priority: Service Reduction #3

Reduction Amount: \$2,285,100 One-time

Fund: DOR Administrative Fund

Revenue Impact: \$1,567,800

Issue description and Statement of Effects

In mid-September the Department instituted a hiring freeze for all Divisions except information technology. While the Department's role is largely a revenue generating one, the degree of budget uncertainty drove concern that the lay-offs experienced in FY2009 would be repeated in FY2010.

Functions Eliminated:

N/A

Effects of Eliminated Functions:

N/A

Functions Reduced:

The Department is foregoing the hiring of revenue generating positions among others.

Effects of Reduced Functions:

Approximately half of the funds generated from the hiring freeze would have been expended on revenue generating positions. If the Department filled the positions by January 1, 2010, the revenue generated in the first year is estimated to be over \$1.5 million. In FY2011, the estimated revenue generated from these positions would have been over \$3.1 million.

Note: The standard revenue generating calculation used by the Department has been reduced by 35% to account for the impacts of the current economy.

Alternative Funding:

None.

Location:

N/A

Legal Citations:

N/A

10/19/2009

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Microfilm Delay

Issue Priority: Service Reduction #4

Reduction Amount: \$540,000 One-time

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

Issue description and Statement of Effects

Functions Reduced:

The Department receives and processes over 1.3 million individual and corporate income tax paper documents each fiscal year. For easier retrieval and storage of these documents, the Department has had a practice of microfilming these paper documents. The Department will be delaying the process of microfilming the individual and corporate income tax documents from calendar years 2008, 2009, and 2010.

Effects of Reduced Functions:

The most frequent users of the microfilmed documents are the Taxpayer Information and Assistance Section, the Collections Division, the Office of Economic Research and Analysis and the Audit Division. As a result of the delay, it will take users longer to receive a copy of the document that is needed to complete their work because the only remaining method to retrieve a document will be to request a paper copy of the return from the Records Management Section who will then need to locate the document in the warehouse facility and make a copy for the requestor. Typically, this takes a day or two.

There will be a delay in the completion of work by members of the above listed teams. Examples include: a Collections Division employee who will have to wait to resolve a taxpayer issue until the employee receives a copy of the document needed to resolve the issue; and an auditor who will wait for copies of returns that were filed by the taxpayers in order to begin and complete the audit.

Delays in resolving issues and audits will then result in the delaying of funds being recognized in the general fund.

Alternative Funding:

N/A

Location:

Records Management Section, Process Administration Division
Warehouse Facility, 1700 W. Filmore Phoenix, AZ.

Legal Citations:

N/A

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Reassign Collectors and Auditors to Processing

Issue Priority: Service Reduction #5

Reduction Amounts: \$534,600 One-time

Fund: DOR Administrative Fund

Revenue Impact: \$8,916,200

Issue description and Statement of Effects

Functions Reduced:

The busiest six months for the Department are January through June of each year. During that six month period of FY2009, the Department received and processed over 3.8 million tax documents and over 2.2 million tax payments. That is approximately 72% of the returns and 56% of the payments for an entire fiscal year. However, due to the volume of documents and payments that arrive at the Department during the first 6 months of each year, the Process Administration has consistently used outside temporary help to process the returns and payments, which ensures timely deposits of revenue to the general fund and also timely issuance of refunds to individual income taxpayers.

For the months of January through June 2010, the Department will not have sufficient funding to hire outside temporary help. As a result, a total of 121 Department collectors and auditors will be assigned to the Processing Division to assist with the processing of the millions of returns and payments that are received.

Effects of Reduced Functions:

During the time in which the collectors and auditors are assigned to the Processing Division, they will not be generating revenue as they would from their usual collection and auditing jobs which will result in a loss of revenue in FY2010.

Alternative Funding:

N/A

Location:

Process Administration Division, 1600 W. Monroe, Phoenix, AZ.

Legal Citations:

N/A

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Furlough all Divisions but Processing for 14 days

Issue Priority: Service Reduction #6

Reduction Amount: \$1,757,000 One-time

Fund: DOR Administrative Fund

Revenue Impact: \$3,682,300

Issue description and Statement of Effects

As a one-time option to meet the FY2010 reductions, the Department proposes mandating that all employees but those essential for tax season processing be furloughed for 14 days between January and June 2010.

Functions Eliminated:

N/A

Effects of Eliminated Functions:

N/A

Functions Reduced:

All agency operations except tax season processing will be reduced.

Effects of Reduced Functions:

- Decrease in collection efforts.
- Decrease in audits conducted.
- General fund revenue loss of over \$3.6 million.
- Increase in call wait times.
- Increase in cashier window wait times.
- Increase wait times for all requests made of the Department during the tax season.

Alternative Funding:

None.

Location:

All Department sites.

Legal Citations:

N/A

STATE OF ARIZONA
FY2010 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Layoff Temporary Collectors

Issue Priority: Service Reduction #7

Reduction Amount: \$1,231,900 One-time

Fund: DOR Administrative Fund

Revenue Impact: \$17,893,000

FTE Impact: (74.0)

Issue Description and Statement of Effects

In FY2009, the Collections Division staff was reduced by over 43%, or 94 collectors. The reduction was subsequently partially restored through the appropriation of \$3 million to hire temporary collectors for just FY2010. Since the funding was made available on July 1st, the Department has hired and trained 74 temporary collectors.

The funding was provided with the expectation that the additional collectors would generate approximately \$45 million in general fund revenues. Through September the Department has expended approximately \$400,000 of the \$3 million appropriation, resulting in over \$4 million in revenue. While revenues are running behind forecast, the collectors are still providing a significantly positive return on investment.

Functions Eliminated:

N/A

Effects of Eliminated Functions:

N/A

Functions Reduced:

The proposed reduction would lay off the 72 temporary collections staff on January 1, 2010. The Department still has 116 remaining permanent staff in the Collections Division. The collections inventory, however, has grown 26.6% since July 2008 to \$467 million and 297,000 cases and remaining permanent staff will not be adequate to address the inventory volume.

