

2017 HOUSE APPROPRIATIONS

HB 1006

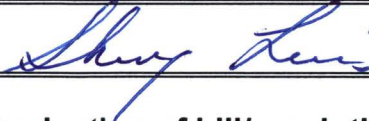
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1006
1/9/2017
Recording Job# 26676

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Attachment A

Chairman Boehning: Opened the hearing on HB1006 and HB 1066.

Ryan Rauschenberger, Commissioner, Office of State Tax Commissioner: See attachment A.

Representative Kempenich: Do you share with the local political subdivisions?

Ryan Rauschenberger: We have to record city sales tax by city and that gets remitted back to the local political subdivisions based on the city amount. A lot of these have a local contingent to it.

Representative Kempenich: Do you take a little of each one as far as funding sources or does that rotate through part of the general fund?

Ryan Rauschenberger: We are a general funded agency. We don't gain from any of the fees that are assessed for collecting certain local taxes. There's a fee with certain local taxes, local option tax for example, there's a flat fee; but that goes to the general fund. We have to, by law, collect local option tax every half; it's a statutory requirement. When you look at our budget, we don't have any kind of revenue or fee collection; we just have an appropriation from the general fund. Any fee collections just net out to the general fund.

Representative Vigesaa: There are two categories that are a decrease; one is the sales and use tax cash bonds and then the airline tax. Could you explain why they would be a decrease?

Ryan Rauschenberger: We assess the state airline tax with state board of equalization every year. That is based on the number of seats filled on flights. We had the same question

and the answer we received was that overall some of the seats were down; we're comparing 2010.

Myles Vosberg, Director of Tax Administration, Office of State Tax Commissioner: In the case of the sales cash bonds; everything is on a cash basis. The cash bond line item is when we require a bond of a sales tax permit holder; when they register to get their permit to assure payment. We've refunded more bonds than we took in. After several years, if a retailer has a good filing history, we return the bond to them.

Ryan Rauschenberger continued with his testimony.

Representative Delmore: Is that what you were considering in the salaries and wages? Are those unfilled positions or other cuts you've made in salary?

Ryan Rauschenberger: These ten positions are the result of unfilled positions that we've kept unfilled for the allotment and also the 90%.

Chairman Boehning: In 1995 you had a 156 FTE's and now you're functioning with 126. Is that mostly due to automation? How's your office handling it?

Ryan Rauschenberger: Back in 2005 a lot of the growth we're dealing with has been due to GenTax; which is a product that was funded. Our tax types were siloed in a number of mainframe areas and this was one consolidated tax program that has since then allowed us to give taxpayers a better ability to file their taxes into our system electronically. Sales tax web filing can now be done online directly into our system.

Ryan Rauschenberger continued with his testimony.

Representative Kempenich: It looks like you did quite a bit with your temporaries. Was that during tax time? How did you handle that?

Ryan Rauschenberger: During the filing season, we have some temps that stay on throughout the year in the agency. Most of our temporary salaries help out with the individual income tax filing season. Still we'll have as many as 30 or 40 temporary employees that handle that.

Representative Kempenich: Input type work?

Ryan Rauschenberger: We have about 85% electronic filing; but people send in checks and vouchers. It's scanning returns. Because of electronic filing that is another reduced number.

Representative Kempenich: You have a health increase of about \$380,000.00. Is that just the increase or does it include the fringe benefit package?

Glenda Anderson, Chief Fiscal Officer, Office of State Tax Commissioner: The amount that's in the green sheet for \$380,646.00 is just for the health package; from OMB'S compensation package. That was just the health insurance portion.

Representative Kempenich: Is that the total or just the increase to the health insurance costs?

Glenda Anderson: I'm assuming it's just the increase.

Chairman Boehning: Does that include temporary employees into that line item as well?

Glenda Anderson: The health insurance for temporaries is not part of that; that is just for the permanent employees.

Chairman Boehning: Is there a line item for the temporary employees?

Glenda Anderson: It's my understanding there is no separate line for the temporary health insurance.

Sheila Sandness, Office of Management and Budget: The \$380,646.00 was the adjustment just for the health insurance increase. The rest of the compensation package was the 1% the second year of the biennium; which is \$93,503.00. Their total compensation package is \$474,149.00.

Representative Brabandt: Do you have in your office anyone who is in human resources?

Ryan Rauschenberger: We do have one officer who works on human resources.

Representative Brabandt: Just one?

Ryan Rauschenberger: Yes.

Ryan Rauschenberger continued with his testimony.

Representative Kempenich: The upgrade is still in that contract?

Ryan Rauschenberger: In our budget, onsite support and maintenance; we do get continued service packs. It keeps it up to date and makes sure it's functioning well.

Ryan Rauschenberger continued with his testimony.

Representative Delmore: Those are positions you have done without in preparation for the cuts you knew you had to take.

Ryan Rauschenberger: Those positions were open; part of the issue we do have is customer service and collections through the general fund. When we take employees from a certain area it might take longer to get refunds out, longer to answer phone calls. They do generate general fund dollars.

Representative Vigesaa: Would you be able to provide how many general fund dollars have been generated by audits over the last 3 biennium?

Ryan Rauschenberger: I can get those numbers for you.

Chairman Boehning: Can you also state how long those vacancies have been open?

Ryan Rauschenberger: We can do that.

Chairman Boehning: These corporate audits, is that something that the private sector can do?

Ryan Rauschenberger: Because of the confidentiality, I think it would be a tough thing to do. We handle the corporate tax returns in house. They are difficult positions to fill.

Representative Kempenich: What is the typical workload of your auditors?

Ryan Rauschenberger: We do audits on large companies and on small companies. Some can go very quickly; some can take quite a long time.

Ryan Rauschenberger continued with his testimony.

Representative Nathe: In regards to the postage and printing. Is there a way you can lessen the cost by emailing statements?

Ryan Rauschenberger: Somethings have to be sent by mail by statute. A lot of our savings has been in this area and we're continuing to make progress.

Representative Nathe: In my business, I get a sales and use tax every quarter. In my mind, this is something you could send to my work email.

Ryan Rauschenberger: Some of the issues we have is that the email contact may not be the right person in the company. All of these issues we're looking at for additional savings.

Representative Vigesaa: Over half of your operating expenses adjustment is professional services. Could you outline why that was cut so significantly?

Ryan Rauschenberger: Those are our payments to be part of the multistate tax commission; that system audit committee. It has a 5:1 return on the general fund as well. One of the proposals we have is to have that fee self-funded. We do have a proposal that's in HB1066 to take language in whatever the final bill is and that would give us the authority to net out that fee.

Representative Kempenich: So that's why your professional fees and services dropped.

Ryan Rauschenberger continued with his testimony.

Representative Kempenich: In larger cities the values are still going up? How does that work?

Ryan Rauschenberger: We have been seeing values soften a bit in home values; especially in the west.

Ryan Rauschenberger continued with his testimony.

Representative Brabandt: Do you need your human resources position or is it there because it's been there? What is the salary?

Ryan Rauschenberger: That position has always been there. There used to be two in that area for quite some time. I'd have to get you the salary.

Representative Kempenich: Do you try to cross train employees?

Ryan Rauschenberger: We're very fortunate that we have a lot of people that have stayed with the department for quite a length of time and we're working on knowledge transfer all the time.

Representative Nathe: The Governor has had a lot of discussion as far as making things more efficient. With your discussions with the Governor, was there anything along the lines of making tax more efficient?

Ryan Rauschenberger: I have had discussions with the Governor's office; more of a higher level. It's been very high level at this point.

Chairman Boehning: Closed the hearing.

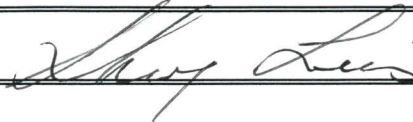
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1006
1/18/2017
Recording Job# 27036

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Attachments A through D

Chairman Brandenburg: Opened the hearing on HB1006 and HB1066.

Ryan Rauschenberger, Commissioner, Office of State Tax Commissioner: See testimony attachment A.

Representative Delmore: I'm still curious why there is such a high number for the sales and use tax.

Ryan Rauschenberger: The reason that the number is as high as it is, \$85 million, is that it is by far our number one general fund tax type. It is the largest contributor to the general fund. Because it is our number one tax type, we've had a lot of focus on sale tax.

Representative Delmore: We have given a lot of our sales tax revenues to other entities. Does your office work with them as when they're out in the field or is this strictly for what goes into the state coffers?

Ryan Rauschenberger: Are you referring to local sales tax?

Representative Delmore: City sales tax.

Ryan Rauschenberger: We are by law required to administer all the sales tax. They have different caps, different options and different levels of sales tax. That adds to the complexity as well.

Representative Brabandt: You had eleven vacant FTE's positions, you filled one; and you still have ten. Do you have quite a lot of turnover?

Ryan Rauschenberger continued with his testimony. See testimony attachments A and B.

Chairman Brandenburg: Looking at the green sheet, you're looking at going from 136 to 133 FTE's. Where does that fit into the eleven FTE's that you haven't filled. If we go to 133 will we be at eight FTE's?

Ryan Rauschenberger: What would happen is we have 136 FTE's. We have 10 vacancies right now, that brings us down to 126 FTE's. When we submitted our 90% budget, we had eight; two have become vacant since then. Eight FTE's were submitted to meet the 90% request.

Glenda Anderson, Chief Fiscal Officer, Office of State Tax Commissioner: What happened with the executive budget recommendation was we unfunded our salaries; so we didn't actually remove the positions. We removed the funding for eight positions, the Governor's recommendation restored three of those and removed three.

Chairman Brandenburg: Unfunded five?

Glenda Anderson: Yes.

Representative Delmore: Do you look at these other positions that are left unfilled as becoming critical to your office? If we continue to look at cuts that you think that maybe you could go to five? As we go down the road, are you going to say I lost these three; but, now I need to fill all of the other positions that haven't been filled?

Ryan Rauschenberger: We have a mixed bag of those that are critical to the audit function; but also to customer service. They all serve an important role. When we submitted our 90% budget, our highest priority is to make sure that those auditors are filled. We also have to recognize that if we have to deal with less staff, there will be customer service impacts, taxpayer service impacts, it will take longer to answer calls and get refunds out.

Ryan Rauschenberger continued with his testimony. See attachment B.

Representative Kempnich: If we get rid of the "hold harmless", how long is it going to take wean the local political subdivisions off of the 12.5%?

Ryan Rauschenberger: The current version of the bill would have that over time. Over time it would eventually decline down to what the social service cost would be to wean off that 12%.

Joe Morrissette, Deputy Commissioner, Office of the State Tax Office: That question did come up over the interim. It's hard to say for sure because it would depend on legislative decisions that haven't been made. If the formula is adopted, there would be legislative decisions every session that would set the formula rates. One factor, if we're holding the dollars harmless, at what counties and taxpayers in the counties are going to get in fiscal year 2017, we know that number; but we don't how fast the social services number is going to grow. Based on the estimated growth from year to year on the formula as it's proposed, we estimate at least eight years before that would phase out.

Chairman Brandenburg: The thing that concerns me is that if we fund social services, on the tax statement we have the 12% property tax buy down; and the people see that. My fear is if we do social services, are we going to lose that recognition that we're doing with the property tax buy down?

Joe Morrison: I can't disagree with that, because people do lose sight of what their property tax bill would have been if it weren't for that. It does show up on the tax statement as legislative tax relief. This would be calculated the same way as the school funding.

Ryan Rauschenberger continued with his testimony. See attachment C.

Representative Kempenich: A few sessions ago we had that fuel inspection. Is that that \$100,000.00? Wasn't that a federal program?

Ryan Rauschenberger: Yes, that's the fuel inspection.

Chairman Brandenburg: How much are we spending on the Homestead Tax Credit and on the Disabled Veterans Credit?

Ryan Rauschenberger continued with his testimony. See attachment C.

Chairman Brandenburg: In 2015-2017 it was \$14 million for the Homestead and \$8 million for disabled. By passing it on, I think we may be going a little too far with what we're trying to do. We have to be careful with what we do with the expansion of it.

Ryan Rauschenberger: With the additional, we do have more individuals eligible for the veteran's program. You never really know; because it's not on a statement like property tax relief. We send out a check to the counties and they lower it. We've always had more flexibility in the Homestead. We do spend our own dollars out of our budget to promote the programs.

Ryan Rauschenberger continued with his testimony. See attachments A and D.

Representative Kempenich: On these tax credits, what is the commitment we have today? Do you project out to see what kind of activity we're looking at?

Ryan Rauschenberger: We will look at the current utilization. We'll use the best information we have and linearly project it forward.

Representative Kempenich: That is the problem with these programs. Most people know that they're probably out there. I'm guessing that you're over budgeting a little to hedge. Are you trying to stay as close as you can on these programs?

Ryan Rauschenberger: We thought that with the new law that more would start applying and that didn't come to fruition. There's a decent amount of cushion in the Homestead.

Chairman Brandenburg: The 2013-2015 budget, you're at \$56 million and the 2017-2019 is \$52 million. If you go to 2011-2013 you're at \$40 million. What happened between the 2011-2013 and 2013-2015 that caused that \$16 million increase?

Ryan Rauschenberger: In 2013-2015 those \$52 million budgets include the Homestead Tax Credit and the veteran's. When you look at 2011-2015, \$11.2 million of that was expansion of the Homestead and \$3.3 million added for the disabled veteran's taxpayer program. The income increases also doubled.

Representative Vigesaa: You had \$30,070.00 that it is unspent federal funds under miscellaneous supplies. It was zero in 2013-2015 and went to \$30,070.00 and maintains it in this budget. Could you explain that?

Ryan Rauschenberger: That is all federal funds.

Representative Vigesaa: Why are there \$30,000.00 of federal funds in a miscellaneous supplies line item?

Glenda Anderson: The \$30,000.00 was intended to be dye fill enforcement supplies. They didn't purchase any so there was no expenses.

Representative Kempenich: Is there any fluff in this budget?

Ryan Rauschenberger: No. Through the allotment process, we've found a lot of business practice improvements.

Representative Vigesaa: Looking at IBARS and repairs under IT data processing, it's up about \$200,000.00 from the 2013-2015 level. Could you explain the increase in that line item? Is that the cost to have IT services from ITD?

Glenda Anderson: I don't have the IT plan with me; but I know there were some rate changes made by ITD. We're dependent on them for the entire data processing bill; so whatever rates they charge, that's what we have to pay.

Representative Kempenich: What consists of the \$3.2 million that you're spending on IT contractual? Are we still making payments on that?

Ryan Rauschenberger: GenTax was implemented in the mid-2000's. It consolidated all of our silo tax systems; it's in one place. There's no project numbers associated with the \$3.4 million; that's considered on site support and maintenance to keep the system running. We've been able to negotiate our future contract price down for savings. Next biennium they can do it for \$200,000.00 than this biennium with the same level of service.

Representative Kempenich: This is the continuation of the program?

Ryan Rauschenberger: Correct. This is the continuation of the program.

Representative Kempenich: It's a server they have and then we have a server also?

Ryan Rauschenberger: ITD houses our servers here.

Representative Kempenich: So it's technically in the cloud?

Ryan Rauschenberger: That's correct.

Chairman Brandenburg: Closed the hearing.


2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1006
1/31/2017
Recording Job# 27631

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Chairman Brandenburg: Opened the hearing on HB1006 and HB1066.

Representative Vigesaa: The department just received notification of the additional reductions we are requesting. We met yesterday afternoon and I think we had good conversation to start with; but I didn't expect to have their full decision making process completed by this morning.

Joe Morrissette, Deputy Tax Commissioner, Office of State Tax Commissioner: The tax commissioner is out sick today; so we've not had a chance to visit with him and get his input.

Chairman Brandenburg: You can share what you want to share; we're not going to hold you in stone today. If the commissioner comes in and has a better idea, that's fine.

Joe Morrissette: We have two program lines. We have one for the homestead tax credit and one for disabled vets. We looked at the homestead tax credit and that's about \$16 million. We spent about \$7 million in the first of this biennium; we won't know until late in the biennium exactly what the second year expenditures will be, but we felt \$16 million would be close. Another \$800,000.00 off of there would be 5%, that would get that line down to \$15.2 million. That's a concern but not as big of a concern as the disabled vets credit. That line in Governor Dalrymple's budget was \$6.9 million and we spent almost \$4 million in the first year of this biennium. We felt like that's already likely short; so another 5% off of that is another \$345,000.00, that would get it down to \$6.5 million. It would be helpful to have the flexibility to transfer between those lines; like we asked for in our budget testimony. If you could include that authority, it would address the shortfall we expect this biennium. If you could include it for next biennium, it would help alleviate some of those concerns.

Chairman Brandenburg: With this budget that probably is a good way to go. I think that maybe we need to make some adjustments with those so you can stay within those realms. Maybe some of the qualifications needs to be adjusted.

Joe Morrisette: We've had significant expansion in the last few biennium of those qualifications and that's driven that cost up.

Representative Vigesaa: Joe and I have visited about that and to redo the formula so that everybody would get something based on a formula, would you be the ones who could come up with the parameters of the formula? So we could make the dollars that we allocate work for everyone who would apply?

Joe Morrisette: We can do that. We would be the ones that would come up with the fiscal note on any proposed legislation.

Representative Vigesaa: We realize that now we're in to policy with regard to the funding. It has to be a policy shift or change to make the formula.

Chairman Brandenburg: Since we're looking at a reduction, we're going to have to adjust the policy portion.

Representative Delmore: We would still want some way of reassuring if that flexibility was there, we didn't have a deficiency appropriation coming in. I don't know if this is a bad move to make; but it wouldn't be in our best interests to allow that. Can you make a close enough estimate where you don't think that will happen?

Joe Morrisette: It's always difficult to come up with an estimate.

Chairman Brandenburg: We don't want to hurt the people that truly do need it. The ones at the top end will get by. We want to make sure to take care of those people that are living on a tight budget.

Joe Morrisette: We'll give some thought to different ways.

Chairman Brandenburg: Don't squeeze out the bottom end, if we make the adjustment, take it on the top end.

Joe Morrisette: We'll work within the dollars of a 5% reduction from Governor Dalrymple's proposal and we'll bring back some suggested changes that would balance that amount of funding.

Chairman Brandenburg: Representative Vigesaa shared with me what you had been discussing. If you could explain the other portion of what has been discussed.

Joe Morrisette: Our salaries line is about \$22.5 million and our operating line is about \$6.9 million. We also have a very small capital asset line for certain IT items that are over \$5,000.00; that's \$6,000.00. If you add those up, that about \$29.4 million. So 5% of all those lines is about \$1.5 million. Included in that was funding for three positions; a sales tax auditor,

a corporate income tax auditor and a research assistant. That budget had included those three positions and \$50,000.00 for temporary salaries. So we could take that out to address part of that. There's also funding included in that for the salary increase of 1% in the second year; that's another \$93,000.00. We've had reductions in all the account codes in our operating line; but if we have to make additional reductions, we felt like we could take another \$15,000.00 out of our office equipment line. We have a field office in Williston and there is an opportunity to move that person to a different space that would be cheaper; that would save about \$12,000.00 for the biennium. Our travel amount is really significantly reduced already and we're concerned that we're going to be reducing the amount of travel that our auditors can do. We've taken out travel for training and conferences. If we have fewer audit positions filled, we feel like we could take somewhat of a reduction there.

