

REVENUE

Budget Summary						FTE Position Summary				
Fund	2006-07	Request		2007-09 Change Over		2006-07	Request		2008-09	
	Adjusted Base	2007-08	2008-09	Base Year Doubled	Amount		%	2007-08	2008-09	Number
GPR	\$83,706,000	\$87,701,800	\$87,701,800	\$7,991,600	4.8%	891.38	895.38	895.38	4.00	0.4%
PR	13,337,600	13,915,000	13,939,300	1,179,100	4.4	95.60	95.60	95.60	0.00	0.0
SEG	<u>68,474,500</u>	<u>68,295,300</u>	<u>68,298,000</u>	<u>-355,700</u>	-0.3	<u>121.80</u>	<u>120.85</u>	<u>120.85</u>	<u>-0.95</u>	-0.8
TOTAL	\$165,518,100	\$169,912,100	\$169,939,100	\$8,815,000	2.7%	1,108.78	1,111.83	1,111.83	3.05	0.3%

Major Request Items

Agencywide

1. STANDARD BUDGET ADJUSTMENTS

Request adjustments to the base budget for: (a) turnover reduction (-\$1,322,000 GPR and -\$124,100 SEG annually); (b) full funding of salaries and fringe benefits (\$5,383,300 GPR, \$521,300 PR, and \$401,900 SEG annually); (c) reclassifications (\$28,200 PR and \$2,900 SEG in 2007-08, and \$32,500 PR and \$5,600 SEG in 2008-09); (d) full funding of lease costs and directed moves (\$2,700 GPR and \$100 PR annually); and (e) minor transfers within the same alpha appropriation.

GPR	\$8,128,000
PR	1,103,500
SEG	<u>564,100</u>
Total	\$9,795,600

Tax Administration

1. INTEGRATED PROPERTY ASSESSMENT SYSTEM AND PROPERTY ASSESSMENT MANUAL FUNDING

Request increased expenditure authority of \$200,000 annually to fund development and implementation of an Integrated Property Assessment System (IPAS) and to provide funding for the property assessment manual, including producing an on-line manual. The increased expenditure authority would be provided in the Wisconsin property assessment manual appropriation, which would be modified to be a continuing appropriation

PR-REV	\$699,000
GPR-Earned -	\$600,000
PR	\$400,000

that would provide funding for information technology systems, as well as the property assessment manual. Additional revenues would also be used to address the deficit in the appropriation. The IPAS system would be an automated property assessment system that would first be used for manufacturing property assessment. Future phases would include attribute data from local assessors, sales analysis, and geographical information system (GIS) capabilities.

Funding would be provided from the following sources: (a) manufacturing late filing penalties would be redirected from GPR-Earned (the general fund) to program revenue (\$300,000 PR-Rev; -\$300,000 GPR-Earned annually); (b) increasing the assessor examination fee \$30, from \$20 to \$50 (\$15,000 PR-Rev annually); (c) requiring that a \$100 fee be paid by each person passing the assessor examination prior to certification (\$14,500 PR-Rev annually); and (d) increasing the assessor recertification fee \$80, from \$20 to \$100 (\$20,000 PR-Rev annually). Total additional annual program revenues would be \$349,500, while annual GPR-Earned would be reduced \$300,000.

2. LIVING WAGE TAX CREDIT

Request statutory provisions that would create a refundable individual income tax credit called the "living wage tax credit" (LWTC). The credit would be available to lower-income families who have income from wages or self-employment and who have at least one dependent. Under the request, the following definitions would apply:

a. A claimant would be an individual who filed a claim under the provisions and was domiciled in the state during the entire calendar year to which the claim relates. If two individuals in a household met the qualifications to be a claimant, they would have to determine between them who the claimant would be. If they were unable to agree, the matter would be referred to the Secretary of DOR for a decision and that decision would be final.

b. "Homestead" would be defined as the term is used for purposes of the current law homestead credit to refer to the dwelling used as a home.

c. "Household" would mean a claimant and an individual related to the claimant as husband or wife residing in the same homestead as the claimant and would include all of the claimant's dependents [as defined by the Internal Revenue Code (IRC)] who had the same principal abode as the claimant for more than six months during the year to which the claim related.