Effects of Reduced Functions:

After adjusting revenue generating estimates downward by 35%, the Department still anticipates a loss of revenue to the general fund of \$17.9 million.

Alternative Funding:

None

Location:

The temporary collectors are part of the Collections Division in the Phoenix facility.

Legal Citations:

N/A

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Close East Valley Office

Issue Priority: Service Reduction #8

FY2011 Appropriation Amount: \$232,000
FY2012 Reduction Amount: \$492,600 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

Issue description and Statement of Effects

Functions Eliminated:

The proposed service reduction would eliminate the Department's East Valley Office and offer the current staff of 38 the option to transfer to the Phoenix office. Those employees choosing to move to Phoenix would continue in their current position and those choosing not to transfer would be replaced by a new hire reporting to the Phoenix location.

The East Valley office is one of two satellite offices operated by the Department of Revenue. The Department has had a presence in the East Valley since 1989. The office, which offers cashiering services and business license issuance from the License and Registration Unit, handled 7,691 counter transactions, processed 47,000 documents and generated \$104,312,319 dollars in FY2009. In addition, both the Audit and Collections divisions have a presence in the office to assist in servicing the over 114,000 square miles, 560 zip codes and 15 counties in the State of Arizona. The Audit Division generated \$10,778,582 dollars in FY2009. The Collections Division generated \$19,395,064 dollars in FY2009.

Effects of Eliminated Functions:

The closure of the East Valley office would result in a significant service reduction for the taxpayers who utilize the office in the southeast valley. Taxpayers would have to conduct all business with the Department either by mail, online, or at the main office in Phoenix.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

East Valley Office
275 E. Germann Rd.
Building 2, Suite 180
Gilbert, AZ 85297-2917

Legal Citations:

N/A

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Close Tucson Office

Issue Priority: Service Reduction #9

Reduction Amounts: \$390,300 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

Issue Description and Statement of Effects

Functions Eliminated:

The proposed service reduction would eliminate the Department's Tucson office and offer the current staff of 58 the option to transfer to the Phoenix office. Those employees choosing to move to Phoenix would continue in their current position and those choosing not to transfer would be replaced by a new hire reporting to the Phoenix location.

The Tucson office is one of two satellite offices operated by the Department of Revenue. The Department has had a presence in Tucson since the agency was established in 1974. The office, which offers cashiering services and business license issuance from the License and Registration unit, handled 5,124 counter transaction, processed 36,000 documents and generated \$66,239,887 dollars in FY2009. The Taxpayer Information and Assistance Unit provides tax information to individual income and business tax customers, corporate officers, tax practitioners, enrolled agents and other authorized representatives. The unit handled 315,000 phone calls, 30,000 letters and 15,000 emails in FY2009. In addition, both the Audit and Collections Divisions have a presence in the Tucson office to assist in servicing the over 114,000 square miles, 560 zip codes and 15 counties in the State of Arizona. The Audit Division generated \$18,412,880 dollars in FY2009. The Collections Division generated \$52,426,322 dollars in FY2009.

Effects of Eliminated Functions:

The closure of the Tucson office would result in a significant service reduction for the taxpayers in southern Arizona. Taxpayers would have to conduct all business with the Department either by mail, online, or at the main office in Phoenix.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

Tucson Office
400 W. Congress
Tucson, AZ 85701

Legal Citations:

N/A

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Eliminate Property Tax Division and RIF Employees

Issue Priority: Service Reduction #10

Reduction Amount: \$3,063,200 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: 43.0

Issue Description and Statement of Effects

The Property Division is responsible for general oversight of the county assessors in the administration of Arizona's property tax laws and for the valuation of complex, geographically disbursed properties.

In FY2009, the Division lost 10 employees due to a 22% budget reduction. Currently the Division has 35 employees, all of whom would be terminated under the proposed FY2011 reduction. Although the functions provided by the Property Division are extremely important to the State as a whole, those functions have absolutely no impact on whether the Department can perform its core services. As a result, the following functions will be eliminated.

Functions Eliminated:

1. **Centrally valued properties.** The State would no longer value, for property tax purposes, over 800 centrally valued properties such as mines, railroads, electric generation facilities, telecommunications companies, pipelines. The properties have a combined value in excess of \$33 billion and generate a total of approximately \$683 million in property taxes. They are "centrally valued" by the Department because the property is located in multiple counties and it is preferable to have one taxing agency determine the value or they are complex properties that require special valuation expertise.
2. **County data processing.** The State would no longer provide data processing service to six Arizona counties or produce statewide reports based on county data. Current services include producing: 1) annual notices of value for real and personal property; 2) annual tax billing for real and personal property; and 3) levy limit worksheets. The statewide database of tax area codes and taxing jurisdiction boundary changes would

no longer be maintained. State appraisers would no longer provide mass modeling valuation assistance to the counties. The annual calculation of state aid to education would not be calculated for the counties and no report completed for the state board of education. The annual abstract of the assessment role would not be produced.

3. **Sales ratio studies/equalization.** The State would no longer prepare an annual sales ratio study to verify the uniformity of mass market appraisal models of vacant land, residential property and commercial property that each county assessor uses. These studies illustrate whether the counties are equitably and uniformly valuing property both within and between counties, ensuring that taxpayers each pay their fair share of property taxes. The State would no longer act as a repository for all affidavits of property sales statewide. The affidavits are used for sales ratio and equalization analysis. The State would not issue equalization orders and reappraisal orders compelling assessors to adjust values as necessary to ensure uniformity within and between counties.
4. **Training.** The State would no longer provide multi-level appraiser training and certification for all assessor and DOR appraisal personnel and award qualifying continuing education credits. County appraisers are required to obtain such certification in order to perform their duties.
5. **Personal property.** The State would no longer provide support for the valuation and taxation of personal property and manufactured housing. The State would no longer annually update and publish personal property valuation tables and guidelines or manufactured housing valuation tables. The State would not perform periodic audits of personal property reports. The State would no longer prescribe forms for personal property, and advise, train, and assist the county assessors' staff with the valuation of personal property.
6. **Other Services.** The State would no longer provide a wide variety of services that are currently required by statute. For example, the State would no longer:
 - produce, maintain and update property tax manuals and guidelines and forms used by the county assessors' offices and taxpayers;
 - investigate complaints concerning property valuations or perform general oversight to ensure that county assessors are uniformly interpreting and implementing Arizona property tax laws;
 - annually update depreciation and obsolescence schedules for various types of property;
 - annually update income, exemption, and valuation limits for various property tax relief programs;
 - provide technical assistance to county assessors;
 - respond to numerous taxpayer inquiries concerning the property tax system.