Representative Kempenich: Do you use state fleet rates?

Joe Morrisette: Yes. If we took another 10% of our general fund money in that travel account; that would be another \$17,000.00 out of there. One thing we had on our list to suggest is we have scheduled for replacement all of our computers; that would be the end of next biennium. If we pushed that back a year, into the following biennium, that would save \$123,000.00 out of this budget.

Representative Kempenich: That's one of the things I've been suggesting to agencies. Are you replacing all? How many do you have; do you have 133 of them?

Joe Morrisette: Some of the field staff have a laptop; it's about 130.

Representative Kempenich: So you don't replace half at one time and half at another?

Joe Morrisette: We do them all at the same time.

Representative Kempenich: As long as the programs are compatible with what you're doing, kicking it down the road does create a problem.

Joe Morrisette: Our laptops are on a three-year cycle; but these are the desktops and they would all be due in fiscal year 2019. When we submitted our allotment budget we had eight vacant positions; but since that time we've had three more positions that became vacant, that we haven't filled. So if we continue those three positions vacant for all of next biennium, that would be another \$332,000.00. That would leave about \$267,000.00 to cut to get to 5%. We feel that would have to come out of salaries line; we already have almost \$300,000.00 that was underfunded. We feel that's more than we could manage in the normal turnover.

Representative Kempenich: I see that you've cut in half your temporary salaries. Is that more in your temporary in your busy season?

Joe Morrisette: Yes. We'll have 30 or more temps that come in for the processing season. Some are only for a couple of weeks; but some are for three months. We have some that come in in the Fall for corporate income tax season.

Chairman Brandenburg: When you have those temps, how much do you spend; it shows here about \$109,000.00?

Joe Morrissette: The average wage is about \$12.00 per hour. We've done our best to push that up a little in the last few years; because Walmart and other places offer more.

Representative Nathe: In the IT contractual services and repairs, it's down 6.7%; the requested about \$3.2 million. Is there any place in there you could try to find some more savings?

Joe Morrissette: I don't think so. That was reduced through the negotiation with our software vendor. That whole account code is what we pay to the software vendor; Fast Enterprises for our Gen Tax system. There had been an escalator in the contract and instead of that they agreed to a reduction in the rate.

Representative Nathe: Does the same thing go for IT data processing?

Joe Morrissette: That's what we pay ITD. We don't really have any control over those rates.

Representative Nathe: So on the contractual services and repairs you're locked in on the \$3.2 million.

Joe Morrissette: Yes.

Representative Vigesaa: Joe and I talked a little about the salary that was added back in to restore some budget reductions. Did you talk about whether or not any of those positions could be reduced?

Joe Morrissette: That's on our list. Those three positions that were restored are \$436,000.00. We have that on the list to come back out to meet this 5%. There were other things we talked about also that were included in other sections of HB1066. One of them was the transfer authority. That flexibility would be helpful to transfer between the lines if there is a shortfall. The creation of a revolving fund for the MTC participation is important to us also. That would allow us to take those audit collections that result from participating with the Multi State Tax Commission; where their auditors audit on behalf of the participating states. It's had a great payback; it's like a 5:1 payback. That money did come out of our budget; but we'd ask that you'd consider creating authority for a revolving fund where the audit collections would go in and once a year the fees would be paid out of that. The rest would go to the general fund.

Chairman Brandenburg: We should probably look at the authority in sections 3, 4, 5, and 6.

Representative Vigesaa: The dues are coming out of the general fund as an expenditure. What's that amount?

Joe Morrissette: It's a little over \$200,000.00 a year.

Chairman Brandenburg: We don't just look at the reductions; but we also look at the transfer authority.

Joe Morrissette: If there was a time where we didn't have collections sufficient to pay that fee; we just wouldn't be able to participate. That would work similar to how we have authority now for out of state delinquent tax collections that are assigned to out of state collection agencies. The fees to pay those collectors come out of what is collected.

Chairman Brandenburg: When you do your multi-state tax audit, how much gets transferred back to the general fund?

Joe Morrissette: It's been a 5:1 payback on average. Some years it's been a little over \$100,000.00 and some years where they have been \$2.8 million; so it varies significantly.

Representative Nathe: How short are you to get to the 5%?

Joe Morrissette: We're about \$267,000.00 short. So that would come out of salary line where we just took out \$300,000.00; that's not tied to a particular position.

Representative Nathe: Can you take some out of the homestead tax credit and some out of the disabled veteran tax credit?

Joe Morrissette: That was taking 5% out of each of those as well.

Representative Nathe: You can take more though. Are we looking at \$16 million after everything is done?

Joe Morrissette: Sixteen million dollars and 5% off that would be \$800,000.00; so it would be down to \$15.2 million.

Representative Nathe: You could reduce both to make up the difference.

Joe Morrissette: In the disabled vets line we spent about \$4 million for the first year of this biennium. We think we'll spend about \$8 million or better for this biennium. We think it's already going to be short at \$6.9 million.

Representative Nathe: You could take it out of the homestead tax credit to get you to the 5%?

Joe Morrissette: With a change in the program eligibility, we certainly could.

Chairman Brandenburg: You may need to go to 7% to get there.

Representative Nathe: We're going to have cut programs to get where we'll have to be by the end of this session.

Joe Morrissette: We can come back with some proposals on those two lines; different levels of funding and different levels of reduction.

Representative Vigesaa: I just wanted to point out that in Governor Burgum's recommendation he had already reduced those by 10%.

Joe Morrissette: I believe it was just 1%.

Representative Vigesaa: You're taking that into consideration that the additional 5% would be a total of 6%?

Joe Morrissette: I didn't. I was taking 5% from the Dalrymple budget; not from the Burgum budget.

Representative Vigesaa: But if we combined the two, it would be 6%.

Joe Morrissette: I didn't do that in my math here.

Representative Kempenich: I don't think we're looking at additional on top of the Burgum budget.

Chairman Brandenburg: I think you have some instruction.

Chairman Brandenburg closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1006
2/6/2017
Recording Job# 27949

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Attachments A and B

Chairman Brandenburg: Opened the hearing on HB1006 and HB1066.

Representative Vigesaa: Explained attachments A and B.

Representative Kempnich: So the \$22.9 million is staying in the budget?

Representative Vigesaa: It's going to be \$16 million plus \$6.9 million which is \$22.9 million, would stay. That is a reduction from the base level of \$2.9 million.

Representative Vigesaa continued with his explanation.

Chairman Brandenburg: I was hoping we could do something with the homestead and disabled veteran's. I just think if we're going to find any place; that's the only place left to go.

Representative Vigesaa: One of the problems we had with that is last session we raised the asset level from \$100,000.00 to \$125,000.00. We do not yet have a readying as to how much that's going to cost. The estimate is there; but we won't know for a bit how much additional is going to come in for credit requested.

Joe Morrissette, Deputy Tax Commissioner, Office of State Tax Commissioner: That appropriation in the current biennium is \$20 million for homestead tax compared to the \$16 million that's in the budget now. Then it was \$7.7 million for disabled vets compared to the \$6.9 million. So it's a pretty significant cut.

Representative Vigesaa: I believe that was a reduction of three FTE's in the original budget and they've underfunded significantly in the salary line as well.

Chairman Brandenburg: If you took that \$22 million out of there for those two programs, you're there.

Representative Vigesaa continued with his explanation.

Joe Morrissette: IT's the multi state commission.

Representative Vigesaa continued with his explanation.

Representative Nathe: How much are the dues and how much are over the dues that go in there?

Joe Morrissette: The audit collections vary. They range from around \$200,000.00 to \$3 million per year. On average we average five times what the fees are that we pay to MTC to participate in that audit program. The fees are about \$220,000.00 per year. There would be authority to only the fees to MTC and everything else once a year would get transferred to the general fund.

Representative Vigesaa: Why was the emergency clause in the bill?

Joe Morrissette: We would ask that the emergency clause apply to those lines from the 2015 section; so we would have that authority to transfer between those lines now to address the deficiency that we know we're going to have. We'd ask that the section also be applied to what you're passing now so that if the same situation happens two years from now, we can do that same thing.

Chairman Brandenburg: Closed the hearing.

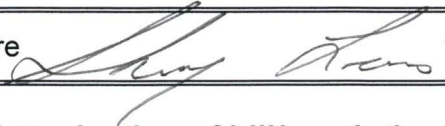
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1006
2/7/2017
Recording Job# 28017

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Attachments A and B

Chairman Brandenburg: Opened the hearing on HB1006 and HB1066.

Representative Vigesaa: Explained attachments A and B.

Representative Vigesaa: Made a motion to move amendment 17.0491.01001.

Representative Nathe: Seconded the motion.

Vice Chairman Boehning: Since we're reducing the homestead tax credit program, are we going to have enough money in the next biennium to cover everything?

Joe Morrissette, Deputy Tax Commissioner, State Tax Department: We think there will be even with that reduction. We have some extra biennium and that would allow for the transfer to take place.

Representative Vigesaa: One thing I wanted to add about those two lines, the department had requested \$45,000.00 to be used toward promotional materials out of that money. We decided to leave that alone and have the money go towards the credits.

Voice Vote made.

Motion Carried.

Representative Vigesaa: Made a motion for a "Do Pass as Amended".

Representative Nathe: Seconded the motion.

Roll Call Vote: 7 Yeas 0 Nays 0 Absent

Motion Carried.

Chairman Brandenburg: Closed the hearing.

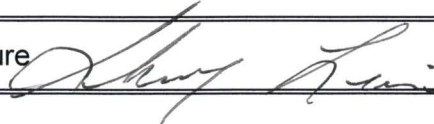
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1006
2/8/2017
Recording Job# 28052

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Attachment A

Chairman Brandenburg: Opened the hearing on HB1006 and HB1066.

Representative Vigesaa: Explained changes that need to be made.

Representative Vigesaa: Made a motion to reconsider their actions of passing HB1006 as amended.

Representative Delmore: Seconded the motion.

Voice Vote made.

Motion Carried.

Representative Vigesaa: Explained changes to the amendment. See attachment A.

Representative Vigesaa: Made a motion to further amend by adopting amendment 17.0491.01002.

Representative Nathe: Seconded the motion.

Voice Vote made.

Motion Carried.

Representative Vigesaa: Made a motion for a "Do Pass as Further Amended".

Representative Delmore: Seconded the motion.

Roll Call Vote: 7 Yeas 0 Nays 0 Absent

Motion Carried.

Chairman Brandenburg: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB1006
2/13/2017
28301

- Subcommittee
 Conference Committee



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veterans' credit; and to provide for a transfer.

Minutes:



Chairman Delzer: Opened the meeting on HB 1006. We can do away with the tax commissioner.

Representative Vigesaa: You should have the proposed amendment 17.0491.01002 the action of our subcommittee was. Salaries and wages, health insurance increase, the final number is 21602583 but that is 911,000 below the Governor Dalrymple budget. Operating expenses were reduced by 878,967 we took out 10,000 on capital assists. On the Homestead tax credit and on the disabled veterans credit, Governor Dalrymple had reduced those as you as see. We did not reduce those any further.

Chairman Delzer: That's the 269 and the 264?

Representative Vigesaa: Yes, he reduced it by 2.69 million and 264 thousand.

Chairman Delzer: Where are you reading in your amendment? Are you on the front page? Or are you on the statement of purposes?

Representative Vigesaa: I am looking at the front page but you could follow either way.

Chairman Delzer: Usually the statement of purpose is what tells you what is going on. Then we deal with the sections as well.

Representative Vigesaa: In 1995 we had 156 FTEs in this budget. There are 23 fewer than there were 20 years ago. Section 2 in going to be in every bill and that is going to show what the cost is for this agency was for the health insurance increase. In this department it is

\$380,646.00 just for the health care increase. Section 4 and 5 with regard to the ability to line item transfer between those 2 tax credits lines. For both the current biennium and the next biennium. They are going to run a little short this biennium on the veterans tax credit and a little above what they need in the Homestead tax credit.

Chairman Delzer: This is only part of the buy down. There is another 11 million or 20 million being covered that the proposal is to cover it out of the reserves even though I think there will be an issue with that. they just have to let legislative council know.

Representative Vigesaa: Section 7, is a multi-tax audit fund. This is a change from what they have done previously. They used to appropriate the dues for this muti state tax audit and what they did this time is took it out of there operating line to meet the 10% reduction that the governor requested about they would like to set it up in the fund where the collections would go into the fund and then the dues would be paid out of that and then the net, balance would be transferred to the general fund.

Chairman Delzer: It's a wash for the general fund but it shows up as a special fund.

Representative Vigesaa: It is a wash for the agency.

Chairman Delzer: So the 450 is actually part of the 3.7 million?

Representative Vigesaa: It came out of the operating expenses. The Multi State Tax Commission they audit nation banks and large companies that do business in the state. Our department wouldn't have the ability to do those audits so that returns back to North Dakota usually about a 5-1 ratio in audit findings.

Chairman Delzer: Did you find any places that we needed to adjust our base level?

Representative Vigesaa: Going back to the 1113 on the green sheet the major things that were added there over time had been the tax credit programs. There has funding for the Gen Tax software that is a very important thing for their system. There weren't any new programs added.

Chairman Delzer: We are still doing a million dollars a biennium for Gen Tax?

Representative Vigesaa: Yes, I think we are I can get that number.

Chairman Delzer: Are there any audit findings for us to be concerned about?

Representative Vigesaa: There were no audit findings.

Chairman Delzer: Any of this other related legislation?

Representative Vigesaa: I will note that the budget 2009/2011 was 33.4 million and when we take the next proposed budget and subtract the posted tax credit and the veterans were new programs between those areas there are now at 28.3 million.

Chairman Delzer: Section 3 is going to stay in there in our baseline bill?

Representative Vigesaa: Yes, that will stay in. Those are the amendments and the sections that we need to cover and I move that amendment 17.0491.01002.

Representative Brandenburg: Second that motion.

Chairman Delzer: We have a motion to amend 1006 with amendment 01002. Discussion?

Representative J. Nelson: In regards to the FTE reduction in the executive on the green sheet they identified 3 positions are those the same positions that you are proposing in your amendments?

Representative Vigesaa: Yes, it is 2 auditors and one research analyst.

Representative Streyle: you said those positions are open since July 15, and November 15.

Representative Vigesaa: I believe so and in the original request Governor Dalrymple had restored that funding for those positions. We removed that funding.

Chairman Delzer: further discussion? Voice Vote took place motion carried.

Representative Vigesaa: Made a motion for Do Pass as amended.

Representative Delmore: Seconded the motion.

Chairman Delzer: A Roll Call vote was taken. Yea: 20 Nay: 0 Absent: 1

Floor Assignment: Rep. Vigesaa

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1006

Page 1, line 3, replace "and to provide for a transfer" with "to provide for transfers; to create and enact a new section to chapter 57-01 of the North Dakota Century Code, relating to a multistate tax audit fund; and to declare an emergency"

Page 1, replace lines 14 through 22 with:

"Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	<u>7,175,091</u>	<u>(264,891)</u>	<u>6,910,200</u>
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$54,912,488	(\$3,770,410)	\$51,142,078
Full-time equivalent positions	136.00	(3.00)	133.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in Section 1 of this Act includes the sum of \$380,646 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 2, after line 3, insert:

"SECTION 4. LINE ITEM TRANSFERS - 2015-17 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of chapter 40 of the 2015 Session Laws if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section.

SECTION 5. LINE ITEM TRANSFERS - 2017-19 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 8, insert:

"SECTION 7. A new section to chapter 57-01 of the North Dakota Century Code is created and enacted as follows:

Multistate tax audit fund - Continuing appropriation - Transfers to the general fund.

There is created in the state treasury the multistate tax audit fund. The fund consists of all moneys collected and received by the tax commissioner as a result of participation in the multistate tax commission audit and nexus programs. All moneys in the fund are appropriated to the tax commissioner on a continuing basis to pay the

multistate tax commission audit and nexus program fees. On or before June thirtieth of each year, the tax commissioner shall certify to the state treasurer the amount of accumulated funds in the multistate tax audit fund which exceed the audit and nexus program fees for the following year. The state treasurer shall transfer the certified amount from the multistate tax audit fund to the general fund prior to the end of each fiscal year.

SECTION 8. EMERGENCY. Section 4 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
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Disabled veterans' credit	7,175,091	(264,891)	6,910,200
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	125,000	0	125,000
General fund	\$54,912,488	(\$3,770,410)	\$51,142,078
FTE	136.00	(3.00)	133.00

Department No. 127 - State Tax Commissioner - Detail of House Changes

	Adjusts Funding for Base Payroll Changes¹	Adds Funding for Health Insurance Increases²	Reduces Funding for Salaries and Wages³	Reduces Funding for Operating Expenses⁴	Reduces Funding for Capital Assets⁵	Reduces Funding for Tax Credit Programs⁶
Salaries and wages	\$25,020	\$380,646	(\$332,218)			
Operating expenses				(878,967)		
Capital assets					(10,000)	
Homestead tax credit						(2,690,000)
Disabled veterans' credit						(264,891)
Total all funds	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
Less estimated income	0	0	0	0	0	0
General fund	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
FTE	(3.00)	0.00	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	\$73,448
Operating expenses	(878,967)
Capital assets	(10,000)
Homestead tax credit	(2,690,000)
Disabled veterans' credit	(264,891)
	(\$3,770,410)

Total all funds Less estimated income	0
General fund	(\$3,770,410)
FTE	(3.00)

¹ Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes, including the removal of 3 FTE positions (1 tax services FTE position, 1 office assistant FTE position, and 1 document imaging FTE position).

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ Funding is reduced for 3 FTE positions that are vacant.

⁴ Funding is reduced for operating expenses, primarily related to professional services, postage, information technology equipment, and office furniture and equipment.

⁵ Funding is reduced for capital assets, from \$16,000 to \$6,000.

⁶ Funding is reduced for the homestead tax credit program by \$2,690,000, from \$18,690,000 to \$16,000,000. Funding is reduced for the disabled veterans' tax credit program by \$264,891, from \$7,175,091 to \$6,910,200.

This amendment also provides the following:

- Adds a section to identify the funding increases for the health insurance premium increase.
- Adds a section and provides an emergency clause allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2015-17 biennium.
- Adds a section allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2017-19 biennium.
- Adds a section to create a multistate tax audit fund. The collections from the multistate tax commission audit and nexus programs are deposited in the fund, and the related program expenses are paid from the fund pursuant to a continuing appropriation. Excess collections are transferred to the general fund at the end of each year.

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PROPOSED AMENDMENTS TO HOUSE BILL NO. 1006

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multistate tax commission audit and nexus program fees. On or before June thirtieth of each year, the tax commissioner shall certify to the state treasurer the amount of accumulated funds in the multistate tax audit fund which exceed the audit and nexus program fees for the following year. The state treasurer shall transfer the certified amount from the multistate tax audit fund to the general fund prior to the end of each fiscal year.