d. "Income" would mean income as defined for purposes of the homestead credit, received by the claimant and by all persons of the household while members of the household, in the year to which the claim relates, minus the net individual income tax (including the minimum tax) imposed for the year to which the claim relates and plus all of the following amounts for the year to which the claim relates: the federal earned income tax credit (EITC); the amount of any refundable state income tax credit; and the refundable portion of the federal child tax credit. [For purposes of the homestead credit, income is broadly defined to reflect

most cash resources available to claimants, and includes all income that is taxable for Wisconsin income tax purposes. It also includes the full amount of income sources that are only partially taxable to Wisconsin, such as social security benefits, unemployment compensation, and capital gains. Finally, certain items that are excluded from taxation are included in the definition of income for purposes of the homestead credit, such as excluded dividends and interest, contributions to individual retirement accounts (IRAs), and child support.]

e. "Poverty line" would mean the federal poverty guidelines for the continental United States. However, "poverty line" would mean 90% of the federal poverty line for taxable years beginning in calendar year 2007, and would mean 95% of the federal poverty line for taxable years beginning in calendar year 2008.

Under the request, a claimant would be able to claim an amount, if positive, calculated by subtracting the sum of the claimant's income and all income from all members of the claimant's household from the poverty line. If the allowable amount of the claim were to exceed the income taxes otherwise due on the claimant's income, the amount of the claim not used as an offset against those taxes would be certified by DOR to the Department of Administration (DOA) for payment to the claimant by check, share draft, or other draft from a new, sum sufficient GPR appropriation to be created for the purpose of paying claims under the provisions related to the requested LWTC.

To be eligible for the LWTC, a claimant would have to be eligible for, and claim, the state EITC in the year to which the claim relates. To be eligible for the EITC, a claimant must have earned income that is below certain thresholds and have at least one dependent. In addition to these requirements, the following limitations would apply with respect to LWTC claims: (a) the credit have to be claimed within four years of the unextended due date of the tax return; (b) a claimant would have to have positive income in the year to which the claim related; (c) the credit would be limited to one claimant per household per year; and (d) a claimant would have to have worked in paid employment for at least 1,750 hours in the taxable year to which the claim relates. In calculating the LWTC, the size of the family unit for purposes of determining the relevant poverty level would be the same as the size of the claimant's household.

DOR would be authorized to require any information it deemed necessary to verify the LWTC. DOR would also be authorized to enforce the LWTC and to take any action, conduct any proceeding, and proceed as it is generally authorized to do with respect to income and franchise taxes. General income and franchise tax provisions relating to assessments, refunds, appeals, collection, interest, and penalties would also apply in the case of the requested credit. The Department of Workforce Development and the Department of Health and Family Services would be required to provide any information in their possession requested by DOR that would enable DOR to administer the requested LWTC.

Under the request, the LWTC would first apply to taxable years beginning on or after January 1, 2007. DOR estimates the cost of the credit at \$13,600,000 GPR in 2007-08, \$19,800,000 GPR in 2008-09, and \$27,300,000 GPR per year in 2009-10 and annually thereafter. [The fiscal effect of this provision is shown under "Shared Revenue and Tax Relief."]

3. INTERNAL REVENUE CODE UPDATE

GPR-REV - \$6,760,000

Request statutory modifications to update references to the federal Internal Revenue Code (IRC) under the state individual income and corporate income and franchise taxes to include changes to the IRC enacted through December 31, 2006, with certain exceptions. Provisions not previously adopted related to amortization and accelerated depreciation and expensing would not be adopted, with the exception of certain provisions related to capital investment expense deductions for persons actively engaged in farming. The Department is also requesting that filing deadlines for extensions for corporate taxfilers be based on federal requirements. Sections of previously enacted federal laws would be excluded to clarify current law provisions related to amortization and accelerated depreciation. These provisions would reduce state income and franchise tax revenues by an estimated \$3,560,000 in 2007-08 and \$3,200,000 in 2008-09.