Effects of Eliminating Functions:

1. **Centrally valued properties.** Over 800 centrally valued taxpayers would have their property valued by local taxing authorities in the county where their property is located. Taxpayers owning property in multiple counties (some in all fifteen counties) would have their property valued by as many as fifteen different taxing authorities. These complex valuations require appraisers to develop an expertise in the particular industry valued and employ unique valuations formulas, requiring training of appraisers to perform the valuations. Assuming these responsibilities may also require reprogramming of the local data processing systems to accommodate these unique valuations. The local taxing authorities would also be responsible for defending these valuations in litigation and incurring those costs. The impact on education funding through property taxes, including the potential impact on state aid for education, is unknown.
2. **County data processing.** Counties would provide all of their own data processing services and could not request that the State provide that service. Counties would track tax area code and boundary changes for centrally valued property. Counties would not receive technical data processing support, mass appraisal modeling assistance, or general valuation and billing assistance. Counties would calculate state aid to education and report to the state board of education. A statewide abstract of the assessment role would not be available for planning and budgeting purposes, including estimating the impact of proposed legislation.
3. **Sales ratio studies / equalization.** The State would relinquish its role as the oversight authority concerning county valuations for property tax purposes. There would be no statewide analysis of property valuations and no independent agency reviewing valuations and enforcing valuation standards. Counties would prepare their own sales ratio studies to analyze their valuations. Local officials, such as the county recorder, would act as the repository for affidavits of property sales and the affidavits would no longer be maintained in a central location. The State would no longer issue equalization orders or reappraisal orders when counties either undervalue property or overvalue property. Such orders are used to compel county assessors to adjust values to ensure uniformity within and between counties. If adjustments were warranted, but not undertaken, there may be an impact upon the State through additional state aid to education payments. For example, systematic undervaluation of property could require the State to pay more aid to education. The extent of the potential impact is unknown.
4. **Training.** The State would relinquish its authority to train and certify county and State appraisers and provide continuing education credit. County personnel will obtain training and certification, if still required, from another source.
5. **Personal property.** The elimination of business personal property and manufactured housing services would leave county assessors with outdated methods for valuing business personal property and manufactured housing. Property owners would have no assurance of an equitable division of the property tax burden, may be forced to file more appeals, and county personnel would lack training and guidance in personal property and manufactured housing valuations.

6. **Other services.** County assessor offices would no longer be provided with a wide range of services to assist them in uniformly and fairly valuing property for tax purposes and no taxpayer services would be offered. Each individual county will have to produce and maintain property tax forms and calculate obsolescence factors, depreciation tables for various types of property, and income, exemption and valuation limits for the property tax relief programs. There will no longer be uniformity throughout the State relating to these services. Forms may differ from county to county, valuations for similar property may be depreciated differently, etc. This could cause taxpayer confusion and inequities throughout the system between the fifteen counties and result in additional appeals to the State Board of Equalization, the county boards of equalization and the superior court. Taxpayer services would cease. Hundreds of taxpayer phone inquiries that are answered each month would have to be directed elsewhere. Taxpayer complaints concerning local assessing officials would have to be referred to another agency.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

The entire Property Tax Division in the Phoenix location.

Legal Citations:

1. The statutes requiring central valuation are as follows:
 - Mines (A.R.S. § 42-14051; A.R.S. § 42-14054);
 - Producing oil, gas and geothermal resource interests (A.R.S. § 42-14102);
 - Natural gas distribution system, water utility system, sewer system or wastewater treatment facility, electric generation facility, electric transmission or distribution system (A.R.S. § 42-14151);
 - Pipelines (A.R.S. § 42-14201);
 - Airline flight property (A.R.S. § 42-14252);
 - Private railcars (A.R.S. § 42-14305);
 - Railroads (A.R.S. § 42-14351);
 - Telecommunications companies (A.R.S. § 42-14403);
 - Airport fuel delivery company (A.R.S. § 42-14503).
2. Contracted data processing services are required by A.R.S. § 42-13004. The reporting of boundary changes to the department is required by A.R.S. § 42-17257. A.R.S. § 15-972 requires the department to annually report to the state board of education the

amount by school district of additional state aid for education. A.R.S. § 42-13002 requires the department to assist counties to ensure uniform valuation. A.R.S. § 42-15156 requires the department to prepare an annual abstract of all property subject to property taxation.

3. Sales ratio studies and equalization oversight responsibilities are all mandated by the Arizona Constitution and State statute. A.R.S. § 42-13005 requires the department to perform and issue the results of sales-ratio studies. A.R.S. § 11-1135(C) requires the department to maintain a permanent file of all sales affidavits that are received from the county assessors. A.R.S. § 42-13257 requires the department to report to the property tax oversight commission on the accuracy of valuations reported in prior years. A.R.S. § 42-13002 requires the department to exercise general supervision over county assessors.
4. A.R.S. § 42-13006 requires training and certification for county personnel by the State and provides that a person may not perform the duties of an assessor or appraiser of property on behalf of a county unless the person holds an assessor's or appraiser's certificate that is issued or recognized by the department. The department must also provide for examining applicants for appraiser's certificates; conduct or sponsor in-service and pre-entry training programs; and provide for a graduated certification program that encompasses provisional certification, basic certification, intermediate certification and advanced certification.
5. The State is required to prescribe forms, reports and depreciation tables for personal property (A.R.S. § 42-13054; A.R.S. § 42-13353; A.R.S. § 42-15053; A.R.S. § 42-19005); and establish the method of determining the valuation of mobile homes (A.R.S. § 42-19152).
6. The following are additional statutes requiring services the department provides:
 - The department shall prescribe manuals and guidelines (A.R.S. § 42-11054(A));
 - The department shall prescribe forms for the following processes:
 - Exemption procedure, affidavits and forms (A.R.S. § 42-11151);
 - Partially completed or vacant improvements (A.R.S. § 42-12051(E));
 - Review and verification of class three property (A.R.S. § 42-12052(G));
 - Application for classification as historic property (A.R.S. § 42-12102(A));
 - Timeshare use form (A.R.S. § 42-13453(A));
 - Designation of taxpayer agent (A.R.S. § 42-16001(B));
 - Petition for assessor review of improper valuation (A.R.S. § 42-16051(A), (C));
 - Notice of error; response; petition for review (A.R.S. § 42-16252(A), (B));
 - Notice of claim (A.R.S. § 42-16254(A)).
 - The department shall investigate property valuations (A.R.S. § 42-11053);
 - The department shall develop obsolescence factors for shopping centers (A.R.S. § 42-13203);
 - The department shall prescribe guidelines for golf course valuation (A.R.S. § 42-13152);