SECTION 8. EMERGENCY. Section 4 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
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Capital assets	16,000	(10,000)	6,000
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Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
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Capital assets					(10,000)	
Homestead tax credit						(2,690,000)
Disabled veterans' credit						(264,891)
Total all funds	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
Less estimated income	0	0	0	0	0	0
General fund	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
FTE	(3.00)	0.00	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	\$73,448
Operating expenses	(878,967)
Capital assets	(10,000)
Homestead tax credit	(2,690,000)
Disabled veterans' credit	(264,891)
	(\$3,770,410)

2/19/17 DA
3 of 3

Total all funds	
Less estimated income	0
General fund	(\$3,770,410)
FTE	(3.00)

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- Adds a section allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2017-19 biennium.
- Adds a section to create a multistate tax audit fund. The collections from the multistate tax commission audit and nexus programs are deposited in the fund, and the related program expenses are paid from the fund pursuant to a continuing appropriation. Excess collections are transferred to the general fund at the end of each year. This section will reduce estimated general fund revenues by \$450,000 for the 2017-19 biennium.

Date: 2-7-17
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1006

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: 17.0491.01001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep Vigesaa Seconded By Rep Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigesaa					

Voice Vote

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Motion carried

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. HB1006**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: 17.0491.01001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Representative Vigesaa Seconded By Representative Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Representative Nathe

If the vote is on an amendment, briefly indicate intent:

Motion Carried

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. HB1006**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: To reconsider passing HB1006 as amended

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Rep Vigesaa Seconded By Rep Delmore

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigesaa					

VOTES VOTE

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Motion Carried

Date: 2-8-17
 Roll Call Vote #: 2

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. HB1006**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: 17.0491.01002

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep Vigesaa Seconded By Rep Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigesaa					
<u>VOICE</u>					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
Motion Carried

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB1006**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: 17.0491.01002

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
- Other Actions: Reconsider _____

Motion Made By Representative Vigesaa Seconded By Representative Delmore

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Representative Vigesaa

If the vote is on an amendment, briefly indicate intent:

Date: 2/13/2017
 Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. HB 1006**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: 17.0491.01002

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Representative Vigesaa Seconded By Representative Brandenburg

Representatives		Representatives		Yes	No
Chairman Delzer					
Representative Kempenich		Representative Streyle			
Representative: Boehning		Representative Vigesaa			
Representative: Brabandt					
Representative Brandenburg					
Representative Kading		Representative Boe			
Representative Kreidt		Representative Delmore			
Representative Martinson		Representative Holman			
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Total (Yes) _____ No _____
 Absent _____
 Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Motion Carries

Date: 2/13/2017
Roll Call Vote #: 2

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1006**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Representative Vigesaa Seconded By Representative Delmore

Representatives		Representatives		Yes	No
Chairman Delzer	X				
Representative Kempenich	X	Representative Streyle	X		
Representative: Boehning	X	Representative Vigesaa	X		
Representative: Brabandt	X				
Representative Brandenburg	X				
Representative Kading	X	Representative Boe	X		
Representative Kreidt	A	Representative Delmore	X		
Representative Martinson	X	Representative Holman	X		
Representative Meier	X				
Representative Monson	X				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Pollert	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt	X				

Total (Yes) 20 No 0

Absent 1

Floor Assignment Representative Vigesaa

If the vote is on an amendment, briefly indicate intent:

Motion Carries

REPORT OF STANDING COMMITTEE

HB 1006: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (20 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1006 was placed on the Sixth order on the calendar.

Page 1, line 3, replace "and to provide for a transfer" with "to provide for a continuing appropriation; to provide for transfers; to create and enact a new section to chapter 57-01 of the North Dakota Century Code, relating to a multistate tax audit fund; and to declare an emergency"

Page 1, replace lines 14 through 22 with:

"Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	<u>7,175,091</u>	<u>(264,891)</u>	<u>6,910,200</u>
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$54,912,488	(\$3,770,410)	\$51,142,078
Full-time equivalent positions	136.00	(3.00)	133.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in section 1 of this Act includes the sum of \$380,646 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 2, after line 3, insert:

"SECTION 4. LINE ITEM TRANSFERS - 2015-17 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of chapter 40 of the 2015 Session Laws if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section.

SECTION 5. LINE ITEM TRANSFERS - 2017-19 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 8, insert:

"SECTION 7. A new section to chapter 57-01 of the North Dakota Century Code is created and enacted as follows:

Multistate tax audit fund - Continuing appropriation - Transfers to the general fund.

There is created in the state treasury the multistate tax audit fund. The fund consists of all moneys collected and received by the tax commissioner as a result of participation in the multistate tax commission audit and nexus programs. All moneys in the fund are appropriated to the tax commissioner on a continuing basis to pay the multistate tax commission audit and nexus program fees. On or before June thirtieth of each year, the tax commissioner shall certify to the state treasurer the amount of accumulated funds in the multistate tax audit fund which exceed the audit and nexus program fees for the following year. The state treasurer shall transfer the certified

amount from the multistate tax audit fund to the general fund prior to the end of each fiscal year.

SECTION 8. EMERGENCY. Section 4 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	7,175,091	(264,891)	6,910,200
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	125,000	0	125,000
General fund	\$54,912,488	(\$3,770,410)	\$51,142,078
FTE	136.00	(3.00)	133.00

Department No. 127 - State Tax Commissioner - Detail of House Changes

	Adjusts Funding for Base Payroll Changes ¹	Adds Funding for Health Insurance Increases ²	Reduces Funding for Salaries and Wages ³	Reduces Funding for Operating Expenses ⁴	Reduces Funding for Capital Assets ⁵	Reduces Funding for Tax Credit Programs ⁶
Salaries and wages	\$25,020	\$380,646	(\$332,218)			
Operating expenses				(878,967)		
Capital assets					(10,000)	
Homestead tax credit						(2,690,000)
Disabled veterans' credit						(264,891)
Total all funds	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
Less estimated income	0	0	0	0	0	0
General fund	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
FTE	(3.00)	0.00	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	\$73,448
Operating expenses	(878,967)
Capital assets	(10,000)
Homestead tax credit	(2,690,000)
Disabled veterans' credit	(264,891)
Total all funds	(\$3,770,410)
Less estimated income	0
General fund	(\$3,770,410)
FTE	(3.00)

¹ Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes, including the removal of 3 FTE positions (1 tax services FTE position, 1 office assistant FTE position, and 1 document imaging FTE position).

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ Funding is reduced for 3 FTE positions that are vacant.

⁴ Funding is reduced for operating expenses, primarily related to professional services, postage, information technology equipment, and office furniture and equipment.

⁵ Funding is reduced for capital assets, from \$16,000 to \$6,000.

⁶ Funding is reduced for the homestead tax credit program by \$2,690,000, from \$18,690,000 to \$16,000,000. Funding is reduced for the disabled veterans' tax credit program by \$264,891, from \$7,175,091 to \$6,910,200.

This amendment also provides the following:

- Adds a section to identify the funding increases for the health insurance premium increase.
- Adds a section and provides an emergency clause allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2015-17 biennium.
- Adds a section allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2017-19 biennium.
- Adds a section to create a multistate tax audit fund. The collections from the multistate tax commission audit and nexus programs are deposited in the fund, and the related program expenses are paid from the fund pursuant to a continuing appropriation. Excess collections are transferred to the general fund at the end of each year. This section will reduce estimated general fund revenues by \$450,000 for the 2017-19 biennium.

2017 SENATE APPROPRIATIONS

HB 1006

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

HB 1006
3/6/2017
JOB # 28710

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Munder for Alice Dulzer

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner.

Minutes:

1. Budget Presentation
2. Organizational Chart with Attachments A,B,C,D

Chairman Holmberg: Called the Committee to order on HB 1006 at 10:00. All committee members were present except Senator Hogue. Becky J. Keller, OMB and Levi Kinnischtzke, Legislative Council were also present.

(0.01.36- Ryan Rauschenberger, State Tax Commissioner: Testified in favor of HB 1006 and provided written Testimony attached # 1- the Budget Presentation for the Office of the state Tax Commissioner.

Chairman Holmberg: That was one of the discussion points, you just can't ratchet back to 2007 when there are more than 10's of thousands more people filing income tax in North Dakota.

Mr. Rauschenberger: Continued sharing the chart on page 3 of testimony. The 11 FTE's in our Department that were not filled have been removed from our budget.

Senator Erbele: The 11 that you are empty, are they out of a particular area or spread through the whole department?

Mr. Rauschenberger: I will list them and they are from various areas.

Senator Erbele: I have some concerns expressed to me that you are short on auditors.

MR. Rauschenberger: To sum up I've been allotted 4 auditors, 2 corporate income tax and 2 sales tax auditors, we are asking for those auditors back. We would ask back, but there are auditors included in that 11 because that is the largest percentage. He continued on page 4 with a quick summary of the Agency Operations Budget. He referred to Schedule A, Testimony attached # 2, Organizational Chart. Filled FTE Positions as of March 1, 2017, so we have 125 FTE. (0.11.25)

Senator Robinson: You have had reductions in IT services and in professional services. Can you talk some about them?

Mr. Rauschenberger: GenTax, fast enterprises, the question is referring to the reduction in the base budget on professional and IT. I will take line 19, IT services, we were able to negotiate down our contract with them and keep the same level of service for security. Even biennium to biennium we are saving.

Senator Robinson: Do you think they were gouging us? If they were willing to negotiate with you, and you talk to all your colleagues across the country, they may not be in business for long. It seems like a significant amount for the same level of service.

Mr. Rauschenberger: This company has done a fantastic job. They've been very good to us as a state, and they came in under budget. They do countries, we are pretty small, we get the benefit of being a part of this very successful large company. We've had a good working relationship; we were one of the earlier states. It wasn't easy, if we had a major reduction in that, we would lose updates in the system, and some security factors. When we had to work with the budget they heard us say, if you don't cut this back, we are going to be in a really tough situation and they heard that.

Senator Robinson: What is the point regarding professional services.

Mr. Rauschenberger: That is mainly the fees for our Multi State Tax Commission, audit and Nexus fees. We have a different funding mechanism proposal that's come across. Continued regarding schedule A. and moving into our 90%. There is a \$300,000 general fund reduction in salaries that is included in the 90%, currently unidentified FTE's, that will come open to regular turnover and due to retirements. That helped get us down to our executive budget recommendation. So basically the reduction in Gen Tax and the FTE's, has been covered, and I'll move into our basically Multi State Tax Commission. On page 6, you can see we get a benefit from that. Those fees are in our budget. We have recommended that we continue that participation. The Dalrymple budget wanted to remove this from our budget, and have a continuing revolving fund to pay for those fees out of the revenues received from Multi State Tax Commission. It was our recommendation to remove that from our budget line items. As far as positions go on page 7, we have 11 positions unfunded and we are requesting back our 4 auditors.

Vice Chairman Bowman: (0.21.38) Are they included in the governor's budget as in or out?

Mr. Rauschenberger: The Governor included 3 back, you can see that on schedule A, a notation on salaries. See the plus 3 on column G. That is the 3 audit positions that were restored. Sales tax is a great concern.

Senator Robinson: So if Governor Dalrymple restored 3, where did Governor Burgum's budget come in?

Mr. Rauschenberger: That is consistent and those are still included in Burgum's budget. The house removed all 4 auditors. They do have a return on the general fund. It is important that we maintain our audit on our sales tax and our corporate tax. As for the operating expenses on page 7, we are not asking for any more in that. In the Governor's budget, that includes money for temp salaries, and we are not asking for that, just for the four allotted. Moving on to Homestead and Veteran's credit, on page 8, the Homestead Tax Credit is well funded. However, the Veterans Credit has a significant shortfall. The way it sits currently the disabled veterans would be short and we want to bring it to your attention for your consideration as far as making changes to the program. We have come in for deficiency appropriations and emergency commission before.

Senator Dever: If 2206 passes on the County Social Services, will that relieve that concern regarding the Veterans shortfall.

Mr. Rauschenberger: There would be some small savings because of reduced mills, we haven't quantified that, we haven't figured out what that would be. It would be marginal in this program. Not enough to make the difference for the shortfall.

Senator Wanzek: Those two line items, when you look back, is there a constant increase in trend. If we know we are going to pay \$8.5 this Biennium, why would we put \$6.9 in the budget if we know it is something we have to do and the money needs to be there?

Mr. Rauschenberger: Both programs together, one of the issues we had in the last few sessions, there has always been expansions to the Homestead Tax Credit, we don't really have a clean year, so we don't really know who is all eligible. We use our own marketing dollars to promote those programs. We know there are people out there that aren't taking that program. The program has expanded significantly. Your other point, comes down to a policy decision as far as the programs are as of now. We expect there will be a shortfall. The options are finding a way to fund it, or changing the perimeters of the program. We are hoping to get back the 4 audit related FTE. (0.33.57)

Senator Mathern: There's a lot of talk on the national level about tax reform and it might happen. Is it impactful at all to our tax department if the federal government goes through a major change, and does that impact us to a great extent?

Mr. Rauschenberger: Yes, likely it would. Whether we talk about individuals or corporate tax, we are based on taxable income as far as the rates apply. So if there is a reduction on the federal level, we will see that affect the state level. If at the federal reform, we would have to look at our tax base. What's considered income and what you can deduct on the federal level, has a huge impact. On the income tax side, every state will have reforms.

Senator Mathern: Does your budget track that?

Mr. Rauschenberger: The staff to track that, Kathy Stromback, would be looking at it from the fiscal impact.

Senator Robinson: On the state level, Governor Burgum, we need to find an off ramp on property tax, underscoring his concern over the state participation in K-12 and now we are looking at human services and so on. Have you had discussion with the Governor on the implication of that. If that would be a policy that we start pursuing the ramifications would be major and there is a lot of concern and they say don't increase our property taxes. What options do we have? Any thoughts on that and have you visited with the Governor?

Mr. Rauschenberger: I have had discussion with the Governor and his office. Everything has been talked about. It is a serious budget consideration. But is there any simple solution I really don't think there is. Nothing has come up regarding a new policy proposal. If you change that system, it is one of the most difficult things. You have to see who will benefit more than others.

Chairman Holmberg: Anyone else on 1006.

The subcommittee for HB 1006 will be Senator Wanzek: Chair; Senator Mathern, Senator Sorvaag. The hearing was closed on HB 1006.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1006
3/27/2017
Job # 29714

Subcommittee
 Conference Committee

Committee Clerk Signature

Pam Dever for Rose Leming

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner.

Minutes:

Legislative Council: Adam Mathiak
OMB: Becky Keller

Senator Wanzek called the sub-committee to order on HB 1006. **Senators Sorvaag and Mathern.** ND tax budget is the discussion. This is our first meeting.

Ryan Rauschenberger, State Tax Commissioner, State Tax Department: Nothing has changed since I last visited. Our main ask right now is general fund. We've made reductions in operating efficiencies. We are not asking anything back from the House version. On the salary side, we have 11 open position and the funding for those are out of the bill. We got three auditor positions back. We have four open audits positions unfilled. We are asking for that \$640,000 for those two corporate income audit position and two sales tax positions back. Funding is out of the bill as it came from the House. Revenues are tight right now. We want to make sure we maintain that level of activity for the general fund.

Senator Sorvaag: You are still OK with what you are given in the operating line?

Ryan Rauschenberger: Absolutely. We have made the reductions in printing and postage.

Senator Wanzek: These four that you are asking for, they are already there as FTE's? They are just not funded.

Ryan Rauschenberger: That is true. The four we are asking to keep the four which were part of the eleven. We have 136 FTEs in the current biennium total before allotments. This bill we would have 125. We are asking for 4 auditors back. Which would bring us to 129.

Senator Wanzek: That would fund 129, but you'd still have 133 FTE's, right?

Ryan Rauschenberger: Yes.

Senator Mathern: Crucial that we maintain the revenues that fund those four positions. I support that.

Senator Wanzek: I'm a farmer, and we buy products that give us a ten percent return or gain. There's a point where there is the law of diminishing returns. I assume we are not close to that. When you look at the return per auditor, you may think why don't we add more auditors. The law of diminishing returns goes into effect. (5.27)

Ryan Rauschenberger: Absolutely. We audit all types of businesses and multi-national companies. If you added 100 more auditors, you wouldn't keep that same return per auditor. We're still auditing some active accounts. The amount of materials that are brought into the state at higher prices. That has an impact on sale tax. We still have the ability to generate returns from those active years as far as tax sales and corporate tax as well. We're auditing those as we speak. (6.46)

Senator Wanzek: I know the multi-state tax commissioner was a priority as far as restoring some funds. In the governor's budget, and now the engrossed bill has taken a different turn, would you comment?

Ryan Rauschenberger: The House version of the multi-state tax commission funding allows for those dues to be paid from the revenues that are collected from the multi-state tax commission. Right now, that is a line item in our budget. This would allow it to be netted out with the collections. There has been a 5 to 1 return on sales and income tax audits. It is a money maker. The MTC fees that we have been paying and will continue to pay generate a 5 to 1 return. This language is saying pay as you go. We would pay out our dues that keep us in the program. Those are national sales tax and corporate auditors. That helps us not to have as many FTE's. This takes it out of our line item of our operating budget and allows pay as we go.

Senator Wanzek: Does the multi-state tax commission have a presence in all the states?

Ryan Rauschenberger: They will audit large multi-state companies that have a presence in multi-states or around the world. or those around the world. They will do multi-state audits on large companies.

Senator Wanzek: This new approach with the multi-state audit fund will solve the issue? You suggested \$431,000 would restore that for multi-state tax commission. This new language would take care of that.

Ryan Rauschenberger: Yes. It would be a self-funding fee. It would be an ongoing concern. (9.52)

Senator Wanzek: As far as operating expenses, if we were to restore all the auditors, you can make it work.

Ryan Rauschenberger: Yes, we can. We don't travel as much. We can do a lot digitally. We don't travel as much. We've been able to restrain our operating budget.

Senator Wanzek: In your testimony, you re-negotiated with Gen-tax and saved money there.

Ryan Rauschenberger: Correct. We were able to re-negotiate down to \$3.2M with same level service. Most IT contracts just keep going up.

Senator Wanzek: The vendor recognized that these are tough times for states.

Ryan Rauschenberger: We keep in touch with them. They do 25 states and large cities and subdivisions. They have a feel for each state and realize we're in a tight situation.

Senator Sorvaag: In those open positions, one is the tax specialist. You say without this one processing returns will be slower. Elaborate please.

Ryan Rauschenberger: It could have an impact on refunds. With fewer people working in the individual sections, the tax service specialist impacts the amount of time it needs to get refunds out. These are open positions now and not in the future, so we are seeing that right now. We're still doing the best job we can. We actually added more work because we are doing more fraud detection. We stopped fraud from going out the door last year. It's the auditors that do the revenue generation work and we will prioritize section by section.

Senator Wanzek: You asked for temporary salaries. I'm assuming that would be deferred in priority ranking compared to the auditors.

Ryan Rauschenberger: We are withdrawing the \$50,000 that we had within the governor's budget as far as the temporary salary's request. We will work within our existing budget that we have set aside for temporary salaries. If you go down to the water commission building, in the basement is a big room and we have 20-40 temps at any given time. They are working on opening and scanning data input. (15.51)

Senator Wanzek: As far as shortage in disabled veterans credit, it can be made up from the gains made in the Homestead Tax credit. You have transfer language in the bill. That helps you there, right?