4. STREAMLINED SALES AND USE TAX AGREEMENT

GPR-REV	\$4,800,000
PR	\$60,000

Request modifications to Wisconsin's sales and use tax laws to conform to the provisions of the Streamlined Sales and Use Tax Agreement (SSUTA), effective January 1, 2008. In addition, request funding of \$20,000 PR in 2007-08 and \$40,000 PR in 2008-09 for associated annual fees.

The SSUTA is a multi-state agreement that is the product of the Streamlined Sales Tax Project, an effort begun by state revenue departments in March, 2000. The Project's goal is to simplify and modernize sales and use tax administration in the hope that out-of-state businesses without a requirement to collect sales tax will, as a result, voluntarily agree to collect the tax. An additional goal of the Project is to persuade Congress to pass legislation permitting states to require additional out-of-state sellers to collect and remit taxes.

Wisconsin was authorized to participate in the development of the SSUTA under 2001 Wisconsin Act 16 (the 2001-03 biennial budget act). The SSUTA was developed by participating states with involvement of various members of the business community. Under the terms of the SSUTA, which was adopted by the participating states in November, 2002, and which has been amended several times since then, the Agreement would become binding when at least 10 states comprising at least 20% of the total population of all states imposing a state sales tax had petitioned for membership and been found to be in compliance with the Agreement's requirements by the Agreement's governing board. The SSUTA became effective on October 1, 2005. At that time, there were 18 member states. Effective January 1, 2007, there will be 21 member states. To date, about 600 sellers have voluntarily registered under the SSUTA to collect and remit sales and use tax in member states.

In order to become a member state and to collect tax from voluntary registrants under the SSUTA, Wisconsin would have to modify certain aspects of its sales and use tax laws, including provisions related to uniformity with other states as well as provisions related to sales tax administration. The SSUTA does not require participating states to have identical tax bases. However, the Agreement does require states to use uniform definitions in establishing their tax bases and also requires uniform treatment of certain items such as sourcing and treatment of

drop-shipments. As a result of such uniformity provisions, under the SSUTA, certain items that are currently taxable would be exempt (for example, fruit drink with 51% to 99% juice, which is currently taxable, would be exempt) and certain sales that are currently exempt would be taxable (for example, ready-to-drink tea, which is currently exempt, would be taxable).

In terms of the administrative requirements under the SSUTA, examples include certain database requirements, monetary compensation to sellers voluntarily registering to collect and remit tax, the use of uniform rounding rules and uniform tax returns, and tax amnesty (under specified conditions) for sellers registering to collect tax under the SSUTA.

The initial applicability date of the request would be January 1, 2008. DOR has estimated that the modifications in product definitions to comply with the SSUTA would result in a reduction in state sales tax revenues of \$1,900,000 in 2007-08 and of \$3,500,000 in 2008-09. However, DOR also estimates that sales tax revenues would increase by \$3,200,000 in 2007-08 and by \$7,000,000 in 2008-09 as a result of voluntary collections, including those volunteering in order to take advantage of the amnesty provisions. The net effect of these provisions, as estimated by the Department, would be an increase in state sales tax revenues of \$1,300,000 in 2006-07 and \$3,500,000 in 2008-09, for a net increase of \$4,800,000 in the 2007-09 biennium.

In addition to the provisions described above, the request would create a sum sufficient PR appropriation, to which DOR would be authorized to allocate a portion of the sales tax revenues received as a result of conforming state tax laws to SSUTA in order to pay dues to participate in the Streamlined Sales Tax Project. The estimated cost would be \$20,000 PR in the first year and \$40,000 PR in the second year.

5. SALES AND USE TAX EXEMPTIONS FOR BIOTECHNOLOGY

GPR-REV - \$4,800,000

Request modifications to the sales and use tax statutes to create five exemptions related to biotechnology. Three of the requested exemptions would apply directly to biotechnology businesses, while the other two would apply with respect to businesses raising laboratory animals that are sold to biotechnology businesses. Currently, there are no sales and use tax exemptions specific to biotechnology.