- The department shall receive reports on property not appraised (A.R.S. § 42-13003), leased agricultural land (A.R.S. § 42-13102), and changes in valuations (A.R.S. § 42-11056)
- The department calculates exemption amounts required by Arizona Constitution Article 9, section 2.3.

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Reduce External Services Division by 62% and RIF Employees

Issue Priority: Service Reduction #11

Reduction Amount: \$1,306,500 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: 15.0

Issue description and Statement of Effects

The External Services Division performs a variety of functions including representing the Department before the Legislature, providing statistical analysis and research, preparing reports, conducting criminal and civil investigations and ensuring in the proper design and printing of tax forms and publications.

In FY2009, the Division lost 10 employees due to a 37% budget reduction. Currently, the Division has 23 general fund positions, of which 15 will be terminated, leaving 8 positions to perform the Division's services. As a result, the following functions will be eliminated or reduced.

Functions Eliminated:

- 1. Office of Economic Research and Analysis (OERA).** This unit is responsible for a wide variety of statutorily-required reports and duties and, equally important, also provides a significant amount of research and statistics to many outside entities such as the Governor's Office, the Legislature, other agencies, local governments and taxpayers.
- 2. Tobacco Enforcement Unit (General Fund employees).** This unit investigates violations of Arizona's tobacco tax laws and conducts inspections of tobacco retailers and distributors to ensure compliance.

Functions Reduced:

- 1. Tax Forms and Publications.** This unit is responsible for the design, printing, software vendor submission, approval and web site applications for all tax forms and publications in the Department.
- 2. Legislative Services.** This unit represents the Department before the legislature and coordinates the analysis, research and testimony of tax legislation. The unit also acts as the liaison between the Department, the Legislature and the Governor's office regarding constituent issues.
- 3. Public Information.** This person is responsible for all Department communication with members of the media and serves as the official spokesperson for the Department

Effects of Eliminated Functions:

- 1. Elimination of OERA.** At least forty reports required by statute would not be prepared, such as the Internal Revenue Code Conformity Report, the Urban Revenue Sharing Distribution Report, the Private School Tuition Organization Report, the Public School Fees and Contribution Report, the Tax Expenditure Report, the Enterprise Zone Report and the preparation of the withholding tax rate tables, to name just a few.

Included in the list of forty reports are a variety of calculations that would no longer be made, such as the pre-approval for the corporate private school tuition organization tax credit, the pre-approval for the water conservation tax credit and the credit certification for the health insurance premium tax credit, among many others. Other statutory responsibilities that wouldn't be performed include providing staff support and research for the Economic Estimates Commission, the Property Tax Oversight Commission and the Debt Oversight Commission.

In addition, many non-statutory functions would no longer be performed such as forecasting general fund revenues, analyzing bills for revenue impacts and policy considerations, evaluating proposed changes to the income tax structure by doing income tax model runs and responding to special requests from the Governor's Office, OSPB and JLBC, among others.

The vast majority of information that is used to provide these services is available only from the Department so, with the elimination of OERA, these services could not be performed by anyone else.

- 2. Elimination of Tobacco Enforcement Unit.** The sale of untaxed cigarettes and other tobacco products would increase as the level of enforcement decreases, which would reduce tobacco tax revenues. Moreover, Arizona is required to perform due diligence regarding the enforcement of the Master Settlement Agreement (the agreement signed in 1998 by the states and the tobacco companies to settle nationwide tobacco

litigation) and not having a fully operational Tobacco Enforcement Unit could put the state's annual settlement payments at risk.

Effects of Reduced Functions:

- 1. Tax Forms and Publications.** With the reduction in staff, tax forms will take longer to design which will cause software vendors who rely on the timely design of the Department's forms for their tax software to be at risk.

Also, the creation and update of publications will be delayed. Taxpayers will not timely receive information on changes in law or procedures, leading to the possible incorrect application of tax laws.

- 2. Legislative Services.** Currently, there are at least 2 employees devoted to legislative services and others that are available to review legislation. With the reduction in staff, only one person will be assigned to this task and only on a part-time basis. As a result, it is likely that many of the technical changes to proposed legislation will not be brought to the attention of the legislature before bills are passed. Bills may become law that have results different from what the legislature intended. Also, the responses and actions taken in constituent issues will be delayed and not be resolved in a timely manner.
- 3. Public Information.** The ability to timely respond to media inquiries ensures that correct information is disseminated to the public. Currently, the public information duties are being performed by an employee on a part-time basis. As a result of the reduction, media responses will be delayed and the quality of those responses may suffer as well.

Alternative Funding:

Elimination of OERA. Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Elimination of Tobacco Enforcement Unit. Increase the appropriation to the Department from the Tobacco Tax and Health Care Fund by \$237,327.00

Location:

Both functions are located within the External Services Division at the Phoenix facility.