Ryan Rauschenberger: We do have the language in the bill which would help. There is enough appropriated within the Homestead line item. There are two separate line items. We'd transfer the excess and cover it for this biennium. The question is next biennium. There would still be a shortage going in to the next biennium. That would be a policy question on how to handle that.

Senator Wanzek: Wouldn't section 5 address the next biennium as to transferring between the two?

Ryan Rauschenberger: That is correct. Just whether the same excess would be there next time. We just don't know that. We are dealing with a deficiency next biennium.

Senator Wanzek: If the dollars appropriated for those two come up short, would we do a deficiency appropriation?

Ryan Rauschenberger: We have done that. We have gone to the emergency commission. We have done deficiency appropriations when it has been an odd year. We have had deficiencies in the past that we have had to address.

It is an application based program. If they apply and are eligible, write out a check. There is always a hit and miss and guessing game. The coupon mailers, radio and because of the PSA, we get free time TV time to promote that program. Just don't know who's going to apply. Always a certain amount that don't know about it. Or just won't apply. We have definitely seen the growth in the disabled veterans side.

Senator Mathern: Should we put a little money into veteran's program? If we already know it's \$1.5M projected short. Why not put some in there?

Senator Wanzek: We're not far from coming up with some amendments. I request that we schedule another meeting and come up with some amendments We can talk about what level might be. Whether we restore all four, which may be the way to go. Not far apart here, and hope to settle this in one more meeting.

Senator Wanzek: Thank you, Ryan. Closed the sub-committee hearing on HB 1006.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1006
3/29/2017
Job # 29794

- Subcommittee
 Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner.

Minutes:

Testimony Attached # 1

Legislative Council: Adam Mathiak
OMB: Becky Keller

Senator Wanzek: Called the sub-committee to order on HB 1006. Senator Sorvaag and Senator Mathern were also present.

Senator Wanzek: Last time we met, it appeared we were pretty close to getting everything together. I did visit with Adam about preparing some amendments, but we don't have them yet. I told him to hold on it. I wanted to do more work on the Homestead Tax Credit and Disabled Veteran's Credit to see if they could provide a little more accuracy of where they might think it is going to be. I majored in accounting, and I want to be accurate as we can possibly be. It is my thought that we should make an effort to get the language closer to where it needs to be. In visiting with the department, we have come up with some numbers that would be a little more accurate.

Senator Sorvaag: Your intent, even if we can get the numbers closers, is to leave the flexibility anyway?

Senator Wanzek: Yes, I want to leave the flexibility. It appears to me that 6.9 in the disabled veterans credit line is not going to be enough. That is the one that I am most concerned of. And the other one appears to be somewhat strong. This would be a shift of a few dollars from one to the other to try and get them as close as possible.

(3:00) Joe Morrissette, Deputy Tax Commissioner, State Tax Department: See Attachment #1 for a spreadsheet on the history of the two programs. We do not have all of the counties reported yet for the payments that have been made in 2017. It is very close, and there are just a handful of counties left. These allow for some adjustment yet in those last few remaining counties in the estimated 2017 column. The numbers were less than what we had expected and less than what we had testified about previously in our budget

presentation. Actually there is a slight decrease in Disabled Veterans Program Credit claims, and almost flat growth on the Homestead Tax Credit. If you want to look at re-balancing the two lines, I took those estimates for 2017 and applied a uniform growth between 4 and 5% to both of those lines. Knowing that is not necessarily how they are going to shake out. One program could grow by significantly more, or even decrease as we saw this year. Just as a methodology applying kind of a consistent growth to both of those programs, it would get you about \$14.8 million for the Homestead Tax Credit next biennium, and about \$8.1 million for the Disabled Vets.

Senator Mathern: Your intent would be to insert these numbers into the amendment for the bill.

Senator Wanzek: That is correct. I did ask them to come up with a more accurate number to the best of their ability. It may seem like a moot point. It's an educated guess. I still want to leave the flexibility, but maybe we won't have to shift as many dollars when it comes to the end. Last meeting there seemed to be support for restoring money for the two auditors. It is not adding any new auditors, but it is restoring funding for two corporate income tax auditors and two sales and use tax auditors, correct?

Senator Sorvaag: In looking in my notes, you would need no more operating expense even with the addition of these four auditors?

Ryan Rauschenberger: Yes.

Senator Wanzek: If we can do that we would be helping them out a lot, and then get the two lines in the budget with the property tax credits a little more in line with where we think they are going to be.

Senator Mathern: Moved to draft an amendment to add the benefits and salaries for the 4 auditors and that we adjust the numbers for the Homestead Tax Credit and the Disabled Veterans Credit to reflect the new data that was given by the tax department.

Senator Sorvaag: Seconded the motion.

Senator Wanzek: As far as those two numbers, we will use the numbers that Joel presented. It will just shift the dollars, and it would come out to the same number of dollars. We will make sure that we will not reduce it.

A Roll Call Vote was taken: 3 yeas, 0 nays, 0 absent.

Motion Carried.

Senator Wanzek: Closed the sub-committee on HB 1006.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1006
3/30/2017
JOB #29816

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A DO PASS AS AMENDED for the Tax Commissioner's Office

Minutes:

1. Proposed Amendment # 17.0491.02001

Chairman Holmberg: called the Committee to order on HB 1006. Roll call was taken. All committee members were present. Adam Mathiak, Legislative Council and Stephanie Gullickson, OMB were also present.

Senator Wanzek: Distributed his amendments # 17.0491.02001 and explained the amendments to the committee.

Senator Wanzek: Moved the Amendment to 1006. 2nd by Senator Mathern.

Chairman Holmberg: Would you call the roll on the Amendment?

A Roll Call vote was taken. Yea: 14; Nay: 0; Absent: 0.

Senator Wanzek: Moved a Do Pass as Amended. 2nd by Senator Mathern.

Chairman Holmberg: You will be in conference committee.

Chairman Holmberg: Call the roll on a Do Pass as Amended on HB 1006.

A Roll Call vote was taken. Yea:14; Nay:0. Absent: 0. Senator Wanzek will carry the bill.

The hearing was closed on HB 1006.

CJ
 3130-40
 1 of 2

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1006

Page 1, replace lines 16 through 23 with:

"Salaries and wages	\$21,528,135	\$685,869	\$22,214,004
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(3,890,000)	14,800,000
Disabled veterans' credit	<u>7,175,091</u>	<u>935,109</u>	<u>8,110,200</u>
Total all funds	\$55,037,488	(\$3,157,989)	\$51,879,499
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$54,912,488	(\$3,157,989)	\$51,754,499"

Page 2, line 2, replace "\$380,646" with "\$353,067"

Page 2, line 3, replace "\$1,249" with "\$1,241"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$21,528,135	\$21,601,583	\$612,421	\$22,214,004
Operating expenses	7,628,262	6,749,295		6,749,295
Capital assets	16,000	6,000		6,000
Homestead tax credit	18,690,000	16,000,000	(1,200,000)	14,800,000
Disabled veterans' credit	<u>7,175,091</u>	<u>6,910,200</u>	<u>1,200,000</u>	<u>8,110,200</u>
Total all funds	\$55,037,488	\$51,267,078	\$612,421	\$51,879,499
Less estimated income	<u>125,000</u>	<u>125,000</u>	<u>0</u>	<u>125,000</u>
General fund	\$54,912,488	\$51,142,078	\$612,421	\$51,754,499
FTE	136.00	133.00	0.00	133.00

Department No. 127 - State Tax Commissioner - Detail of Senate Changes

	Adjusts Funding for Health Insurance Increases ¹	Adds Funding for Salaries and Wages ²	Rebalances Funding for Tax Credit Programs ³	Total Senate Changes
Salaries and wages	(\$27,579)	\$640,000		\$612,421
Operating expenses				
Capital assets				
Homestead tax credit			(1,200,000)	(1,200,000)
Disabled veterans' credit			<u>1,200,000</u>	<u>1,200,000</u>
Total all funds	(\$27,579)	\$640,000	\$0	\$612,421
Less estimated income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
General fund	(\$27,579)	\$640,000	\$0	\$612,421
FTE	0.00	0.00	0.00	0.00

CJ
3/30-2014
2 of 2

¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is adjusted to reflect this change.

² Funding of \$640,000 from the general fund is added to restore funding for 4 FTE auditor positions that had been reduced as part of the 2015-17 biennium budget reductions.

³ Funding of \$1.2 million is transferred from the homestead tax credit program to the disabled veterans' tax credit program to align the appropriations with the anticipated funding needs for the 2017-19 biennium.

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1006**

Senate Appropriations Committee
 Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider draft amendment

Motion Made By Mathern Seconded By Sorvaag

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Mathern	Y	
Vice Chair Krebsbach			Senator Grabinger		
Vice Chair Bowman			Senator Robinson		
Senator Erbele					
Senator Wanzek	Y				
Senator Kilzer					
Senator Lee					
Senator Dever					
Senator Sorvaag	Y				
Senator Oehlke					
Senator Hogue					

Total (Yes) 3 No 0

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Keep 4 auditors and adjust numbers for Homestead and Disabled Veterans tax credits.

Date: 3-30-17

Roll Call Vote #: _____

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1006**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: 17.0491.02001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Wanzek Seconded By Mathern

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mathern	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 3-30-17

Roll Call Vote #: 2

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1006

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Wanzek Seconded By Mathern

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mathern	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Wanzek

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1006, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1006 was placed on the Sixth order on the calendar.

Page 1, replace lines 16 through 23 with:

"Salaries and wages	\$21,528,135	\$685,869	\$22,214,004
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
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Less estimated income	125,000	0	125,000
Total general fund	\$54,912,488	(\$3,157,989)	\$51,754,499"

Page 2, line 2, replace "\$380,646" with "\$353,067"

Page 2, line 3, replace "\$1,249" with "\$1,241"

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$21,528,135	\$21,601,583	\$612,421	\$22,214,004
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Less estimated income	125,000	125,000	0	125,000
General fund	\$54,912,488	\$51,142,078	\$612,421	\$51,754,499
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Department No. 127 - State Tax Commissioner - Detail of Senate Changes

	Adjusts Funding for Health Insurance Increases ¹	Adds Funding for Salaries and Wages ²	Rebalances Funding for Tax Credit Programs ³	Total Senate Changes
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Capital assets				
Homestead tax credit			(1,200,000)	(1,200,000)
Disabled veterans' credit			1,200,000	1,200,000
Total all funds	(\$27,579)	\$640,000	\$0	\$612,421
Less estimated income	0	0	0	0
General fund	(\$27,579)	\$640,000	\$0	\$612,421
FTE	0.00	0.00	0.00	0.00

¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is adjusted to reflect this change.

² Funding of \$640,000 from the general fund is added to restore funding for 4 FTE auditor positions that had been reduced as part of the 2015-17 biennium budget reductions.

³ Funding of \$1.2 million is transferred from the homestead tax credit program to the disabled veterans' tax credit program to align the appropriations with the anticipated funding needs for the 2017-19 biennium.

2017 CONFERENCE COMMITTEE

HB 1006

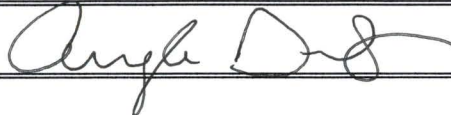
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

HB1006
4/11/2017
Job 30037

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

See attachments A and B

Chairman Vigesaa: Opened the conference committee on HB1006.

Senator Wanzek: Explained the changes that the Senate made to the budget. (See attachment A).

Chairman Vigesaa: Explained attachment B.

Chairman Vigesaa: We are going to be very firm on staying where we're at with un-funding those four spots. We have no issues with the other line items.

Representative Delmore: The four positions seem like a lot. Maybe one in each part; maybe there's a way to reach some compromise. We worked hard in every budget to cut any FTE that we could find, simply because of the cycle we're in.

Senator Wanzek: It was presented to us that there were eight open positions and going into the allotment that they left them vacant. Since then, there have been an additional three people who left and those have not been filled. We feel part of the reason they didn't restore them is because of our financial situation. They listed that as a priority on getting some of these auditors back.

Representative Nathe: I appreciate what the Senate has done and it all makes sense. There's a lot of budgets and agencies I'd like to see add FTE's. Where are we going to get the \$612,000.00 when we're \$400 million short? It's a hard decision we have to make.

Senator Wanzek: If I might remind the committee, this isn't adding FTE's. These are already authorized. It's funding four of the eleven positions that are open right now.

Chairman Vigesaa: I agree that once times improve, they need to keep the authority to have the FTEs. When the funding returns and they can fund these positions, that's fine.

Senator Mathern: These positions are helping us to get to when times get better. We've had a fair number of changes in our corporate income tax policy. I think putting these people to work actually gets us to the point where we have the revenue to do the other things we want to do.

Chairman Vigesaa: Closed the conference committee.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

HB1006
4/12/2017
Job 30077

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Chairman Vigesaa: Opened the conference committee on HB1006.

Chairman Vigesaa: The House is ok with the changes in the Homestead tax credit and veterans. The only thing we need to decide as a committee is what we'll do with the funding for these four positions. Starting a new FTE at an auditor III level would start at \$150,000.00.

Senator Wanzek: We thought that maybe we should consider splitting the funding and leave the decision up to them as far as which two they want to hire. The handout we got yesterday says the \$640,719.00. What if we split that to \$320,000.00?

Chairman Vigesaa: I have the starting numbers from you if you were to hire an auditor III. What is the starting salary for an auditor I on the corporate side?

Glenda Anderson, Director of Fiscal Management, Office of State Tax Commissioner: What I'm probably looking at is \$140,000.00 for an auditor I.

Chairman Vigesaa: The \$136,000.00 was at the time those were vacated?

Glenda Anderson: Correct.

Chairman Vigesaa: That's a been a considerable amount of time?

Glenda Anderson: Correct.

Representative Nathe: Is there any carry over money in this budget?

Joe Morrisette, Deputy Commissioner, Office of State Tax Commissioner: We expect to have some turn-back money because we left certain positions vacant to meet the allotment and as other positions became vacant, we didn't fill those to meet the 90% budget. We're estimating in our salary line that we'll have \$140,000.00-150,000.00 that would be unspent.

Representative Nathe: Could we use that unspent money towards hiring a level 3 auditor?

Joe Morrisette: That would be possible. Our statutory doesn't allow us to carry it over. There would have to be a specific exception to the turn-back requirement.

Representative Nathe: But that's something we could do?

Joe Morrisette: Certainly.

Senator Wanzek: While you're turning back roughly \$150,000.00, isn't that turn-back from a base level that's \$3 million higher than the budget that's before us for next biennium?

Joe Morrisette: Our base level after allotments is \$21.5 million for salaries and it would be a little higher next biennium.

Senator Wanzek: More of the savings is coming from the tax credits.

Joe Morrisette: That would be true. There's some savings in our operating line too.

Senator Mathern: It appears in this tight employment market that the filling of positions isn't that easy. I'm very open to having the flexibility left with the tax commissioner whether they fill a sales auditor or corporate auditor. I support the suggestion that we put \$320,000.00 in.

Chairman Vigesaa: When you added the \$640,000.00 back in, you didn't specify which positions they would be?

Senator Wanzek: We talked about adding four positions; two sales tax auditors and two corporate income tax auditors. We were specific to two of each.

Joe Morrisette: That's correct. Those were the specific positions we brought forward.

Chairman Vigesaa: We would have to do a change in language to allow that flexibility.

Adam Mathiak, Fiscal Analyst, ND Legislative Council: We did have the flexibility in there originally. If you want it to be very specific, we can make it that way or just say audit positions.

Senator Sorvaag: I would hope if we did decide to go with the two, we'd just do the dollars and leave out the definitions and let the tax commissioner decide who to hire.

Chairman Vigesaa: I don't think we'd have any issues with the flexibility.

Chairman Vigesaa: Closed the conference committee.

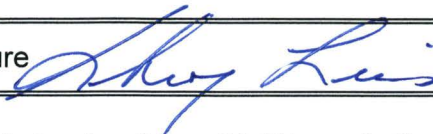
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

HB1006
4/13/2017
Recording Job# 30126

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Chairman Vigesaa: Opened the conference committee on HB1006.

Chairman Vigesaa: We would be willing to reinstate \$150,000.00 for one position. That could be up to the department as to what position they would want to fill.

Senator Wanzek: I think we're going to hold tough.

Chairman Vigesaa: The reason we have is it's funding. This is a general fund agency. When we continue to look at our budget status summary that we get every week, we're so far under water yet on our general fund balance. It's the time of the session where we have to make some difficult choices to balance. This would allow us to come a little way that way to help us balance our budget.

Senator Wanzek: As it was presented to us in the second half of the session, we look at these auditors as revenue generators. From the numbers we were given, collections per auditor average \$700,000.00; so if \$150,000.00 would bring \$700,000.00 into the general fund, the net effect would be a positive one.

Senator Sorvaag: I'm more in line that we came to you with 4 FTE's and you're at zero. I would like to see a little closer to the middle and get two of them and maybe have the number at \$300,000.00.

Senator Mathern: One part of your proposal is very positive and that's giving the department the authority to designate whether they go into sales or corporate.

Chairman Vigesaa: I always look at how long these positions have been vacant. In the case of one of those sales tax auditors it's been vacant since July 2016; that's nine months.

They've been getting by without either one of these positions for several months now. If we give them one, they'll find efficiencies and ways to make this work. I think the House is going to be at the \$150,000.00 for one of the positions.

Representative Nathe: I think it's important that we look at when these have been vacant. The two auditor I's, the corporate ones, have been vacated since 2015. That kind of tells me that maybe it's not as high on the priority list with the downturn in the economy. In sales tax we have one that's been open for almost one year. I have it in my notes that auditors on the corporate side can generate \$3 million per auditor. If they can generate \$3 million, why has this been open since 2015. That tells me that there is no need for them now.

Senator Wanzek: The fact that they have been vacant that long; just think of the money we've been missing out on. As it was presented to us, they're vacant because they were preparing for the allotment.

Senator Mathern: Other information that we did hear that reflects on this is that the corporate tax auditor is generally more complicated work. They really need to hire people with experience.

Chairman Vigesaa: If they vacated these and left them open to satisfy the allotment that was ordered, should we be back filling and putting money back in to counter what the allotment and the 90% budget request was meant to achieve? That's my concern; that we're putting money back in to areas where those savings were looked at for hitting those goals.

Senator Sorvaag: That's the problem with allotments, it takes from everywhere; we're here to prioritize and make corrections on maybe where the allotment didn't work properly in every department. It's part of our job to pick and choose; where they were just told to take percentages out.

Senator Wanzek: It appears that we are talking about a difference of \$150,000.00. If there was an end in sight; right at the moment none of us are willing to settle.

Chairman Vigesaa: I would agree; but I just wanted to share this with you.

Representative Delmore: I think they also have a little bit of money in the salary line that they could enhance the auditor. They could also hire someone part time.

Chairman Vigesaa: Closed the conference committee.