Description of Request

Under the request, "biotechnologies" would be defined (for purposes of the sales and use tax statutes) to include recombinant deoxyribonucleic acid (DNA) techniques, biochemistry, molecular and cellular biology, genetics, genetic engineering, biological cell fusion, and other bioprocesses. "Biotechnology business" would be defined as a business primarily engaged in the application of biotechnologies that use a living organism, or parts of an organism, for one of the following purposes: (a) to produce or modify products to improve plants or animals; (b) to develop microorganisms for specific uses; (c) to identify targets for small molecule pharmaceutical development; or (d) to transform biological systems into useful processes or products. To qualify as a biotechnology business, a business would also have to be certified by the DOR in a manner prescribed by the Department.

The following definitions would also apply with respect to the requested sales and use tax exemptions:

- a. "Animals" would include bacteria, viruses, and other microorganisms;
- b. "Manufacturing" would have the same meaning as under the current sales and use tax exemptions related to manufacturing, for which "manufacturing" is defined as the production by machinery of a new article with a different form, use, and name from existing materials by a process popularly regarded as manufacturing. Manufacturing includes, but is not limited to, the following: (i) crushing, washing, grading, and blending sand, rock, gravel, and other minerals; and (ii) ore dressing, including the mechanical preparation [by crushing and other processes] and the concentration [by flotation and other processes] of ore, and beneficiation, including but not limited to the preparation of ore for smelting; and
- c. "Qualified research" would mean qualified research as defined under section 41(d)(1) of the Internal Revenue Code (IRC), which pertains to the federal credit for increasing research activities. Under the IRC definition, qualified research includes research: (i) with respect to which expenditures may be treated as research and experimental expenditures for purposes of federal itemized deductions for individuals and corporations; (ii) which is undertaken for the purpose of discovering information that is technological in nature and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer; and (iii) for which substantially all of the associated activities constitute elements of a process of experimentation for the purpose of a new or improved function, performance, reliability, or quality. Under the request, research conducted by a public or private institution of higher education or by a governmental unit would also be "qualified research" if the research was intended to be useful in developing a new or improved product or service, was undertaken for the purpose of discovering information that is technological in nature, and satisfied condition "iii," above (that is, conditions specific to business entities that would otherwise apply would not apply in the case of a public or private institution or a governmental unit).

Based on the reference to the IRC, research related to style, taste, cosmetic, or seasonal design factors could not be considered qualified research. The IRC reference would further exclude research after commercial production has begun and research involving adaptation of existing business components, duplication of existing business components, certain surveys, certain computer software, foreign research, and research funded by another source.

Under the request, the gross receipts from the sale of and the storage, use, or other consumption of the following would be exempted from the sales and use tax:

- a. Machines and specific processing equipment, including accessories, attachments, and parts for the machines or equipment, that are used exclusively and directly in raising animals that are sold primarily to a biotechnology business, a public or private institution of higher education, or a governmental unit for exclusive and direct use by any such entity in qualified research or manufacturing;

b. The following tangible personal property used exclusively and directly in raising animals that are sold primarily to a biotechnology business, a public or private institution of higher education, or a governmental unit for exclusive and direct use by any such entity in qualified research or manufacturing: (i) certain tangible personal property the sales of which are currently exempt when used in the business of farming [including seeds for planting; plants; feed; fertilizer; soil conditioners; animal bedding; sprays, pesticides, and fungicides; breeding and other livestock; poultry; farm work stock, baling twine and baling wire; containers for fruits vegetables, grain, hay silage, and animal wastes; plastic bags, plastic sleeves, and plastic sheeting used to store or cover hay or silage]; (ii) medicines; (iii) semen for artificial insemination; (iv) fuel; and (v) electricity;

c. Machines and specific processing equipment, including accessories, attachments, and parts for the machines or equipment, that are sold to a biotechnology business and used exclusively and directly in qualified research in biotechnology;

d. Tangible personal property that is sold to a biotechnology business, if the property is consumed or destroyed or loses its identity while being used exclusively and directly in qualified research in biotechnology; and

e. Animals that are sold to a biotechnology business and used exclusively and directly in qualified research in biotechnology.

A person claiming an exemption under "a" or "b" above would be required to obtain written documentation from the person's customers related to each customer's use of animals, including the percentage of animals sold to the customer that are used exclusively and directly in qualified research.