Legal Citations:

Elimination of OERA. The following statutes would have to be changed in order to eliminate OERA's statutory requirements:

- A.R.S. § 42-1005.A.5 Internal Revenue Code Conformity Report
- A.R.S. § 43-206.C Urban Revenue Sharing Distribution
- A.R.S. § 41-562 Economic Estimates Commission- personal income /per capita personal income estimates
- A.R.S. § 41-563.A.2, A.R.S. § 41-563.A.3 Economic Estimates Commission-estimate of population, GDP deflator and expenditure limitation for each political subdivision
- A.R.S. § 41-563.C.2, A.R.S. § 41-563.C.3 Economic Estimates Commission-estimate of student population, GDP deflator and expenditure limitation for aggregate school district
- A.R.S. § 35-144.F Economic Estimates Commission-budget stabilization fund transfer
- A.R.S. § 41-562.C Economic Estimates Commission-appropriations limit
- A.R.S. § 41-563.A.5 Economic Estimates Commission-annexation adjustments for expenditure limitations for cities/towns
- A.R.S. § 42-1116.C and A.R.S. § 42-5032.01 Arizona Sports and Tourism Authority transfer from Transaction Privilege Taxes
- A.R.S. § 43-209 Arizona Sports and Tourism Authority transfer from Income taxes
- A.R.S. § 42-5031.01 and A.R.S. § 42-5029.D.4 Native American Tribal College Transfer
- A.R.S. § 42-5030 and A.R.S. § 42-5029.D.4 Convention Center Transfer
- A.R.S. § 49-282.B Water Quality Assurance Fund Transfer
- A.R.S. § 42-5029 Monthly Transaction Privilege Tax close process
- A.R.S. § 43-1089 Private School Tuition Organization reporting
- A.R.S. § 43-1089.01 Public School Fees and Contribution reporting
- A.R.S. § 42-5032.D and A.R.S. § 42-5029.D.4 Phoenix International Raceway Transfers
- A.R.S. § 43-1183 Corporate Private School Tuition Organization reporting
- A.R.S. § 42-5035.B Estimate of State-Shared Transaction Privilege Tax Revenues
- A.R.S. § 42-17003 Property Tax Oversight Commission review of primary levy limits and truth in taxation
- A.R.S. § 42-17003 Property Tax Oversight Commission review of secondary levy limits for fire districts
- A.R.S. § 42-17003 Property Tax Oversight Commission review of truth in taxation for school districts and Community Colleges
- A.R.S. § 41-1527.B Enterprise Zone Report
- A.R.S. § 42-5029.D Maintenance of Ad Valorem Figure for County Revenue Sharing
- A.R.S. § 42-1005.A.2 Department of Revenue Annual Report
- A.R.S. § 42-1005.A.4 Tax Expenditure Report
- A.R.S. § 42-1005.A.4 and 43-222 Analysis/reporting of income tax credits for inclusion in Tax Expenditure Report and as an input into the Annual income tax credit review process

- A.R.S. § 42-1005.A.4 Maintenance of individual income tax model used to evaluate the value of exemptions and deductions for inclusion in the Tax Expenditure Report
- A.R.S. § 35-501.C Report on Bonded Indebtedness
- A.R.S. § 43-1183.C Credit Pre-Approval for Corporate Private School Tuition Organization Tax Credit
- A.R.S. § 43-210 Credit Certification Process for Health Insurance Premium Tax Credit
- A.R.S. § 43-1090.01 Credit Pre-Approval for Water Conservation Tax Credit
- A.R.S. § 43-1184 Credit Pre-Approval of Corporate Tuition Tax Credits
- A.R.S. § 43-1184 Maintenance of qualified disabled/displaced student list
- A.R.S. § 43-1163; A.R.S. § 43-1163.01; A.R.S. § 43-1075; A.R.S. § 43-1075.01 Credit Transfer Process for Motion Picture Industry Tax Credit
- Chapter 289, First Regular Session 2005 Monitor Corporate Taxpayers Claiming Enhanced Sales Apportionment Factor
- A.R.S. § 43-1088 Certification of Charities for Working Poor Credit
- A.R.S. § 42-2003I Transaction Privilege Tax confidentiality check
- A.R.S. § 43-401 Preparation/Adoption of Withholding Rate Tables
- A.R.S. § 35-113 Master List Of State Government Programs (Annual Budget Package - Strategic Issues, Strategic Plan, Program Budgeting)
- A.R.S. § 38-618.01 Annual Employee Survey
- A.R.S. § 38-618.01.D Pay for Performance (monthly oversight, quarterly pay reporting, annual formal report)
- A.R.S. § 43-1041G Standard Deduction Indexing
- A.R.S. § 43-1083.01, A.R.S. § 43-1164.01 Credit Pre-Approval for Renewable & High Wage Industries
- A.R.S. § 43-1031 Provide summary tax info on energy efficient residences to Commerce
- A.R.S. § 42-17002. requires the department to provide secretarial and support services to the Property Tax Oversight Commission
- A.R.S. § 35-504.D requires the department to provide secretarial and support services to the Debt Oversight Commission
- A.R.S. § 41-562.B requires that (the Department) shall assist the Economic Estimates Commission

Elimination of Tobacco Enforcement Unit. No statutory changes needed.

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUES DESCRIPTIONS

Department of Revenue

Issue Title: Reduce Tax Policy Division by 69% and RIF Employees

Issue Priority: Service Reduction #12

Reduction Amounts: \$1,612,200 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: 28.0

Issue Description and Statement of Effects

The Tax Policy Division provides legal and interpretative support, case resolution and advocacy for the various divisions within the Department.

In FY 2009, the Division lost four employees as a result of an 11% budget reduction. Currently, the Division has 33 employees, and, due to the proposed FY2010 budget reductions, 28 employees will be terminated leaving 5 employees to perform the services of the division. As a result, the following functions will be eliminated or reduced:

Functions Eliminated:

- 1. Administrative hearings.** Preparing cases for and representing the Department in administrative hearings.
- 2. Tax Guidance.** Guidance to taxpayers and their representatives to assist them in complying with their tax obligations.
- 3. Guidance to other agencies.** Guidance to other agencies having joint administrative responsibilities with the Department, such as the Department of Commerce with tax credits.
- 4. Regulatory compliance.** Compliance with regulatory reporting on rules, substantive policy statements and licensing timeframes.
- 5. Records.** Responding to public records requests and reporting on records to Library & Archives.