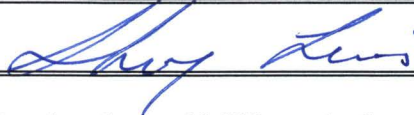
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

HB1006
4/17/2017
Recording Job# 30169

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Chairman Vigesaa: Opened the conference committee on HB1006.

Chairman Vigesaa: Has the Senate had any change of heart on their numbers?

Senator Sorvaag: What we would like to counter offer is that we go one FTE now and one in the second year.

Representative Nathe: So one now and one in the second year and that equals \$225,000.00?

Senator Sorvaag: We're figuring about \$50,000.00 per employee; so there would just be enough for the second year for the one.

Chairman Vigesaa: From the House perspective, we haven't had a lot of time to discuss if we were willing off of our position. We're trying to hold our positions as best we can because of the \$53 million difference between the two chambers on the budgets. For today, we'd like to remain at \$150,000.00. We'll take the offer into consideration.

Senator Wanzek: One of the reasons we're hanging in there a little bit is that we see these employees as generating revenue. What was presented to us in the Senate on these particular employees, on average they have been generating \$700,000.00 in collections per year per auditor; that would be \$2.1 million in additional revenue. If they're only half right it would still be \$1.05 million.

Chairman Vigesaa: If you were granted these funds to hire another individual after July 1, how long does it take for a sales tax auditor to get up to speed, in the field doing the audits and getting the return that we're hearing about from the Senate?

Ryan Rauschenberger, Commissioner, ND Tax Department: A corporate income tax auditor would have even a longer period for training. The sales tax would have a shorter time where a person could do some smaller audits or help with bigger audits. It would be three to four months of training before any individual audits would be assigned. As it gets more complicated probably more dollars would be involved with those audits.

Chairman Vigesaa: Closed the conference committee.

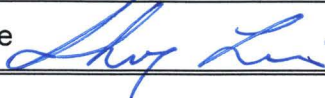
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

HB1006
4/18/2017
Recording Job# 30212

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veteran's credit; and to provide for a transfer.

Minutes:

Chairman Vigesaa: Opened the conference committee on HB1006.

Chairman Vigesaa: Explained amendment 17.0491.02003.

Adam Mathiak, Fiscal Analyst, ND Legislative Council: Explained the amendment.

Chairman Vigesaa: That \$75,000.00 won't show up as an appropriation on this budget?

Adam Mathiak: That's correct. In our office we've been working on preparing some rough estimates of other turn back that might be coming in. As part of the official forecast there was around \$35 million of known turn back that was part of the December executive forecast. There haven't been too many changes to that known turn back amount. There would be about \$2.8 million coming from the tax commissioner's office; mainly related to the homestead tax credit program for this biennium. This really won't show up in budget status.

Chairman Vigesaa: It will give the department \$225,000.00 to use towards the sales tax audit positions that we've discussed.

Adam Mathiak: That's correct. There's the \$75,000.00 of carry over authority and then the \$150,000.00 added into their 2017-2019 budget.

Senator Wanzek: The fact that we're allowing them to keep the \$75,000.00; they can direct that to wherever their need is? We don't have to appropriate authority for them to utilize that in any manner? It just stays in their budget and they can use it for the auditor?

Adam Mathiak: The language in this section does direct them to use that for a specific purpose; it wouldn't just be open to any expenditure in the 2017-2019 biennium. You're

correct, it doesn't need to be re-appropriated. It's just a continuation of existing appropriation authority.

Senator Wanzek: The \$150,000.00 there's adjustments for health insurance. Is some of that adjustment due to the fact that we're hiring less FTE's that the Senate showed? Is that part of the reason there's a larger reduction?

Adam Mathiak: That health insurance adjustment is just technical correction from the original amounts that were included in the budgets. The assumption is that the \$150,000.00 plus the \$75,000.00 is the total compensation package for the employees.

Senator Sorvaag: They can do two and they'll have to space them throughout the biennium to make the money work. Would that be the conclusion?

Adam Mathiak: That's correct. Based on the time for recruiting, hiring and training they probably wouldn't have someone in there day one of the biennium. As they are staggered through the natural process, it probably will work itself out. There would be an adjustment to the base payroll change next time around to account for the full employment of the two individuals.

Chairman Vigesaa continued with his explanation.

Senator Sorvaag: Made a motion that the Senate recedes from Senate amendments and amends with 17.0491.02003.

Representative Nathe: Seconded the motion.

Roll Call Vote: 6 Yeas 0 Nays 0 Absent.

Motion Carried.

Chairman Vigesaa: Closed the conference committee.

4/19/17 DF
 1082

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1006

That the Senate recede from its amendments as printed on pages 1291 and 1292 of the House Journal and pages 1058 and 1059 of the Senate Journal and that Engrossed House Bill No. 1006 be amended as follows:

Page 1, line 3, after the third semicolon insert "to provide an exemption;"

Page 1, replace lines 16 through 23 with:

"Salaries and wages	\$21,528,135	\$195,869	\$21,724,004
Operating expenses	7,628,262	(878,967)	6,749,295
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Homestead tax credit	18,690,000	(3,890,000)	14,800,000
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Total all funds	\$55,037,488	(\$3,647,989)	\$51,389,499
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$54,912,488	(\$3,647,989)	\$51,264,499"

Page 2, line 2, replace "\$380,646" with "\$353,067"

Page 2, line 3, replace "\$1,249" with "\$1,241"

Page 2, after line 25, insert:

"SECTION 7. EXEMPTION - SALES TAX AUDIT POSITION. Up to \$75,000 of the amount appropriated from the general fund to the tax commissioner in section 1 of chapter 40 of the 2015 Session Laws is not subject to section 54-44.1-11 and any unexpended funds from this amount are available to provide salaries and wages funding for a sales tax audit position during the biennium beginning July 1, 2017, and ending June 30, 2019."

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$21,528,135	\$21,601,583	\$122,421	\$21,724,004	\$22,214,004	(\$490,000)
Operating expenses	7,628,262	6,749,295		6,749,295	6,749,295	
Capital assets	16,000	6,000		6,000	6,000	
Homestead tax credit	18,690,000	16,000,000	(1,200,000)	14,800,000	14,800,000	
Disabled veterans' credit	<u>7,175,091</u>	<u>6,910,200</u>	<u>1,200,000</u>	<u>8,110,200</u>	<u>8,110,200</u>	
Total all funds	\$55,037,488	\$51,267,078	\$122,421	\$51,389,499	\$51,879,499	(\$490,000)
Less estimated income	<u>125,000</u>	<u>125,000</u>	<u>0</u>	<u>125,000</u>	<u>125,000</u>	<u>0</u>
General fund	\$54,912,488	\$51,142,078	\$122,421	\$51,264,499	\$51,754,499	(\$490,000)
FTE	136.00	133.00	0.00	133.00	133.00	0.00

Department No. 127 - State Tax Commissioner - Detail of Conference Committee Changes

	Adjusts Funding for Health Insurance Increases ¹	Adds Funding for Salaries and Wages ²	Rebalances Funding for Tax Credit Programs ³	Total Conference Committee Changes
Salaries and wages	(\$27,579)	\$150,000		\$122,421
Operating expenses				
Capital assets				
Homestead tax credit			(1,200,000)	(1,200,000)
Disabled veterans' credit			1,200,000	1,200,000
Total all funds	(\$27,579)	\$150,000	\$0	\$122,421
Less estimated income	0	0	0	0
General fund	(\$27,579)	\$150,000	\$0	\$122,421
FTE	0.00	0.00	0.00	0.00

¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is adjusted to reflect this change.

² Funding of \$150,000 from the general fund is added to restore funding for 1 FTE sales tax audit position that had been reduced as part of the 2015-17 biennium budget reductions. The Senate restored \$640,000 from the general fund relating to 4 FTE audit positions.

³ Funding of \$1.2 million is transferred from the homestead tax credit program to the disabled veterans' tax credit program to align the appropriations with the anticipated funding needs for the 2017-19 biennium, the same as the Senate.

A section is added to provide an exemption to allow up to \$75,000 of unspent 2015-17 biennium appropriation authority to continue in the 2017-19 biennium for a sales tax auditor position. With the \$150,000 from the general fund restored by the Conference Committee as described above, a total of \$225,000 is provided to restore funding for 2 FTE sales tax audit positions.

Date: [Click here to enter a date.](#)
 Roll Call Vote #: "Enter Vote #"

**2017 HOUSE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1006 as (re) engrossed

House Appropriations-Government Operations Division Committee

- Action Taken**
- HOUSE accede to Senate Amendments
 - HOUSE accede to Senate Amendments and further amend
 - SENATE recede from Senate amendments
 - SENATE recede from Senate amendments and amend as follows
 - Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: _____ Seconded by: _____

Representatives	4/11	4/12	4/13	Yes	No	Senators	4/11	4/12	4/13	Yes	No
Chairman Vigesaa	X	X	X			Senator Wanzek	X	X	X		
Representative Nathe	X	X	X			Senator Sorvaag	X	X	X		
Representative Delmore	X	X	X			Senator Mathern	X	X	X		
Total Rep. Vote						Total Senate Vote					

Vote Count Yes: _____ No: _____ Absent: _____

House Carrier _____ Senate Carrier _____

LC Number _____ of amendment

LC Number _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

**2017 HOUSE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1006 as (re) engrossed

House Appropriations-Government Operations Division Committee

- Action Taken**
- HOUSE accede to Senate Amendments
 - HOUSE accede to Senate Amendments and further amend
 - SENATE recede from Senate amendments
 - SENATE recede from Senate amendments and amend as follows
 - Unable to agree, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Senator Sorvaag Seconded by: Representative Nathe

Representatives	4/17	4/18		Yes	No	Senators	4/17	4/18		Yes	No
Chairman Vigesaa	X	X		X		Senator Wanzek	X	X		X	
Representative Nathe	X	X		X		Senator Sorvaag	X	X		X	
Representative Delmore	X	X		X		Senator Mathern	X	X		X	
Total Rep. Vote				3		Total Senate Vote				3	

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier Representative Vigesaa Senate Carrier Senator Wanzek

LC Number 17.0491.02003 . _____ of amendment

LC Number _____ . 04000 _____ of engrossment

Emergency clause added or deleted
 Statement of purpose of amendment
 Motion Carried.

REPORT OF CONFERENCE COMMITTEE

HB 1006, as engrossed: Your conference committee (Sens. Wanzek, Sorvaag, Mathern and Reps. Vigesaa, Nathe, Delmore) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1291-1292, adopt amendments as follows, and place HB 1006 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1291 and 1292 of the House Journal and pages 1058 and 1059 of the Senate Journal and that Engrossed House Bill No. 1006 be amended as follows:

Page 1, line 3, after the third semicolon insert "to provide an exemption;"

Page 1, replace lines 16 through 23 with:

"Salaries and wages	\$21,528,135	\$195,869	\$21,724,004
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(3,890,000)	14,800,000
Disabled veterans' credit	7,175,091	935,109	8,110,200
Total all funds	\$55,037,488	(\$3,647,989)	\$51,389,499
Less estimated income	125,000	0	125,000
Total general fund	\$54,912,488	(\$3,647,989)	\$51,264,499"

Page 2, line 2, replace "\$380,646" with "\$353,067"

Page 2, line 3, replace "\$1,249" with "\$1,241"

Page 2, after line 25, insert:

"SECTION 7. EXEMPTION - SALES TAX AUDIT POSITION. Up to \$75,000 of the amount appropriated from the general fund to the tax commissioner in section 1 of chapter 40 of the 2015 Session Laws is not subject to section 54-44.1-11 and any unexpended funds from this amount are available to provide salaries and wages funding for a sales tax audit position during the biennium beginning July 1, 2017, and ending June 30, 2019."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$21,528,135	\$21,601,583	\$122,421	\$21,724,004	\$22,214,004	(\$490,000)
Operating expenses	7,628,262	6,749,295		6,749,295	6,749,295	
Capital assets	16,000	6,000		6,000	6,000	
Homestead tax credit	18,690,000	16,000,000	(1,200,000)	14,800,000	14,800,000	
Disabled veterans' credit	7,175,091	6,910,200	1,200,000	8,110,200	8,110,200	
Total all funds	\$55,037,488	\$51,267,078	\$122,421	\$51,389,499	\$51,879,499	(\$490,000)
Less estimated income	125,000	125,000	0	125,000	125,000	0
General fund	\$54,912,488	\$51,142,078	\$122,421	\$51,264,499	\$51,754,499	(\$490,000)
FTE	136.00	133.00	0.00	133.00	133.00	0.00

Department No. 127 - State Tax Commissioner - Detail of Conference Committee Changes

	Adjusts Funding for Health Insurance Increases ¹	Adds Funding for Salaries and Wages ²	Rebalances Funding for Tax Credit Programs ³	Total Conference Committee Changes
Salaries and wages	(\$27,579)	\$150,000		\$122,421
Operating expenses				
Capital assets				
Homestead tax credit			(1,200,000)	(1,200,000)
Disabled veterans' credit			1,200,000	1,200,000
Total all funds	(\$27,579)	\$150,000	\$0	\$122,421
Less estimated income	0	0	0	0
General fund	(\$27,579)	\$150,000	\$0	\$122,421
FTE	0.00	0.00	0.00	0.00

¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is adjusted to reflect this change.

² Funding of \$150,000 from the general fund is added to restore funding for 1 FTE sales tax audit position that had been reduced as part of the 2015-17 biennium budget reductions. The Senate restored \$640,000 from the general fund relating to 4 FTE audit positions.

³ Funding of \$1.2 million is transferred from the homestead tax credit program to the disabled veterans' tax credit program to align the appropriations with the anticipated funding needs for the 2017-19 biennium, the same as the Senate.

A section is added to provide an exemption to allow up to \$75,000 of unspent 2015-17 biennium appropriation authority to continue in the 2017-19 biennium for a sales tax auditor position. With the \$150,000 from the general fund restored by the Conference Committee as described above, a total of \$225,000 is provided to restore funding for 2 FTE sales tax audit positions.

Engrossed HB 1006 was placed on the Seventh order of business on the calendar.

2017 TESTIMONY

HB 1006

**Department 127 - State Tax Commissioner
House Bill Nos. 1006 and 1066**

Executive Budget Comparison to Prior Biennium Appropriations

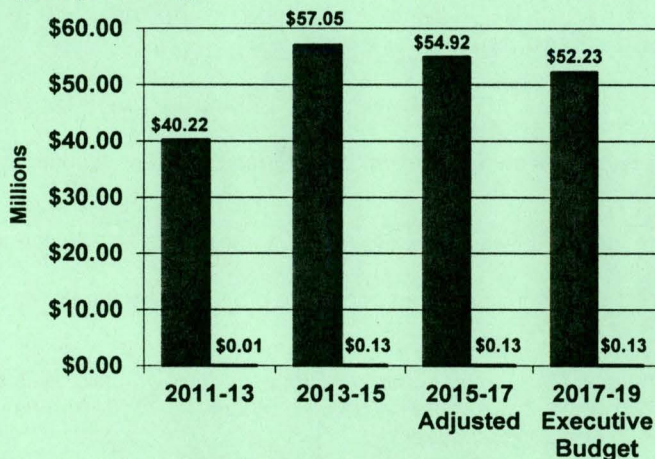
	FTE Positions	General Fund	Other Funds	Total
2017-19 Executive Budget	133.00	\$52,226,535	\$125,000	\$52,351,535
2015-17 Adjusted Legislative Appropriations ¹	136.00	54,920,488	125,000	55,045,488
Increase (Decrease)	(3.00)	(\$2,693,953)	\$0	(\$2,693,953)

¹The 2015-17 biennium agency appropriation amounts reflect general fund budget reductions made in August 2016, but do not include \$20,000 of allocations from the general fund to the agency from the state agency energy impact funding pool for temporary salary adjustments for agency employees located in areas of the state affected by energy development.

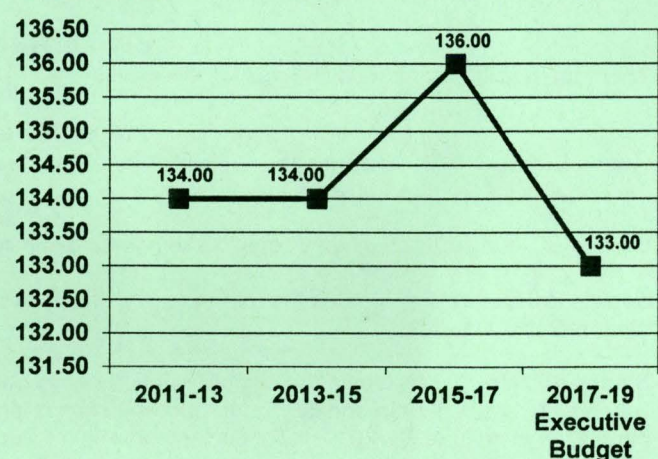
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2017-19 Executive Budget	\$52,226,535	\$0	\$52,226,535
2015-17 Adjusted Legislative Appropriations	54,912,488	8,000	54,920,488
Increase (Decrease)	(\$2,685,953)	(\$8,000)	(\$2,693,953)

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2017-19 Executive Budget	\$52,226,535	\$125,000	\$52,351,535
2017-19 Base Level	54,912,488	125,000	55,037,488
Increase (Decrease)	(\$2,685,953)	\$0	(\$2,685,953)

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides funding for base payroll changes, including the removal of 3 FTE positions (1 tax services FTE position, 1 office assistant FTE position, and 1 document imaging FTE position)	\$25,020		\$25,020
2. Provides funding for state employee salary and benefit increases, of which \$93,503 is for salary increases and \$380,646 is for health insurance increases	\$474,149		\$474,149
3. Adds funding for salaries and wages to partially restore 2015-17 biennium budget reductions	\$436,256		\$436,256
4. Adds funding for temporary employees	\$50,000		\$50,000
5. Reduces funding for operating expenses, primarily related to professional services, postage, and office equipment and furniture	(\$706,487)		(\$706,487)

6. Reduces funding for capital assets	(\$10,000)	(\$10,000)
7. Reduces funding for the homestead tax credit program (\$2,690,000) and the disabled veterans' tax credit program (\$264,891)	(\$2,954,891)	(\$2,954,891)

**Other Sections Recommended to be Added in Executive Budget
(As Detailed in House Bill No. 1066)**

Line item transfers - Section 3 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item. Section 7 includes an emergency clause related to the line item transfers.

Motor vehicle fuel tax revenue transfer - Section 4 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Multistate tax audit fund - Section 5 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year.

Salary of Tax Commissioner - Section 6 provides the statutory changes to increase the Tax Commissioner's annual salary by 1 percent in the second year as follows:

	Current Level	July 1, 2017	July 1, 2018
Tax Commissioner's annual salary	\$114,791	\$114,791	\$115,939

Significant Audit Findings

There are no significant audit findings for this agency.

Major Related Legislation

House Bill No. 1056 - Expands the eligibility of the disabled veterans tax credit program to designated trustees administering the property for an unremarried surviving spouse.

Senate Bill No. 2032 - Section 3 repeals the homestead income tax credit, which was available for tax years 2007 and 2008.

Senate Bill No. 2112 - Updates the terminology in the streamlined sales and use tax agreement to provide consistency with the other member states.