DOR would be required to publish on the Department's Internet site a list of all biotechnology businesses certified by the Department.

These provisions would take effect on the first day of the second month beginning after publication of the budget bill.

Fiscal Effect

The Department estimates that the annualized fiscal effect of the requested tax exemptions would be a reduction in state sales tax revenues ranging from \$1,050,000 to \$4,200,000, with a midpoint of approximately \$2,600,000. Using the midpoint estimate and assuming an effective date of September 1, 2007, the request would reduce state tax revenues by \$2,200,000 in 2007-08 and \$2,600,000 in 2008-09.

6. SALES AND USE TAX EXEMPTION FOR PAYMENTS FOR PREFERENTIAL SEATING AT CERTAIN SPORTING EVENTS

GPR-REV - \$590,000

Request a sales and use tax exemption for payments made to institutions of higher education for the right to purchase season tickets to athletic events. Current law imposes the

sales tax on the sale of admissions to amusement, athletic, entertainment, or recreational events or places (except county fairs) and the furnishing, for dues, fees, or other considerations, the privilege of access to clubs or the privilege of having access to or the use of amusement, entertainment, athletic, or recreational devices or facilities [Wisconsin statutes, s. 77.54(2)(a)2]. Based on these provisions, university athletic departments must collect sales tax on sales of admission tickets to university sporting events. For certain types of events, including men's football, basketball, hockey, and women's basketball, the University of Wisconsin-Madison athletic department also requires individuals desiring seating in preferred areas of the facility to make a "minimum donation" in the form of an annual payment to the athletic department's official fundraising organization. The amount of the required donation is dependent on the location of the seat for which a ticket is sold, and a person may not have access to a preferred area of the facility without making that donation. Based on current law, such donations required to obtain seating in preferred areas at university sporting events are considered to be fees or other considerations for the privilege of having access to athletic facilities and are, therefore, subject to the sales tax.

Under the request, a sales and use tax exemption would be created for the gross receipts from the sale of, and the storage, use, or other consumption of, the right to purchase, from an institution of higher education, season admission to athletic events sponsored by the institution that take place at a facility that is owned or leased by the institution. An "institute of higher education" would be defined to mean an institution within the University of Wisconsin System or a private educational institution located in this state that awards a bachelor's or higher degree or provides a program that is acceptable toward such a degree. The exemption would take effect on the first day of the second month beginning after publication of the budget bill. Based on estimates prepared by DOR, and assuming an effective date of September 1, 2007, the request would reduce sales and use tax receipts by \$260,000 in 2007-08 and \$330,000 in 2008-09.

Lottery Administration

1. LOTTERY SALES PROJECTIONS

Projected lottery sales provide the basis for estimating the lottery property tax credit in the next biennium. In addition, the projected sales directly affect appropriations for retailer compensation and lottery vendor fees. The Department's request projects steady sales for 2006-07, 2007-08 and 2008-09 at \$486.7 million annually. The following table shows these projections, as well as 2005-06 actual lottery sales. The projected sales are predicated on the basis of sales models utilized by DOR to estimate both on-line and instant ticket games. (In October, 2006, for the purposes of certifying the amount available for the 2006(07) lottery property tax credit, the Department of Administration and the Joint Committee on Finance subsequently modified the DOR 2006-07 lottery sales estimate from \$486.7 million to \$489.7 million.)

**DOR Lottery Sales Projections
(\$ in Millions)**

<u>Game Type</u>	<u>Actual 2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>Percent Change from 2006-07</u>	<u>2008-09</u>	<u>Percent Change from 2007-08</u>
Scratch	\$280.3	\$274.8	\$274.8	0.0%	\$274.8	0.0%
Pull-tab	5.3	5.3	5.3	0.0	5.3	0.0
On-line	<u>223.3</u>	<u>206.6</u>	<u>206.6</u>	0.0	<u>206.6</u>	0.0
Total	\$508.9	\$486.7	\$486.7	0.0%	\$486.7	0.0%

**2. SUM SUFFICIENT APPROPRIATION REESTIMATES FOR
RETAILER COMPENSATION AND VENDOR FEES**

SEG	- \$813,800
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Request -\$406,900 annually to reestimate lottery sum sufficient appropriations for retailer compensation and vendor fees, as follows:

Retailer Compensation. Request reductions of \$297,800 annually to adjust base level funding for retailer compensation, including payments to retailers under the retailer performance program, to reflect projected lottery sales in the 2007-09 biennium.