6. **Taxpayer information.** Responding to requests for taxpayer information by individuals, businesses, state agencies, local governments and other states' agencies.
7. **Relief for industry misunderstanding.** Determining whether "substantial misunderstanding" of the tax laws has occurred within a group of taxpayers, so that some form of tax relief is warranted.

Functions Reduced:

1. **Audit, Collections and Unclaimed Property support.** Addressing legal issues and tax law interpretations for Collections, Audit and Unclaimed Property to assist them in working their cases.
2. **Legislative services.** Providing analysis of proposed legislation for legal defects and ease of administration.

Effects of Eliminated Functions:

1. **Administrative hearings.** The Department is required to participate in the administrative appeals process, which allows taxpayers to contest audits or refund denials. This function is applicable to cases heard by the Office of Administrative Hearings, primarily sales tax cases. Taxpayers present evidence and arguments in support of their position and Tax Policy staff presents counter arguments. If the taxpayer is not satisfied with the result, the taxpayer may appeal to the Board of Tax Appeals or Tax Court. Only a very small percentage of cases go to these venues. The Department will no longer provide this service, which will require the Attorney General's office to handle and the Board of Tax Appeals or Tax Court to hear several 50-75 more cases each year. None of these agencies or tribunals is currently staffed to handle this volume and, therefore, taxpayers will experience delays.
2. **Tax guidance.** Tax guidance is given to the general public and specific taxpayers to increase voluntary compliance. Administrative rules, tax rulings and procedures are published and available to all taxpayers. Taxpayer specific guidance is given through responses to requests for private taxpayer rulings, taxpayer information rulings, information letters and phone calls. More than 4800 letters and phone calls, most of which are from taxpayers or their representatives, will not be answered. Without these services it is reasonable to assume that taxpayers will resolve questions in their favor which, over time, will result in decreased revenues for the state.
3. **Guidance to other agencies.** Other agencies sometimes have joint administrative responsibilities with the department, such as the Department of Commerce regarding tax credits. Commerce asks many questions regarding the

Department's interpretation of statutes so that Commerce will not approve a credit only to have the Department of Revenue deny it in an audit context. With this service not being provided, there is a greater likelihood that Commerce will approve credits which will be denied in all or part by the Department in an audit setting.

4. **Regulatory Compliance.** The department will no longer report on rules, substantive policy statements and licensing timeframes. This may decrease the transparency of the state's regulatory scheme.
5. **Records.** The department will no longer provide access to public records upon request. Furthermore, record retention policies will not be revised, observed or reported on to the Library and Archives.
6. **Taxpayer information.** Individuals, businesses, state agencies, local governments and other states' revenue departments routinely request taxpayer information from the Department. This information is needed for a variety of reasons (e.g., by individuals to determine if the entity they are doing business with is properly licensed; by governmental bodies seeking to enforce their own tax laws). This service will no longer be available, thus adversely impacting individuals, businesses and other agencies. Additionally, other states may refuse to give Arizona tax information it needs because of the Department's lack of reciprocity.
7. **Relief for industry misunderstanding.** By statute the Department must annually report on its activity in determining whether classes of taxpayers shared a misunderstanding about their tax obligations and whether to grant relief from past tax liabilities. These determinations are time consuming and will no longer be made, thus foreclosing one method of relief for some taxpayers.

Effect of Reduced Functions:

1. **Legal support for other Department divisions.** Currently the majority of the staff in the Tax Policy Division provides support to the Audit Division, the Collections Division and the Taxpayer Services Division by addressing legal issues and law interpretations or curing account problems. Audit Division support work also includes negotiating and preparing closing agreements, assisting in designing desk audit programs and drafting audit letters. With the proposed staff reductions, the time available to perform these services will be cut to no more than one-third of the current level. This will slow resolution of cases and the process of developing audit programs, thus impeding the flow of revenue. Decreasing these services could also result in an increase in incorrect positions being taken by the Department.
2. **Legislative Services.** Currently, 10 Tax Policy employees are available to review proposed legislation but that number will be reduced to two employees. The

thoroughness of reviewing legislation for legal defects and improper language will be severely compromised, which will greatly increase the likelihood of unintended consequences.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

The Tax Policy Division is located in the Phoenix facility.

Legal citations:

The following statutes must be amended or repealed to eliminate the statutory obligations that the department can no longer meet with the staffing and service reductions:

1. Administrative Hearings.

- A.R.S. § 41-1092.02(A) applies the Uniform Administrative Hearing Procedures Act ("Act"), A.R.S. § 41-1092 through A.R.S. § 41-1092.12, to agencies' contested cases and appealable agency actions, but provides some exemptions. A.R.S. § 41-1092.02 (A)(11) exempts the board of tax appeals from the Act and A.R.S. § 41-1092.02 (A)(10) exempts Department's cases involving income tax, withhold tax or estate tax from the Act. The exemption in (A)(10) must be amended to exempt all the Department's cases.
- A.R.S. § 41-1067 applies A.R.S. § 41-1061 through A.R.S. § 41-1067 on adjudicative proceedings to all cases not covered by the Uniform Administrative Hearing Procedures Act. This must be amended to exempt all Department cases, unless the Board of Tax Appeals handles the cases.
- A.R.S. § 42-1251 provides that a person who has been issued a notice of proposed assessment may petition and be granted a hearing if requested. This must be amended so that the Department is not required to provide a hearing and to provide a new mechanism for adjudication of disputes. The Board of Tax Appeals or Tax Court could hear disputed matters.
- A.R.S. § 42-1252 establishes the Board of Tax Appeals and provides that it shall hear and decide appeals from decisions of the Department. This must be amended because there will be no final decisions of the Department.