Senate Bill No. 2127 - Limits the eligibility period during which sales and use tax refunds may be claimed on purchases that exceed city or county thresholds. Refunds on purchases prior to July 1, 2017, must be claimed by July 1, 2018. Refunds on purchases after June 30, 2017, must be claimed within 1 year of the date of purchase.

Senate Bill No. 2128 - Extends the records retention period from 3 to 6 years for retailers related to records of the gross proceeds from sales and the records of purchases of inventory intended for resale.

Tax Commissioner - Budget No. 127
House Bill Nos. 1006 and 1066
Base Level Funding Changes

	<u>Executive Budget Recommendation</u>			
	FTE Position	General Fund	Other Funds	Total
2017-19 Biennium Base Level	136.00	\$54,912,488	\$125,000	\$55,037,488
2017-19 Ongoing Funding Changes				
Base payroll changes	(3.00)	\$25,020		\$25,020
Salary increase - Performance		93,503		93,503
Health insurance increase		380,646		380,646
Adds salary funding to restore budget reductions		436,256		436,256
Adds funding for temporary employees		50,000		50,000
Reduces funding for operating expenses		(706,487)		(706,487)
Reduces funding for capital assets		(10,000)		(10,000)
Reduces funding for tax credit programs		(2,954,891)		(2,954,891)
Total ongoing funding changes	(3.00)	(\$2,685,953)	\$0	(\$2,685,953)
One-time funding items				
No one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(3.00)	(\$2,685,953)	\$0	(\$2,685,953)
2017-19 Total Funding	133.00	\$52,226,535	\$125,000	\$52,351,535

Other Sections in Tax Commissioner - Budget No. 127

	<u>Executive Budget Recommendation</u>
Line item transfers	Section 3 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item. Section 7 includes an emergency clause related to the line item transfers.
Motor vehicle fuel tax revenue transfer	Section 4 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.
Multistate tax audit fund	Section 5 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year.
Salary of Tax Commissioner	Section 6 provides the statutory changes to increase the Tax Commissioner's annual salary by 1 percent in the second year of the 2017-19 biennium.

Department 127 - State Tax Commissioner

Appropriations Comparisons to the Original and Adjusted Base Budgets

General Fund Appropriations Adjustments (As a result of the August 2016 General Fund Budget Reductions)

	Ongoing	One-Time	Total
2015-17 original general fund appropriations	\$58,761,918	\$8,000	\$58,769,918
General fund reductions	(3,849,430)	0	(3,849,430)
Adjusted 2015-17 appropriations	\$54,912,488	\$8,000	\$54,920,488
Executive Budget changes	(2,685,953)	(8,000)	(2,693,953)
2017-19 Executive Budget	\$52,226,535	\$0	\$52,226,535

Summary of August 2016 General Fund Budget Reductions

	Ongoing	One-Time	Total
Vacant positions, delayed salary increases, and fewer temporary employees	(\$1,459,579)		(\$1,459,579)
Operating expenses related to travel, office equipment, professional development, and professional services	(576,942)		(576,942)
Homestead tax credit program	(1,310,000)		(1,310,000)
Disabled veterans' tax credit program	(502,909)		(502,909)
Total reductions	(\$3,849,430)	\$0	(\$3,849,430)
Percentage reduction to ongoing and one-time general fund appropriations	6.55%	0.00%	6.55%

2017-19 Executive Budget Changes to the Original and Adjusted Base Budgets

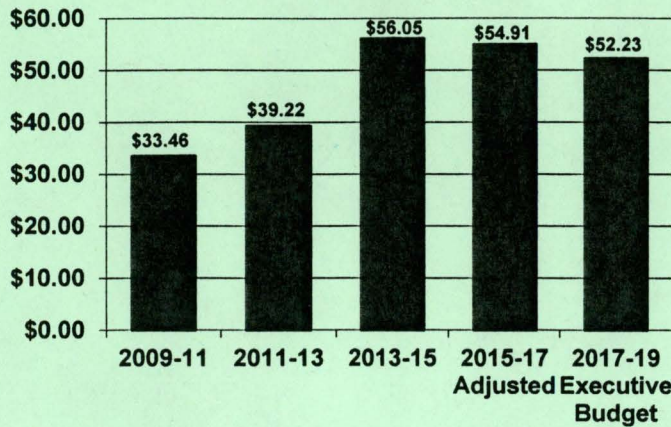
	Changes to Original Budget	Budget Reduction Adjustments	Changes to Adjusted Budget
Base payroll changes	\$25,020		\$25,020
Adds funding for state employee salary and benefit increases	474,149		474,149
Adjusts funding for FTE positions	(1,023,323)	1,459,579	436,256
Adds funding for temporary employees	50,000		50,000
Adjusts funding for operating expenses primarily related to travel, information technology, professional development, and professional services	(1,283,429)	576,942	(706,487)
Reduces funding for capital assets	(10,000)		(10,000)
Adjusts funding for homestead tax credit program	(4,000,000)	1,310,000	(2,690,000)
Adds funding for disabled veterans' tax credit program	(767,800)	502,909	(264,891)
Total	(\$6,535,383)	\$3,849,430	(\$2,685,953)

Department 127 - State Tax Commissioner

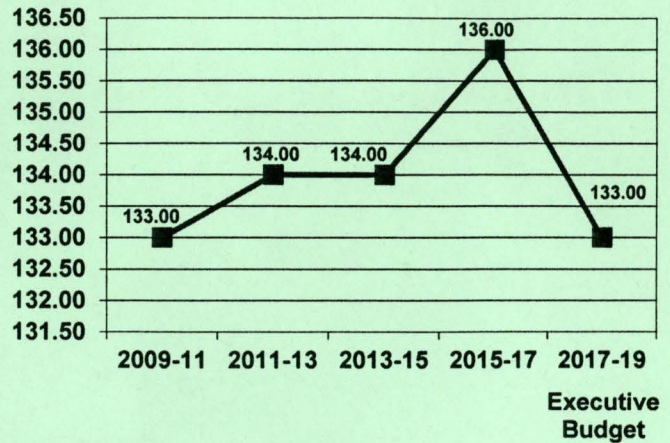
Historical Appropriations Information

Ongoing General Fund Appropriations Since 2009-11

Agency Funding (in Millions)



FTE Positions



Ongoing General Fund Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Executive Budget
Ongoing general fund appropriations	\$33,462,339	\$39,220,304	\$56,054,140	\$54,912,488	\$52,226,535
Increase (decrease) from previous biennium	N/A	\$5,757,965	\$16,833,836	(\$1,141,652)	(\$2,685,953)
Percentage increase (decrease) from previous biennium	N/A	17.21%	42.92%	(2.04%)	(4.89%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	17.21%	67.51%	64.10%	56.08%

Major Increases (Decreases) in Ongoing General Fund Appropriations

2011-13 Biennium

- | | |
|--|-------------|
| 1. Added funding for the homestead tax credit program | \$2,828,788 |
| 2. Added funding for the disabled veterans' tax credit program | \$1,243,920 |
| 3. Added funding for GenTax software support | \$940,000 |
| 4. Added funding for 1 compliance officer FTE position | \$142,323 |

2013-15 Biennium

- | | |
|--|--------------|
| 1. Added funding for the homestead tax credit program | \$11,207,212 |
| 2. Added funding for the disabled veterans' tax credit program | \$3,434,080 |
| 3. Added funding for GenTax software support | \$1,000,000 |

2015-17 Biennium

- | | |
|--|---------------|
| 1. Added funding for 1 research analyst FTE position and 1 property tax specialist FTE position | \$186,611 |
| 2. Added funding for operating expenses, including \$200,000 for GenTax software support | \$560,755 |
| 3. Reduced funding for the homestead tax credit program (\$1,310,000) and the disabled veterans' tax credit program (\$502,909) related to the August 2016 budget reductions | (\$1,812,909) |

2017-19 Biennium (Executive Budget Recommendation)

- | | |
|--|---------------|
| 1. Adds funding for salaries and wages to partially restore 2015-17 biennium budget reductions | \$436,256 |
| 2. Adds funding for temporary employees | \$50,000 |
| 3. Reduces funding for operating expenses, primarily related to professional services, postage, and office equipment and furniture | (\$706,487) |
| 4. Reduces funding for the homestead tax credit program (\$2,690,000) and the disabled veterans' tax credit program (\$264,891) | (\$2,954,891) |

January 9, 2017

HB1006 / HB1066

Attachment A



STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
RYAN RAUSCHENBERGER, COMMISSIONER

HOUSE BILLS NO. 1006 AND 1066
JANUARY 9, 2017

BUDGET PRESENTATION

HOUSE APPROPRIATIONS COMMITTEE – GOVERNMENT OPERATIONS SECTION
REPRESENTATIVE MIKE BRANDENBURG, CHAIRMAN

AGENCY OVERVIEW

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota. We strive to provide prompt, accurate, and courteous service to taxpayers as we promote compliance with the state's tax laws.

As you know, the Office of State Tax Commissioner is the primary revenue collection agency for the state. For the 2015-17 biennium, the department will collect over 90 percent of all general fund dollars, excluding transfers -- an amount expected to exceed \$3.2 billion. In addition, the department is expected to collect nearly \$3 billion in oil tax revenues during the current biennium, based on the executive revenue forecast.

The Office of State Tax Commissioner collects and administers over 30 different taxes, some of which are local taxes, administered on behalf of and allocated to political subdivisions, such as city sales, occupancy, and restaurant and lodging taxes. Some taxes, such as electric transmission line, coal severance, and telecommunications, are collected by the state in lieu of property taxes and are allocated back to counties to provide an important source of revenue for local governments. For each tax type, the department provides education to help taxpayers understand their filing requirements, conducts discovery work to ensure all taxpayers are complying with the law, processes returns, answers taxpayer questions, analyzes data, and conducts audits to ensure that taxpayers are paying the correct amount.

The chart on the following page shows the various tax types administered by the department and the amounts collected in fiscal years 2010 and 2016. In many cases, the growth is not merely in the dollars collected, but is a reflection of the increase in the number of filers and returns processed by the department.

600 E. BOULEVARD AVE., DEPT 127
BISMARCK, ND 58505-0599

ND Tax
WWW.ND.GOV/TAX | TAXINFO@ND.GOV NORTH DAKOTA

NORTH DAKOTA OFFICE OF STATE TAX COMMISSIONER
 STATEMENT OF COLLECTIONS DATA
 FISCAL YEARS 2010 AND 2016

Description	FY 2010 Net Collections	FY 2016 Net Collections	Change
Sales & Use Tax	\$603,732,481	\$1,017,231,077	\$413,498,596
Motor Vehicle Excise Tax	106,657	145,707	39,050
City Occupancy Tax	1,872,368	3,482,668	1,610,300
City Sales Tax	119,411,810	248,900,701	129,488,891
City Restaurant and Lodging Tax	4,289,399	7,837,962	3,548,563
City Motor Vehicle Rental Tax	110,557	139,597	29,040
Individual Income Tax	304,252,924	355,512,173	51,259,249
Corporate Income Tax	87,874,592	97,580,800	9,706,208
Financial Institutions Tax	10,451,319	324,145	(10,127,174)
Cigarette Tax (Cities)	1,353,442	1,594,266	240,824
Cigarette Tax (Tribe)	64,693	88,266	23,573
Cigarette Tax (GF)	18,454,355	21,802,513	3,348,158
Tobacco Tax	3,976,398	7,247,202	3,270,804
Oil & Gas Gross Production Tax	302,099,211	750,474,504	448,375,293
Oil Extraction Tax	280,611,437	732,866,348	452,254,911
Telecommunications Tax	11,252,316	12,293,973	1,041,657
Wholesale Liquor/beer Tax	7,411,422	9,106,683	1,695,261
Estate Tax	9,174	175	(8,999)
Miscellaneous Remittances	13,019	5,630	(7,389)
Coal Severance Tax	11,506,451	10,948,613	(557,838)
Coal Conversion Tax	26,154,150	26,785,652	631,502
Electric Generation	442,604	10,724,632	10,282,028
Music and Composition Tax	155,923	175,946	20,023
Sales & Use Tax Cash Bonds	51,050	(237,867)	(288,917)
Fuel Dealers & Inspection Fees	0	330,372	330,372
Motor Vehicle Fuel Tax	85,179,818	104,292,909	19,113,091
Special Fuel Tax	66,553,656	92,884,832	26,331,176
Motor Fuel Tax - Cash Bond	(2,000)	2,000	4,000
Nongame Wildlife Fund	19,444	28,721	9,277
Centennial Tree Trust Fund	20,375	33,995	13,620
Organ Transplant Support Fund	11,950	24,647	12,697
Airline Tax	202,399	185,171	(17,228)
Prepaid Wireless Fees	0	984,498	984,498
Provider Assessment	4,094,197	5,887,038	1,792,841
TOTAL COLLECTIONS	\$1,951,737,591	\$3,519,685,549	\$1,567,947,958

The tremendous economic growth our state has experienced in recent years has resulted in a corresponding increase in the workload of the Tax Department. Despite the recent downturn in oil activity, the number of returns remains at record levels in nearly all tax types.

The following statistics illustrate the growth in the Office of State Tax Commissioner's workload since 2006:

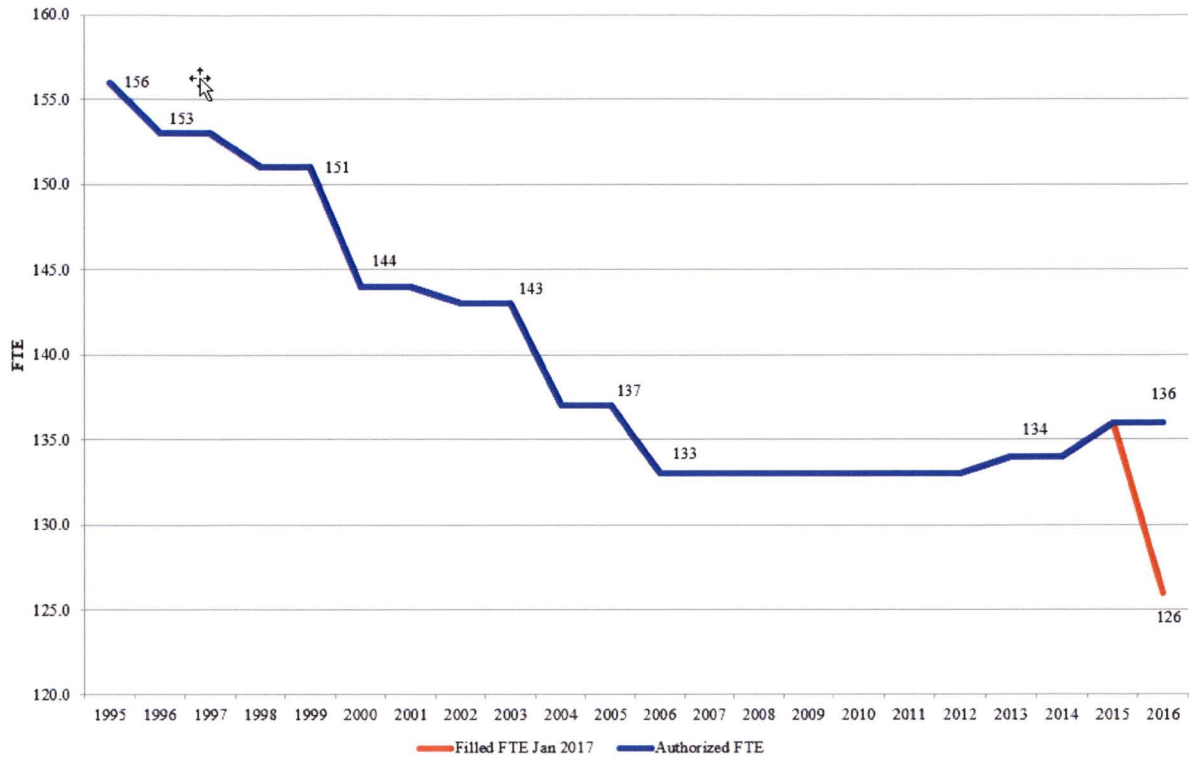
	2006	2014	2016	2006-2016 Increase	Percent Increase
Sales tax – original returns filed	135,968	194,856	203,717	67,749	50%
Individual income tax withholding - original returns filed	101,965	148,213	148,985	47,020	46%
Individual income tax - original returns filed	332,489	480,903	503,033	170,544	51%
Partnership and S Corp - original returns filed	20,748	38,835	42,354	21,606	104%
Corporate income tax - original returns filed by out of state corporations	4,921	7,419	7,881	2,960	60%
Oil and gas tax - active wells	3,638	11,900	13,457	9,819	270%
Oil and gas tax - amended returns filed	770	2,595	3,514	2,744	356%
Collections statements mailed	81,067	192,758	230,515	149,448	184%
Canadian resident sales tax refund requests	4,998	25,022	12,058	7,060	141%

Despite this record workload level, we have kept several of our authorized positions unfilled in the current biennium to generate budgetary savings. As of January 2017, we have ten unfilled positions that we are not planning to fill for the remainder of the biennium.

The number of positions authorized for the Department has declined significantly over the past twenty years, from 156 in 1995 to 136 in the current biennium. This reduction in staff has been made possible through our continual efforts to be more efficient. Much of this efficiency has been made possible through technological advancements, such as an increasing percentage of electronically filed returns, the implementation of web-file solutions for businesses such as the recently implemented Taxpayer Access Point (TAP), and the implementation of our integrated tax system known as GenTax. However, with the workload growth we have seen during the last ten years, coupled with a greatly reduced number of filled positions, we struggle to keep up. We are forced to constantly prioritize and focus on those critical tasks that need to be done, sometimes forgoing other tasks that should be done and are in the best interest of the Tax Department and the state.

The following chart shows a long-term history of the staffing level for the Office of State Tax Commissioner.

TAX DEPARTMENT FTE



To provide you a better understanding of the structure of the Office of State Tax Commissioner and how the staff are spread throughout the agency by function, attached to my testimony is an organizational chart with the number of filled positions in each section.

AGENCY OPERATIONS BUDGET 2015-17 BIENNIUM “BASE LEVEL” BUDGET

Line item	2015-17 Original Appropriation	Allotment and One-Time Funding Reductions	2015-17 Base Level Amount	Percent of Total
Salaries and wages	22,987,714	(1,459,579)	21,528,135	73.8%
Operating expenses	8,205,204	(576,942)	7,628,262	26.1%
Capital assets	24,000	(8,000)	16,000	.1%
Total	31,216,918	(2,044,521)	29,172,397	100%

As an agency that relies on staff to meet its statutory obligations and perform all of the work the legislature has directed us to do, we have a budget that consists primarily of salaries and wages. Approximately 74 percent of our current biennium operating budget, after allotments, is for salaries and wages. The original appropriation for salaries and wages for the 2015-17 biennium was \$22.9 million. Approximately \$1.5 million was reduced from this line item to meet the allotment requirements.