Basic retailer compensation rates under current law are 5.5% for online ticket sales and 6.25% for instant ticket sales. In addition, the retailer performance program provides an amount of up to 1% of for-profit sales as incentive payments to retailers (estimated at \$4.8 million annually in 2007-08 and 2008-09, under the request). Base level funding of \$34,588,200, established under 2005 Wisconsin Act 25, was based on estimated lottery sales of \$490.4 million in 2006-07. The Department's lottery sales projections of \$486.7 million annually in 2007-08 and 2008-09 result in the requested decreases to retailer compensation funding.

Vendor Fees. Request reductions of \$109,100 annually in 2007-08 and 2008-09 to adjust funding for vendor fees to reflect projected lottery sales in the 2007-09 biennium. Base level funding for vendor fees is \$12,471,000.

Vendor fees are paid under a major procurement contract for the provision of data processing services relating to both on-line and instant lottery games. The fees are calculated on the basis of a percentage of total ticket sales and some minor fixed costs. Under the request, vendor fees would total 2.54% of lottery ticket sales in both 2007-08 and 2008-09.

10% Budget Reduction Plan

	<u>Amount of Reduction</u>	
	<u>2007-08</u>	<u>2008-09</u>
General Purpose Revenue (GPR)		
<p>1. Program Reductions. Delete: (a) \$36,300 and 1.0 position annually by incorporating different registration activities (Sales, Withholding, Sales Internet Process [SIP], and Electronic Funds Transfer [EFT]) into a single process; (b) \$20,000 annually by discontinuing mailing of farmland tax credit refund flyers; (c) \$34,300 annually by discontinuing mailing of paper sales tax forms; (d) \$47,500 and 1.0 position annually by eliminating a financial specialist position in the Processing Bureau; (e) \$128,900 and 1.0 position annually by eliminating an administrative manager position; (f) \$27,400 and 0.50 position annually by eliminating an office management specialist position; and (g) \$61,500 and 1.0 position annually by consolidating facilities manager functions with the enterprise services administrator and business services functions. In addition, provide \$45,000 and 1.0 project resolution officer position annually to reduce Division of State and Local Finance attorney caseload.</p>	\$310,900	\$310,900
<p>2. Administrative Reductions. Delete \$113,100 and 1.0 position annually by consolidating the Fond du Lac and Milwaukee property assessment supervisor positions in the Division of State and Local Finance (SLF).</p>	\$113,100	\$113,100
<p>3. Automation Efficiencies. Delete: (a) \$170,200 and 4.0 positions in 2007-08 and \$357,600 and 8.65 positions in 2008-09 by reorganizing records management and office services in the Division of Income, Sales, and Excise Tax (ISE) as a result of Integrated Tax System (ITS) efficiencies; (b) \$17,300 and 1.0 position in 2008-09 by requiring employers to remit wage certification payments electronically; (c) \$36,300 and 1.0 position annually by eliminating a clerical position in the Resolution Unit; (d) \$35,800 in 2007-08 and \$71,600 and 1.0 position in 2008-09 by discontinuing the Nixdorf key to disk data capture system by September 2007; (e) \$50,300 annually by automating estimated tax vouchers through the Department's Internet web site and discontinuing printing and mailing of estimated tax vouchers; and (f) \$48,800 and 1.0 position annually by eliminating a position in mail review and data</p>	\$341,400	\$581,900

capture due to ITS efficiencies.

4. **Revenue Generation.** Provide additional GPR-Earned revenue of \$2,750,000 annually by assessing a filing fee for paper sales and use tax returns. The entire amount of additional revenue would be transferred to the general fund as GPR-Earned. DOR is trying to encourage electronic filing.

Amount of Reduction
2007-08 2008-09

Total GPR

\$765,400 \$1,005,900

Program Revenue (PR)

1. **Program Reductions.** Delete: (a) \$33,000 annually by discontinuing mailing paper sales tax forms; and (b) \$39,300 annually in cigarette tax stamps expenditure authority.