- A.R.S. § 42-1253 provides for appeal to the Board of Tax Appeals from final decisions of the Department. This must be amended because there will be no final decisions of the Department.
 - A.R.S. § 42-1254(C) provides for appeals to the Tax Court from certain final decisions of the Department. This must be amended because there will be no final decisions of the Department.
- 2. Tax Guidance.** A.R.S. § 42-2101 allows the Department to issue private taxpayer rulings and taxpayer information rulings. This must be amended to eliminate this service.
- 3. Guidance to other agencies.** None
- 4. Regulatory Compliance.** The Department must be exempted from these requirements:
- A.R.S. § 41-1078 requires agencies to report annually on its compliance with licensing timeframes. The Department reports annually on Bingo licenses.
 - A.R.S. § 41-1091 requires agencies to file substantive policy statements with the Secretary of State, to annually publish a directory summarizing the subject matter of all currently applicable rules and substantive policy statements and to certify to the Governor’s Regulatory Council that the agency is in compliance with this section.
 - A.R.S. § 41-1056 requires at least once every five years to review and report to the Governor’s Regulatory Council on all of its rules to determine whether any rule should be amended or repealed. Also, annually each agency must report to the council the agency's progress toward completion of the course of action established in all reports submitted to the council during the previous five years.
- 5. Records.** The Department must be exempted from these requirements:
- A.R.S. § 39-121.01: A public body must promptly respond to public records requests.
 - A.R.S. § 41-1346: Each agency must maintain a system to organize, identify, and destroy public records and provide reports to the State Library and Archives Department.

6. **Taxpayer information.** A.R.S. § 42-2003(A) provides that a taxpayer's confidential information may be disclosed to a designee if the taxpayer authorizes that designee in writing or to town, cities, certain other agencies and states under specified circumstances. An amendment is necessary to make clear that the Department can refuse to provide this information to designees if the designee is not helping the taxpayer with tax compliance and to town, cities, other agencies and states.
7. **Relief for industry misunderstanding.** A.R.S. § 42-2056 provides that the Department may make determinations whether noncompliance with tax obligations resulted from extensive misunderstanding or misapplication of the tax laws and provide tax relief to the affected taxpayers through closing agreements. This must be amended to eliminate this service.
8. **Audit, Collections and Unclaimed Property Support.** None.
9. **Legislative Services.** None.

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: RIF East Valley Office Taxpayer Services Employees

Issue Priority: Service Reduction #13

Reduction Amount: \$98,900 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: (2.0)

Issue description and Statement of Effects

Functions Reduced:

At the Department's East Valley Office, the Taxpayer Services Division performs cashiering services and license and registration services for new and existing businesses. Specific services performed on a monthly basis include:

- Servicing 460 walk-in customers;
- Processing 3600 documents at the counter;
- Receiving \$6.5 million monthly in taxes and fees;
- Answering 730 taxpayer phone calls.

Effects of Reduced Functions:

Not performing these functions in the East Valley Office will drive this traffic to the Phoenix office. (Over time, some of this traffic may use web based services instead of walk in.) This will further deteriorate service levels in the Phoenix office, specifically creating longer waiting times for counter and phone transactions.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

East Valley Office, Taxpayer Services Division, 275 E. Gemann Rd., Suite 180, Gilbert, Arizona

Legal Citations:

N/A

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: RIF Tucson Office Taxpayer Services Employees

Issue Priority: Service Reduction #14

Reduction Amount: \$598,800 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: 12.0

Issue description and Statement of Effects

Functions Reduced:

RIF Tucson Employees:

1. At the Department's Tucson Office location, the License and Registration Unit of the Taxpayer Services Division performs cashiering services and license and registration services for new and existing businesses. Specific services performed on a *monthly* basis include:
 - Servicing 360 walk-in customers;
 - Processing 2900 documents at the counter;
 - Receiving \$4.1 million monthly in taxes and fees;
 - Answering 370 taxpayer phone calls.

2. The Taxpayer Information and Assistance Unit of the Taxpayer Services Division also provides general tax assistance to taxpayers. Specific services performed on a *monthly* basis include:
 - Answering approximately 7500 taxpayer calls;
 - Responding to 500 pieces of taxpayer correspondence.

Effects of Reduced Functions:

1. **License and Registration.** Not performing these functions in the Tucson Office will drive this traffic to the Phoenix office. (Over time, some of this traffic may use web based services instead of walk in.) This will further deteriorate service levels in the Phoenix office, specifically creating longer waiting times for counter and phone transactions.

- 2. Taxpayer Information and Assistance.** Not performing these functions in Tucson will drive this work volume to the Phoenix office, worsening the level of service provided by 25%. This would lead to peak average wait times of 12+ minutes for calls and correspondence responses taking 30-45 days on average.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

- 1. License and Registration,** Tucson Office. Taxpayer Services, 400 W. Congress, Tucson, AZ.
- 2. Taxpayer Information and Assistance,** Tucson Office. Taxpayer Services, 400 W. Congress, Tucson, AZ.

Legal Citations:

N/A

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Reduce Phoenix Taxpayer Services by 19%

Issue Priority: Service Reduction #15

Reduction Amount: \$1,191,300 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: (23.0)

Issue description and Statement of Effects

Functions Reduced:

The Taxpayer Services Division, through its Taxpayer Information and Assistance Units, provides general tax assistance to taxpayers. Specific services performed on a *monthly* basis include:

- Answering approximately 15,000 taxpayer calls;
- Responding to approximately 1,000 taxpayer emails monthly;
- Responding to approximately 200 Penalty Review requests;
- Responding to 1,000 pieces of taxpayer correspondence.

Effects of Reduced Functions:

Eliminating 2/3 of the Taxpayer Information and Assistance Unit will continue worsening the level of service provided by 50%. This would lead to peak average wait times of 20+ minutes for calls and correspondence responses taking an average of 60 days.

Alternative Funding:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

Phoenix Office, Taxpayer Services, 1600 W. Monroe, Phoenix, AZ

Legal Citations:

N/A

STATE OF ARIZONA
FY2011 BUDGET REDUCTIONS–ISSUE DESCRIPTIONS

Department of Revenue

Issue Title: Eliminate Audit Division and RIF Employees

Issue Priority: Service Reduction #16

Reduction Amount: \$9,901,700 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$61,736,700

FTE Impact: 159.0

Issue Description and Statement of Effects

The Audit Division is responsible for the licensing and enforcement of most taxes for the State and conducts both field and office audits on in-state and out-of-state taxpayers.