Although authorized for 136 full-time equivalent positions for the 2015-17 biennium, the base level after allotment provides funding for 130 FTE's and recognizes expected savings due to staff turnover. In addition to not filling 6 positions, other positions were held open and hiring was delayed in order to generate savings. In some cases, long-tenured employees retired and positions were filled at a lower salary level, which also contributed to budget savings in this line. Also, salary adjustments for the second year of the biennium were postponed from July 1 to September 1 to generate additional savings.

The original appropriation for operating expenses for the 2015-17 biennium was \$8.2 million. Approximately \$577,000 was reduced from this line item to meet the allotment requirements. The operating expenses line item includes \$3.4 million for an ongoing contract with the provider of the state's integrated tax system, GenTax. This large amount included in the operating line limits our flexibility to make reductions and required significant cuts to other budget amounts within this line. In addition, approximately \$1.1 million included in this line is for data processing charges paid to the Information Technology Department, further limiting our flexibility in this line. However, we used this period of budget reduction as an opportunity to examine all aspects of our operations and business processes and look for savings and efficiencies. Through a strategic effort involving all levels of management and staff, we identified business process changes, areas where printing or postage could be reduced, or made decisions to simply get by with less.

Significant reductions were made to travel, professional development, subscriptions, postage, printing, IT equipment, office furniture and equipment, advertising, and professional services. This means our staff will have less training; we will print and mail fewer forms, booklets, guidelines and statements; and we will spend less to promote programs such as the homestead tax credit. However, within our base level, we will continue our core functions.

2017-19 BIENNIUM 90 PERCENT BUDGET

Line item	2015-17 Base Level Amount	Base Budget Adjustments	2017-19 90% Budget Amount	Percent of Total
Salaries and wages	21,528,135	25,020	21,553,155	75.68%
Operating expenses	7,628,262	(706,487)	6,921,775	24.3%
Capital assets	16,000	(10,000)	6,000	.02%
Total	29,172,397	(691,467)	28,480,930	100%

To meet the 90 percent budget limit for 2017-19, we followed the same strategy as was used to meet the 6.55 percent allotment for 2015-17: reducing salary expenditures by leaving positions vacant whenever possible and reducing operating expenses through efficiencies and work process changes. The following is a brief summary of the steps we have taken to reduce our budget:

- Positions were left unfilled whenever possible
- Temporary salary funding was reduced
- Nearly \$300,000 was "unfunded" from the salaries and wages line in anticipation of savings that we will work to achieve during the 2017-19 biennium (as of now the specific positions are not identified)

- The following 8 positions, which became vacant due to attrition, were left unfilled:
 - 2 auditors in the Corporate Income Tax section (which will result in fewer corporate income tax audits being completed and reduced general fund revenue collections)
 - 1 tax service specialist in the Individual Income Tax section (which will result in additional work distributed to other members of the section and slower processing time for returns)
 - 1 office assistant in the Information Management and Technology division (positions were combined and job duties reassigned to permanent and temporary positions)
 - 1 document imaging specialist in the Information Management and Technology division (which will result in additional temporary employee costs as the position will be filled for the individual income tax filing season)
 - 1 research analyst in the Research and Communications section (this new position was authorized for the 2015-17 biennium and not filled for budgetary reasons; filling the position would have allowed knowledge transfer and backup for our research analyst)
 - 2 auditors in the Sales Tax Field Audit section (which will result in fewer sales tax audits and reduced general fund revenue collections)
- Significant reductions were made to travel, professional development, subscriptions, postage, printing, IT equipment, office furniture and equipment, advertising, and professional services.
- In addition, through negotiations with our software vendor for GenTax, the vendor agreed to not only forego \$200,000 in normal inflationary increases anticipated under the vendor maintenance, support, and update contract, but agreed to continue the current level of service at a reduced cost in recognition of our current budget situation and long-standing working relationship. Through these negotiations, the contract amount will be reduced from \$3.4 million in the current biennium to \$3.26 million in the 2017-19 biennium.
- In addition to the 8 positions left unfilled to meet the 90 percent budget requirement, the following two positions have been left unfilled to generate additional budget savings:
 - 1 office assistant in the Commissioner's Division (the position, which is necessary to cover the main receptionist area on the 8th floor, is being covered by rotating other staff members as needed)
 - 1 office assistant in the Individual Income Tax section (which will result in additional temporary employee costs as the position will be filled for the individual income tax filing season)

Governor Dalrymple authorized the following additions to our budget to determine the 2017-19 biennium 90 percent budget:

- \$280,206 to continue 2015-17 biennium legislatively authorized salary increases
- \$100,198 to fully fund a property tax specialist position authorized by the 2015 legislature but only funded for part of the 2015-17 biennium

2017-19 BIENNIUM REQUESTED BUDGET

PRIORITY 1 – MULTI-STATE TAX COMMISSION AUDIT AND NEXUS PROGRAMS

The Tax Department currently participates in the Multi-State Tax Commission (MTC) Audit and National Nexus programs, which I will explain in more detail later in my testimony. These programs provide a positive return for the state. Our highest priority request to the Governor was to restore \$431,026 to continue participation in these programs. However, this funding will not be needed if you approve a proposed statutory change to make these programs self-funding.

PRIORITIES 2 AND 4 – POSITIONS AND SALARY FUNDING

Our executive budget request includes \$1,410,696 to provide funding for 8 positions and restore salary funding.

The highest priority for the Tax Department is to restore funding for the 2 corporate audit positions and 2 sales and use tax audit positions. The \$640,000 to fully fund these positions is a cost effective investment for the state to ensure continued general fund revenue collections in these tax types.

In addition to the 8 positions, this request includes nearly \$300,000 unfunded from the Department's payplan to meet the 90 percent budget requirement. Although normal attrition always results in some savings in the salaries and wages line item, it is unknown if normal turnover will result in savings equal to the \$300,000.

Recognizing the current budget situation, the Tax Department is withdrawing the request for funding for the 4 non-audit positions and the \$300,000 underfunding in the salaries line. However, it will be a challenge to meet the workload demands with fewer FTE and manage our hiring process in such a way that we are able to realize this amount of savings.

Governor Dalrymple's budget recommendation includes \$436,256 of this request to fund 3 of the 8 positions.

The Tax Department requests \$640,000 (\$203,744 in addition to the Dalrymple executive budget recommendation) to restore four audit positions.

PRIORITY 3 - OPERATING EXPENSES

Our executive budget request includes \$405,731 for restoration of various amounts in the operating expenses line. The attached schedule shows the various adjustments to the Department's operating line required to meet the 90 percent budget level.

Many of the efficiencies and business process changes we are implementing will result in ongoing cost savings for the 2017-19 biennium. However, we are especially concerned with the level of funding for postage. A postage rate increase will take effect in January 2017 and future rate increases are unknown. Despite our efforts to make information available electronically, we are still required to send a large volume of mailings and as I discussed earlier, we are dealing with a record number of filers in nearly all tax types. In many cases, our efforts to reduce mailings will limit the growth in this area, but actual reductions are difficult to achieve. To meet our 90 percent budget requirements, we reduced this account code by \$163,314. We are concerned this may be difficult to achieve due to unknown factors that affect postage expenditures for the Tax Department. However, in consideration of the current budget situation, the Tax Department is withdrawing this request.

The Tax Department is withdrawing this request.

PRIORITY 5 – TEMPORARY SALARIES

This request includes \$210,111 for temporary salaries. The Tax Department is heavily reliant on temporary staff to meet seasonal workload demands of the tax processing season. Hiring temporary employees is the most cost effective way to manage this type of workload.

This funding would also allow a modest increase in the wage rate for temporary employees, raising it from an average of \$12 per hour to \$13 per hour. This funding would also allow us to retain the knowledge and experience of returning temporary or retired former employees who provide a cost-effective

way to deal with a reduced number of full-time equivalent positions. This funding would also allow us to provide health insurance benefits to qualifying temporary employees.

Governor Dalrymple's budget recommendation includes \$50,000 to partially fund this request.

The Tax Department requests \$210,111 (\$160,111 in addition to the Dalrymple executive budget recommendation) to restore funding for temporary salaries.

GRANT PROGRAMS BUDGET– HOMESTEAD TAX CREDIT AND DISABLED VETERANS CREDIT

2015-17 BIENNIUM "BASE LEVEL" BUDGET

The homestead tax credit program provides property tax relief for qualifying low-income persons who are 65 years of age or older or who are disabled. The credit is up to 100 percent of the taxes levied on the first \$125,000 of true and full value, for applicants with annual income below \$22,000. A reduced level of credit is available to applicants with annual income up to \$42,000.

The original appropriation for this line for the 2015-17 biennium was \$20 million. Expenditures during the first year of the biennium totaled slightly less than \$7 million. The adjusted appropriation after allotments is \$18.69 million. Although we won't know fiscal year 2017 expenditures until close to the end of the biennium, we estimate that the remaining appropriation will be adequate. Our best estimate at this time is for 2015-17 biennium expenditures to total approximately \$14.8 million.

The disabled veterans credit program provides property tax relief for disabled veterans with a service-connected disability of 50 percent or greater. The credit is up to 100 percent of the taxes levied on the first \$150,000 of true and full value. The percentage of credit allowed is equal to the percentage of the disabled veteran's disability compensation rating.

The original appropriation for this line for the 2015-17 biennium was \$7.7 million. Expenditures during the first year of the biennium totaled just under \$4 million. The adjusted appropriation after allotments is \$7.2 million. Our best estimate for 2015-17 biennium expenditures is approximately \$8.4 million, \$1.2 million more than the appropriation. No statutory authority exists for the appropriation to be prorated. After the credit is granted by counties to eligible tax payers, the county receives reimbursement from the state.

2017-19 BIENNIUM 90 PERCENT BUDGET

For the required 90 percent budget, the Tax Department requested \$16 million for the homestead tax credit program and \$8.5 million for the disabled veterans credit program. Governor Dalrymple included the full \$16 million for the homestead tax credit program, but included only \$6.9 million for the disabled veterans credit program (90 percent of the original appropriation of \$7.7 million).

2017-19 BIENNIUM REQUESTED BUDGET

PRIORITY 1 - DISABLED VETERANS CREDIT PROGRAM

For the 2017-19 biennium, the Tax Department requests an additional \$1,589,800 to fully fund the anticipated cost of the disabled veterans credit program.

OTHER REQUESTS

MULTI-STATE TAX COMMISSION AUDIT FUND

The Tax Department currently participates in the MTC audit program for both corporate income tax and sales and use tax. Twenty-two states participate in the corporate income tax audit program and eighteen states in the sales and use tax program. Audits are typically multi-state or multi-national corporations with only a small presence in North Dakota. During the past ten years, the return on investment for the state has been \$5 for every \$1 spent.

The Tax Department also participates in the MTC National Nexus program which is a voluntary disclosure program for corporate income tax and sales and use tax. The program provides a central point of contact to allow a taxpayer to become compliant in multiple states. Currently, 37 states participate. During the past four years, the state's return on investment through the program has been \$5 for every \$1 spent.

In past bienniums, the Tax Department has received a general fund appropriation to participate in these programs, which provide a direct benefit to the state general fund. However, to meet the 90 percent budget requirement, this funding was removed from the Department budget. The Tax Department requests your consideration of the statutory change proposed in Section 5 of House Bill No 1066. This proposed new section would:

- Continue the state's participation in the Multi-State Tax Commission (MTC) Audit and Nexus Programs, but require that the programs be self-funding.
- Create a new special fund – the multistate tax audit fund
- Require all audit and tax settlement moneys received through the MTC audit and nexus programs to be deposited in the fund
- Provide continuing appropriation authority to pay the fees to MTC each year (currently about \$220,000 per year)
- Provide for a transfer at least annually to the general fund of any moneys in the fund in excess of the amount needed to pay the fees in the subsequent year (allowing a balance to cash flow the payment to MTC which is billed in July).

LINE ITEM TRANSFERS

Appropriations for the homestead tax credit program and disabled veterans program are based on estimated program costs. Program costs are difficult to estimate and occasionally result in either a deficiency request or a turnback to the general fund. The current biennium is good example of this situation, with a potential turnback in the homestead tax credit program and a potential deficiency in the disabled veterans credit line.

The Tax Department requests your consideration of the line item transfer authority contained in Section 3 of House Bill No. 1066, along with the Emergency Clause contained in Section 7. This authority will allow the Tax Department to address the current biennium shortfall in the disabled veterans credit line item by allowing a transfer from the homestead tax credit line. Funding could only be transferred between these two lines and nowhere else within the Tax Department budget. The authority would be in effect to address a similar situation if it would develop at the close of the 2017-19 biennium.

PROMOTION OF HOMESTEAD TAX CREDIT AND DISABLED VETERANS CREDIT PROGRAMS

In past bienniums, the Tax Department has spent approximately \$30,000 to \$40,000 from its operating expense line to promote the homestead tax credit and disabled veterans credit programs. However, no additional funding has ever been provided for this effort. Funding was made available through reprioritizing our appropriated budget. To meet the 90 percent budget requirement, this amount was removed from the operating line.

In lieu of a specific appropriation for this amount, the Tax Department requests your consideration of authority to utilize a small portion of these program line items to promote the respective programs. The requested authority is up to \$40,000 from the homestead tax credit line item and up to \$5,000 from the disabled veterans credit line item.

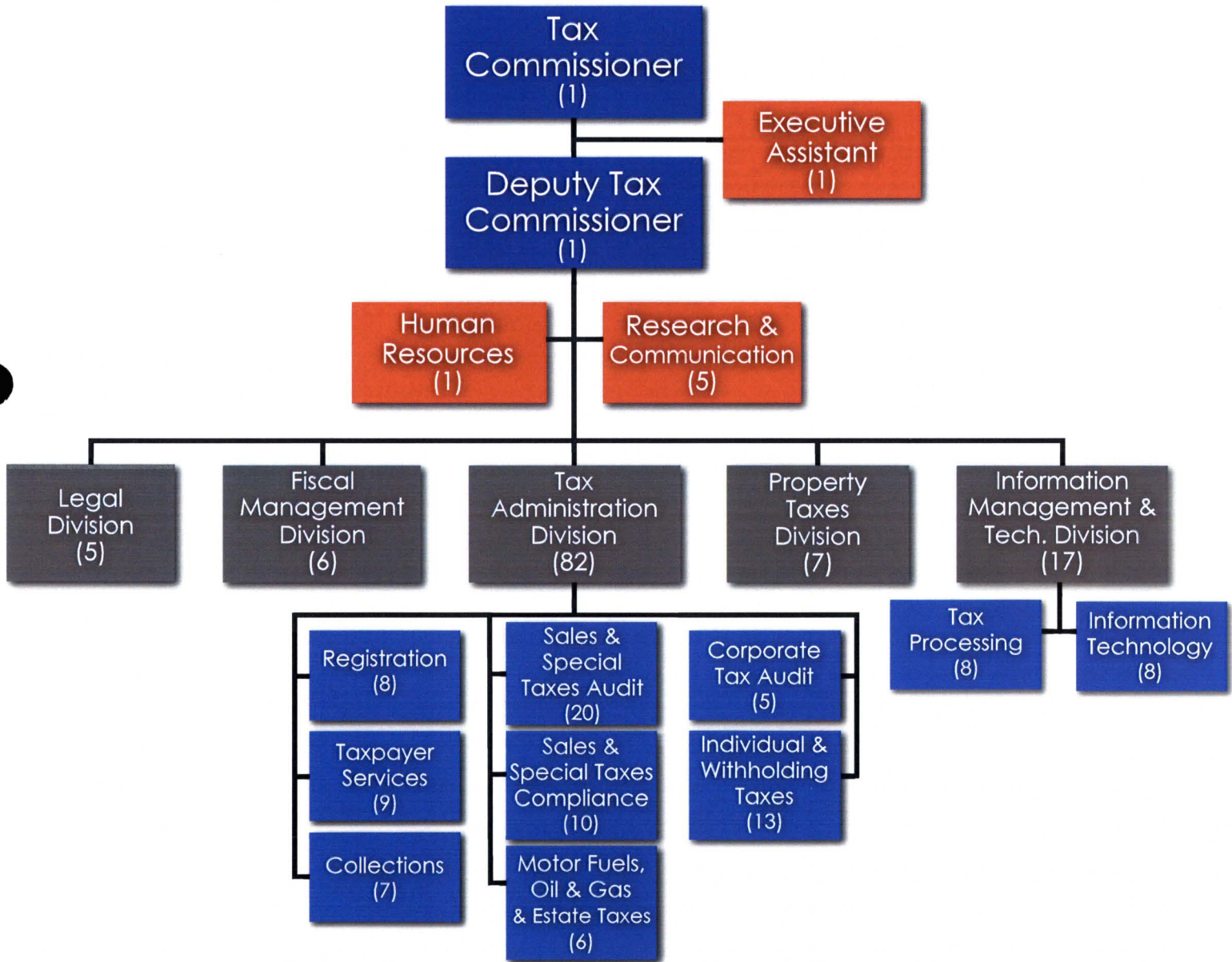
AUDIT FINDINGS

Our most recent audit, conducted by the State Auditor's Office for the biennium ended June 30, 2015, examined the agency's financial management, internal controls, and operations. The audit contained no formal audit recommendations.