\$72,300 \$72,300

2. **Revenue Generation.** Provide \$12.4 million in 2007-08 and \$11.8 million in 2008-09 in GPR-Revenue by increasing the real estate transfer fee by 50 cents (from \$3.00 per \$1,000 of value to \$3.50 per \$1,000 of value) to generate funding for implementation of the Integrated Property Assessment System (IPAS). The Department estimates that total statewide real estate transfer fee collections would increase by \$16,657,900 annually, which would be allocated as follows: (a) \$3,331,600 annually to county governments; (b) \$900,000 PR in 2007-08 and \$1,500,000 PR in 2008-09 and 8.0 positions annually for implementation of IPAS; and (c) \$12,426,300 in 2007-08 and \$11,826,300 in 2008-09 to the general fund. The requested expenditure authority of \$900,000 in 2007-08 and \$1,500,000 in 2008-09 would be provided for IPAS as follows: (a) \$315,700 in 2007-08 and \$545,000 in 2008-09 and 8.0 positions annually for project staffing; and (b) \$584,300 in 2007-08 and \$955,000 in 2008-09 for IPAS implementation. In summary, this item would generate additional general fund revenue of \$12.4 million in 2007-08 and \$11.8 million in 2008-09, and would increase PR expenditure authority by \$900,000 in 2007-08 and \$1,500,000 in 2008-09.

-\$900,000 -\$1,500,000

In addition, provide additional general fund revenue of \$6,746,500 annually by establishing a pilot program to convert collection activities from collection agencies to

-\$601,100 -\$601,100

Amount of Reduction
2007-08 2008-09

in-house operations as follows: (a) reassign 3.0 existing revenue agent positions from working as collection agency liaisons to direct collection activities for accounts normally assigned to collection agencies (\$3,600,000 annually in additional revenue); (b) provide \$490,000 PR and 7.0 PR revenue agent positions annually to work on accounts prior to referral to collection agencies (\$8,400,000 annually in additional revenues); (c) estimate reduced revenues of \$5,253,500 annually to reflect revenue lost by not sending referrals to collection agencies; and (d) provide \$111,100 PR annually for additional postage for monthly ITS statements to reflect increased collection activity. The source of PR funding for the new positions and postage would be the additional collections. In summary, this item would generate additional general fund revenue of \$6,746,500 annually and would increase annual PR expenditure authority by \$601,100.

Total PR

- \$1,501,000 - \$2,101,000

Segregated Revenue (SEG)

1. **Program Reductions.** Delete \$27,400 and 0.50 position annually by eliminating an Office Management Specialist position.

\$27,400 \$27,400

2. **Automation Efficiencies.** Delete \$2,300 annually by automating estimated tax vouchers through the Department's Internet website and discontinuing printing and mailing estimated tax vouchers.

\$2,300 \$2,300

3. **Revenue Generation.** Provide additional lottery revenues of \$15,000,000 in 2007-08 and \$29,300,000 in 2008-09 by changing lottery instant ticket inventory management methods and increasing the product information budget. The lottery instant ticket inventory management process would be changed by shifting responsibility from retailers and the current telemarketing or terminal ordering system to the Division of Lottery by means of a push distribution system. The conversion would: (a) delete \$106,200 and 2.25 positions in 2007-08, and \$212,000 and 4.5 positions in 2008-09; (b) provide \$350,000 in 2007-08; and (c) generate \$14,300,000 in lottery revenues in 2008-09.

-\$3,143,800 -\$2,688,000

The Lottery's product information budget would be increased by \$2,900,000 annually and would generate an estimated additional \$15,000,000 in annual lottery revenues.

In summary, this item would generate additional lottery revenues of \$15,000,000 in 2007-08 and \$29,300,000 in 2008-09, and would increase lottery expenditures by \$3,143,800 in 2007-08 and \$2,688,000 in 2008-09.

Total SEG

	<u>Amount of Reduction</u>	
	<u>2007-08</u>	<u>2008-09</u>
	_____	_____
	- \$3,114,100	- \$2,658,300