In FY2009, the Division lost 114 employees due to a 45% budget reduction. Currently, the Division consists of 159 positions, all of which will be terminated under the proposed FY2011 reductions. As a result, the following functions will not be performed.

Functions Eliminated:

There are four major functions that will be affected by the elimination of the Audit Division.

1. Audits will not be conducted.
2. License compliance efforts will cease.
3. Voluntary disclosure efforts will be halted.
4. Large refund reviews will no longer take place.

Effects of Eliminated Functions:

1. **No Audits Conducted.** During the last three fiscal years, the Audit Division averaged 47,000 audits per year which resulted in an average of \$101.7 million collected per year. There will now be no enforcement activity of the three major tax types that comprise most of the general fund revenue (transaction privilege and use tax, individual income tax and corporate income tax).

2. **No License Compliance Efforts.** License compliance ensures that businesses operating in Arizona are licensed for transaction privilege, use and withholding taxes. During the last three fiscal years, the License Compliance Unit licensed an average of 2,375 businesses per year, which resulted in an average of \$51 million collected per year. In FY2011, no new license compliance dollars will be collected.
3. **No Voluntary Disclosure Efforts.** The Voluntary Disclosure Unit is the Department's liaison with the Multi State Tax Commission in handling voluntary disclosures on a national basis. The Unit works with taxpayers who have determined that they have a tax liability with Arizona and facilitates the process to bring them into compliance. This is done for past, present and future obligations. During the last three fiscal years, these efforts resulted in an average of \$42.9 million collected per year. Without this unit, no voluntary disclosure dollars will be collected in FY2011.
4. **No Large Refund Reviews.** To ensure accuracy, auditors regularly review large refund requests before issuing those refunds. Although detailed information for individual or corporate income tax refund denials is not available, during the last three fiscal years an average of 67 sales tax refund requests were denied, saving the State approximately \$39.9 million per year. No such savings will occur in FY2011.

Alternative Funds:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

All four of the functions listed above are located in the Audit Division in the Phoenix facility.

Legal citations:

- **Audits** - ARS 42-1004.A.1 and 2 and 42-1108
- **License Compliance** - ARS 42-1004.A.1 and 2
- **Voluntary Disclosure** - ARS 42-1004.A.1 and 2
- **Large refund Review** - ARS 42-1004.A.1 and 2 and 42-1108

STATE OF ARIZONA
FY 2011 BUDGET REDUCTIONS–ISSUES DESCRIPTIONS

Department of Revenue

Issue Title: Eliminate the Hearing Office and RIF Employees

Issue Priority: Service Reduction #17

Reduction Amount: \$102,800 On-going

Fund: DOR Administrative Fund

Revenue Impact: \$-0-

FTE Impact: 2.0

Issue Description and Statement of Effects

The Hearing Office currently has 2 positions consisting of 2 part-time attorneys and a legal secretary. All of these positions will be terminated. As a result, the following functions will be eliminated:

Functions Eliminated:

Conducting hearings within the Department and issuing decisions on all protested assessments and denials of refund in income, withholding and estate tax cases, will no longer take place.

Effects of Eliminating Functions:

The hearing process allows taxpayers to present evidence and arguments regarding why they do not agree with an assessment or denial of a refund. If the taxpayer is not satisfied with the result, the taxpayer may appeal to the Board of Tax Appeals or Tax Court. Only a very small percentage of cases go to these venues. The Department will no longer provide this service, requiring the Attorney General's Office to handle and the Board of Tax Appeals or Tax Court to hear upwards of one hundred or more cases each year. None of these agencies or tribunals is currently staffed to handle this volume and, therefore, taxpayers will experience delays. In addition, many taxpayers who would not have been required to hire an attorney when appearing before the Hearing Office will be required to hire an attorney in these venues.

Alternative funds:

Because the agency's mission is focused on the administration and enforcement of Arizona's tax laws additional revenues can be generated with adequate resources. Included in the Department's 15% Budget Reduction proposal are revenue generating options that, if funded, would negate the need for the proposed reductions and provide additional revenue to the State, cities and counties.

Location:

The Hearing Office is located in the Administrative Services Division in the Phoenix facility.

Legal citations:

The following statutes must be amended or repealed to eliminate the statutory obligations that the department can no longer meet by eliminating the Hearing Office:

- A.R.S. § 41-1092.02.A. applies the Uniform Administrative Hearing Procedures Act ("Act"), A.R.S. § 41-1092 through A.R.S. § 41-1092.12, to agencies' contested cases and appealable agency actions, but provides some exemptions. A.R.S. § 41-1092.02.A.11 exempts the board of tax appeals from the Act and A.R.S. § 41-1092.02.A.10 exempts Department's cases involving income tax, withhold tax or estate tax from the Act. The exemption in A.10 must be amended to exempt all the Department's cases.
- A.R.S. § 41-1067 applies A.R.S. § 41-1061 through A.R.S. § 41-1067 on adjudicative proceedings to all cases not covered by the Uniform Administrative Hearing Procedures Act. This must be amended to exempt all department cases, unless the Board of Tax Appeals handles the cases.
- A.R.S. § 42-1251 provides that a person who has been issued a notice of proposed assessment may petition and be granted a hearing if requested. This must be amended so that the department is not required to provide a hearing and to provide a new mechanism for adjudication of disputes. The Board of Tax Appeals or Tax Court could hear disputed matters.
- A.R.S. § 42-1252 establishes the Board of Tax Appeals and provides that it shall hear and decide appeals from decisions of the department of revenue. This must be amended because there will be no final decision of the department of revenue.
- A.R.S. § 42-1253 provides for appeal to the Board of Tax Appeals from final decisions of the department. This must be amended because there are no final decisions of the department.
- A.R.S. § 42-1254.C provides from appeals to Tax Court certain final decisions or orders of the department. This must be amended because there are no final decisions issued by the department.