ORGANIZATIONAL CHART

FILLED FTE POSITIONS AS OF JANUARY 2017



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ANALYSIS OF EXECUTIVE BUDGET REQUEST

	A	B	C	D	E	F	G	H
Line Item/Object Description	2015-2017 Original Appropriation	Allotment & One-Time Funding Reduction	2015-2017 Base Level Amount	Base Budget Adjustments	2017-2019 Budget Request Submitted	Adjustments By OMB	2017-2019 Recommended Budget	
Total Salaries & Wages	22,987,714	(1,459,579)	21,528,135	25,020	21,553,155	960,405	22,513,560	
FTE Employees	136					(3)	133	
Operating Expenses								
1 Travel	336,023	(125,000)	211,023	86,862	297,885	0	297,885	
2 Supplies - IT Software	167,421	0	167,421	0	167,421	0	167,421	
3 Supply/Material-Professional	130,350	(20,884)	109,466	(19,484)	89,982	0	89,982	
4 Bldg. Ground, Maintenance	0	0	0	0	0	0	0	
5 Miscellaneous Supplies	30,070	0	30,070	0	30,070	0	30,070	
6 Office supplies	96,147	0	96,147	(10,000)	86,147	0	86,147	
7 Postage	991,966	(37,278)	954,688	(126,036)	828,652	0	828,652	
8 Printing	215,441	(17,000)	198,441	(23,000)	175,441	0	175,441	
9 IT Equipment under \$5,000	172,300	(22,450)	149,850	(22,550)	127,300	0	127,300	
10 Other Equip under \$5,000	1,618	0	1,618	0	1,618	0	1,618	
11 Office Equip & Furn Supplies	210,871	(125,000)	85,871	0	85,871	0	85,871	
12 Insurance	8,588	0	8,588	1,175	9,763	0	9,763	
13 Leases/Rents - Equipment	61,003	0	61,003	6,203	67,206	0	67,206	
14 Leases/Rents - Buildings/Land	117,742	0	117,742	4,170	121,912	0	121,912	
15 Repairs	152,665	(100,000)	52,665	24,140	76,805	0	76,805	
16 IT - Data Processing	1,099,199	(40,000)	1,059,199	74,014	1,133,213	0	1,133,213	
17 IT - Communications	170,656	0	170,656	(10,000)	160,656	0	160,656	
18 IT Contractual Services	3,493,095	0	3,493,095	(233,095)	3,260,000	0	3,260,000	
19 Professional Development	176,345	(29,508)	146,837	(20,000)	126,837	0	126,837	
20 Operating Fees & Services	116,591	(23,822)	92,769	(21,178)	71,591	0	71,591	
21 Professional Services	457,113	(36,000)	421,113	(417,708)	3,405	0	3,405	
Total Operating Expenses	8,205,204	(576,942)	7,628,262	(706,487)	6,921,775	0	6,921,775	
Total Capital Asset	24,000	(8,000)	16,000	(10,000)	6,000	0	6,000	
Subtotal General Fund	31,091,918	(2,169,521)	29,047,397	(816,467)	28,355,930	835,405	29,316,335	
Subtotal Federal Fund	125,000	125,000	125,000	125,000	125,000	125,000	125,000	
Subtotal Tax Department	31,216,918	(2,044,521)	29,172,397	(691,467)	28,480,930	960,405	29,441,335	
Homestead Tax Credit	20,000,000	(1,310,000)	18,690,000	(2,690,000)	16,000,000	0	16,000,000	
Disabled Veterans Credit	7,678,000	(502,909)	7,175,091	(264,891)	6,910,200	0	6,910,200	
Total General Fund	58,769,918	(3,982,430)	54,912,488	(3,771,358)	51,266,130	835,405	52,226,535	
Total Federal Fund	125,000	125,000	125,000	125,000	125,000	125,000	125,000	
Total For Department	58,894,918	(3,857,430)	55,037,488	(3,646,358)	51,391,130	960,405	52,351,535	



**Follow Up Information Relating to the Office of State Tax Commissioner Budget
 HB1006 and HB1066
 Provided to House Appropriations – Government Operations Section
 Rep. Mike Brandenburg, Chairman
 January 18, 2017**

1. Audit Collections

Fiscal Year	Corporate Income Tax	Individual Income Tax	Sales and Use Tax	Total
2012	17,459,005	3,967,150	12,420,897	33,847,052
2013	3,987,342	3,426,036	5,112,334	12,525,712
2014	3,684,297	2,864,405	9,526,499	16,075,201
2015	7,006,403	2,640,858	17,660,700	27,307,961
2016	48,251,812	2,960,075	18,715,411	69,927,298
2017 (July-December)	3,921,508	1,408,242	22,295,069	27,624,819
Total	84,310,367	17,266,766	85,730,910	187,308,043
Average Number of Auditors	4.8	7.5	20	
Average Audit Collections Per Auditor Per Year	\$2.9 million	\$384,000	\$714,000	

2. Duration of Vacant Positions

As of December 31, 2016, the Tax Department had 11 vacant FTE positions. One of those positions, a vacant individual income tax auditor position, was determined to be a critical position in order to timely process returns during the upcoming individual income tax filing season. The position became vacant in September due to the death of an employee. The position was held open to evaluate the need and accrue budget savings. The position was filled January 9, 2017.



The other ten vacant positions have been vacant for varying periods between 2 and 18 months, as shown on Attachment A, and will be held open for the remainder of the 2015-17 biennium to generate additional budget savings.

3. Human Resources Officer Position

As stated during our initial budget hearing, the human resources function for the Office of State Tax Commissioner is managed by a single individual. The current annual salary for this position is \$5,948 per month, or \$71,376 per year. The position duties include:

- Personnel administration – Ensure compliance with all laws and rules governing personnel administration, assist employees with HR issues, and provide direction and guidance to agency managers regarding personnel administration issues including disciplinary actions and employee grievances
- HR policies and procedures – Maintain and update agency HR policies, procedures, and employee handbook
- Classification – Maintain job descriptions, job duties, and proper classification of agency positions
- Recruitment and selection process – Administer the recruitment process, facilitate and participate in the interview and selection process, provide orientation training to new permanent and temporary employees
- Salary administration – Monitor salaries to ensure equity and compliance with laws, rules, and legislative intent

4. “Spend Down” Report for 2015-17 Biennium

The estimated expenditures for the Office of State Tax Commissioner have been analyzed. Due to steps we have taken to keep positions unfilled and reduce operating expenditures wherever possible, we anticipate the following unspent amounts from our salaries, operating, and capital assets line items. The detailed analysis is attached as Appendix B.

Line Item	2015-17 Base Level (Adjusted Appropriation After Allotments)	Estimated 2015-17 Expenditures	Variance
Salaries and Wages	21,528,135	21,385,306	142,829
Operating Expenses	7,628,262	7,352,801	275,461
Capital Assets	16,000	10,956	5,044
Total	29,172,397	28,749,063	423,334
Less Federal Funds	125,000	25,000	100,000
Total General Fund	29,047,397	28,724,063	323,334

②

5. Requested Amendment Regarding Line Item Transfer Authority

It was brought to our attention that in order to address the projected 2015-17 biennium shortfall, an amendment will be required to the transfer authority proposed in HB1066. The intent is to allow the Office of State Tax Commissioner the ability to transfer appropriation authority between the Homestead Tax Credit and Disabled Veterans Credit lines in order to address a shortfall in either line. As mentioned in our budget testimony, we anticipate a shortfall of \$1.2 million in the Disabled Veterans Credit line item and a surplus of \$3.9 million in the Homestead Tax Credit line. To allow the transfer authority for both the 2015-17 biennium as well as the 2017-19 biennium, we request your consideration of the amendment shown on Attachment C.

③

January 18, 2019

HB 1006 / HB 1066

Attachment B

Agency - 127.0 Office of State Tax Commissioner

Positions vacant as of December 31, 2016 (Please enter NONE if no positions were vacant as of this date):

Position No.	FTE	Position Description	Date Vacated	Number of Months Vacant January 2017	Date Expected to Be Filled	Current Status	Salary and Fringe Benefit Amounts Included in the 2017-19 Executive Budget		
							General Fund	Special Funds	Total
447	1.00	Office Assistant II	11/16/16	2	08/01/17	Plan to fill with a temporary employee for 4 months	95,981	0	95,981
456	1.00	Tax Service Specialist I	08/06/16	5	N/A	Position removed in Governor's budget	0	0	0
457	1.00	Auditor II	09/22/16	4	01/09/17	Position filled	200,212	0	200,212
473	1.00	Office Assistant III	10/17/16	3	08/01/17	Temporarily reassigning duties	109,490	0	109,490
741	1.00	Office Assistant III	04/01/16	9	N/A	Position removed in Governor's budget	0	0	0
743	1.00	Document Imaging Spec II	12/31/16	1	N/A	Position removed in Governor's budget	0	0	0
775	1.00	Auditor III	07/02/16	6	08/01/17	Hold open to generate savings for 2015-17	167,912	0	167,912
798	1.00	Auditor I	11/23/15	14	08/01/17	Hold open to generate savings for 2015-17	139,453	0	139,453
813	1.00	Auditor III	09/07/16	4	08/01/17	Hold open to generate savings for 2015-17	207,998	0	207,998
820	1.00	Auditor I	07/08/15	18	08/01/17	Hold open to generate savings for 2015-17	139,453	0	139,453
29583	1.00	Research Analyst I	07/01/15	18	08/01/17	Hold open to generate savings for 2015-17	139,244	0	139,244
Total	11.00						\$1,199,743	\$0	\$1,199,743

①

January 18, 2017

HB 1006 / HB 1066

Attachment C

ANALYSIS OF 2015-2017 BASE LEVEL BUDGET

A	D	E	F	
LINE ITEM/OBJECT DESCRIPTION	2015-2017 BASE LEVEL AMOUNT	ESTIMATED EXPENSES 2015-2017	VARIANCE	COMMENTS
TOTAL SALARIES AND WAGES	21,528,135	21,385,306	142,829	Savings from not filling vacancies
OPERATING EXPENSES				
Travel	211,023	161,023	50,000	Cut back in travel for allotment. Variance is all estimated unspent federal funds
Supplies - IT Software	167,421	166,780	641	
Supply/Material-Professional	109,466	102,212	7,254	Cut 2 subscriptions for 6 mos and combined 2 others for a savings
Bldg, Ground, Maintenance	0	0	0	
Miscellaneous Supplies	30,070	70	30,000	Variance is all estimated unspent federal funds
Office supplies	96,147	85,692	10,455	
Postage	954,688	894,295	60,393	Cut mailing IIT bklt, moved some stmts to qtrly, utilize TAP emails
Printing	198,441	181,441	17,000	Cut printing IIT bklt, svgs on forms
IT Equipment under \$5,000	149,850	149,850	0	
Other Equip under \$5,000	1,618	1,618	0	
Office Equip & Furn Supplies	85,871	75,398	10,473	
Insurance	8,588	8,521	67	
Leases/Rents - Equipment	61,003	53,296	7,707	Xerox lease decr offset with incr in estimate for repair/maintenance
Leases/Rents - Buildings/Land	117,742	116,955	787	Moved Minot office to smaller space and less rent cost
Repairs	52,665	62,722	(10,057)	Xerox incr + key access system change
IT - Data Processing	1,059,199	1,039,833	19,366	
IT - Communications	170,656	163,395	7,261	
IT Contractual Services	3,493,095	3,485,402	7,693	
Professional Development	146,837	126,837	20,000	Cut back seminars for allotment. Variance is all estimated unspent federal funds
Operating Fees & Services	92,769	65,282	27,487	Cut back HTC/Efile ads, lower job posting ads & background checks
Professional Services	421,113	412,179	8,934	
TOTAL OPERATING EXPENSES	7,628,262	7,352,801	275,461	
TOTAL CAPITAL ASSET	16,000	10,956	5,044	
Subtotal General Fund	29,047,397	28,724,063	323,334	
Subtotal Federal Fund	125,000	25,000	100,000	
Subtotal Tax Department	29,172,397	28,749,063	423,334	
HOMESTEAD TAX CREDIT	18,690,000	14,768,225	3,921,775	
DISABLED VETERANS CREDIT	7,175,091	8,387,755	(1,212,664)	Authority to do a line item transfer between Homestead and Disabled Veterans line would alleviate the need to request a deficiency appropriation for this line.
TOTAL GENERAL FUND	54,912,488	51,880,043	3,032,445	
TOTAL FEDERAL FUND	125,000	25,000	100,000	
TOTAL FOR DEPARTMENT	55,037,488	51,905,043	3,132,445	

①

Proposed Amendments to HB1066

1. Proposed New Section for HB1066:

SECTION 3. LINE ITEM TRANSFERS – 2015-17 BIENNIUM. The state tax commissioner may transfer between the homestead tax credit and disabled veterans' credit line items in section 1 of chapter 40 of the 2015 Session Laws if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget of any transfers made pursuant to this section.

2. Proposed Amendment to Existing Section 3:

SECTION ~~3~~4. LINE ITEM TRANSFERS –2017-19 BIENNIUM. The state tax commissioner may transfer between the homestead tax credit and disabled veterans' credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget of any transfers made pursuant to this section.

3. Existing sections 4, 5, 6, and 7 would be renumbered accordingly.

February 6, 2017

HB1006/HB1066

Attachment A

ANALYSIS OF EXECUTIVE BUDGET REQUEST
2017-2019

	A	B	C	D	E	F
LINE ITEM/OBJECT DESCRIPTION	2017-2019 RECOMMEND BUDGET	Proposed Reductions	Percentage of reduction to General Fund	Adjusted Budget After Reductions	COMMENTS FOR COLUMN C	
1 TOTAL SALARIES AND WAGES	22,513,560	436,256		21,601,583	Cut amt restored for 2 auditors and 1 Research	
2 FTE Employees	133	50,000			Cut amt restored for temporary salaries	
3		93,503			Cut 1% salary increase in Jan 2018	
4		332,218			Underfund 3 FTEs recently became vacant	
5		911,977	4.1%		473; 447; 478	
6						
7 OPERATING EXPENSES						
8 Travel	297,885	22,000			Additional reduction to GF portion only	
9 Supplies - IT Software	167,421					
10 Supply/Material-Professional	89,982					
11 Bldg, Ground, Maintenance	0					
12 Miscellaneous Supplies	30,070					
13 Office supplies	86,147					
14 Postage	828,652					
15 Printing	175,441					
16 IT Equipment under \$5,000	127,300	123,000			All PC replacement	
17 Other Equip under \$5,000	1,618				Miscellaneous cuts	
18 Office Equip & Furn Supplies	85,871	15,000				
19 Insurance	9,763					
20 Leases/Rents - Equipment	67,206					
21 Leases/Rents - Buildings/Land	121,912	12,480			Move Williston office @ less rent	
22 Repairs	76,805					
23 IT - Data Processing	1,133,213					
24 IT - Communications	160,656					
25 IT Contractual Services	3,260,000					
26 Professional Development	126,837					
27 Operating Fees & Services	71,591					
28 Professional Services	3,405					
29 TOTAL OPERATING EXPENSES	6,921,775	172,480		6,749,295		
30						
31 Operating line General Fund	6,796,775	172,480	2.5%	6,624,295		
32 Operating line Federal fund	125,000	0		125,000		
33	6,921,775	172,480		6,749,295		
34						
35 TOTAL CAPITAL ASSET	6,000	300	5.0%	6,000		
36						
37 TOTAL GENERAL FUND	29,316,335	1,084,757	3.7%	28,231,578		
38 TOTAL FEDERAL FUND	125,000	0		125,000		
39 TOTAL FOR DEPARTMENT	29,441,335	1,084,757		28,356,578		

February 6, 2017

HB1006 / HB1066

Attachment B

**Tax Commissioner - Budget No. 127
House Bill No. 1006
Base Level Funding Changes**

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	136.00	\$54,912,488	\$125,000	\$55,037,488	136.00	\$54,912,488	\$125,000	\$55,037,488	0.00	\$0	\$0	\$0
2017-19 Ongoing Funding Changes												
Base payroll changes	(3.00)	\$25,020		\$25,020				\$0	3.00	(\$25,020)		(\$25,020)
Salary increase - Performance				0				0				0
Health insurance increase		380,646		380,646				0		(380,646)		(380,646)
Employee portion of health insurance		(199,404)		(199,404)				0		199,404		199,404
Adds salary funding to restore budget reductions		436,256		436,256				0		(436,256)		(436,256)
Adds funding for temporary employees		50,000		50,000				0		(50,000)		(50,000)
Reduces funding for operating expenses		(706,487)		(706,487)				0		706,487		706,487
Reduces funding for capital assets		(10,000)		(10,000)				0		10,000		10,000
Reduces funding for tax credit programs		(2,954,891)		(2,954,891)				0		2,954,891		2,954,891
Budget reductions - 1 percent		(517,524)		(517,524)				0		517,524		517,524
Total ongoing funding changes	(3.00)	(\$3,496,384)	\$0	(\$3,496,384)	0.00	\$0	\$0	\$0	3.00	\$3,496,384	\$0	\$3,496,384
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(3.00)	(\$3,496,384)	\$0	(\$3,496,384)	0.00	\$0	\$0	\$0	3.00	\$3,496,384	\$0	\$3,496,384
2017-19 Total Funding	133.00	\$51,416,104	\$125,000	\$51,541,104	136.00	\$54,912,488	\$125,000	\$55,037,488	3.00	\$3,496,384	\$0	\$3,496,384
										6.8%	0.0%	6.8%

Other Sections in Tax Commissioner - Budget No. 127

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)
Line item transfers	Section 3 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item. Section 7 includes an emergency clause related to the line item transfers.
Motor vehicle fuel tax revenue transfer	Section 4 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Other Sections in Tax Commissioner - Budget No. 127

**Burgum Executive Budget Recommendation
(Changes to Dalrymple Budget in Bold)**

House Version

Multistate tax audit fund

Section 5 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year.

Salary of Tax Commissioner

Section 6 provides the statutory changes to increase the Tax Commissioner's annual salary by 1 percent in the second year of the 2017-19 biennium. **(The Burgum budget recommendation removes this section.)**

17.0491.01001
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations Division Committee
February 7, 2017

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1006

Page 1, line 3, replace "and to provide for a transfer" with "to provide for transfers; to create and enact a new section to chapter 57-01 of the North Dakota Century Code, relating to a multistate tax audit fund; and to declare an emergency"

Page 1, replace lines 14 through 22 with:

"Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	<u>7,175,091</u>	<u>(264,891)</u>	<u>6,910,200</u>
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$54,912,488	(\$3,770,410)	\$51,142,078
Full-time equivalent positions	136.00	(3.00)	133.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in Section 1 of this Act includes the sum of \$380,646 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 2, after line 3, insert:

"SECTION 4. LINE ITEM TRANSFERS - 2015-17 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of chapter 40 of the 2015 Session Laws if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section.

SECTION 5. LINE ITEM TRANSFERS - 2017-19 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 8, insert:

"SECTION 7. A new section to chapter 57-01 of the North Dakota Century Code is created and enacted as follows:

Multistate tax audit fund - Continuing appropriation - Transfers to the general fund.

There is created in the state treasury the multistate tax audit fund. The fund consists of all moneys collected and received by the tax commissioner as a result of participation in the multistate tax commission audit and nexus programs. All moneys in the fund are appropriated to the tax commissioner on a continuing basis to pay the

multistate tax commission audit and nexus program fees. On or before June thirtieth of each year, the tax commissioner shall certify to the state treasurer the amount of accumulated funds in the multistate tax audit fund which exceed the audit and nexus program fees for the following year. The state treasurer shall transfer the certified amount from the multistate tax audit fund to the general fund prior to the end of each fiscal year.

SECTION 8. EMERGENCY. Section 4 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	7,175,091	(264,891)	6,910,200
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	125,000	0	125,000
General fund	\$54,912,488	(\$3,770,410)	\$51,142,078
FTE	136.00	(3.00)	133.00

Department No. 127 - State Tax Commissioner - Detail of House Changes

	Adjusts Funding for Base Payroll Changes¹	Adds Funding for Health Insurance Increases²	Reduces Funding for Salaries and Wages³	Reduces Funding for Operating Expenses⁴	Reduces Funding for Capital Assets⁵	Reduces Funding for Tax Credit Programs⁶
Salaries and wages	\$25,020	\$380,646	(\$332,218)			
Operating expenses				(878,967)		
Capital assets					(10,000)	
Homestead tax credit						(2,690,000)
Disabled veterans' credit						(264,891)
Total all funds	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
Less estimated income	0	0	0	0	0	0
General fund	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
FTE	(3.00)	0.00	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	\$73,448
Operating expenses	(878,967)
Capital assets	(10,000)
Homestead tax credit	(2,690,000)
Disabled veterans' credit	(264,891)
	(\$3,770,410)

Total all funds Less estimated income	0
General fund	(\$3,770,410)
FTE	(3.00)

¹ Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes, including the removal of 3 FTE positions (1 tax services FTE position, 1 office assistant FTE position, and 1 document imaging FTE position).

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ Funding is reduced for 3 FTE positions that are vacant.

⁴ Funding is reduced for operating expenses, primarily related to professional services, postage, information technology equipment, and office furniture and equipment.

⁵ Funding is reduced for capital assets, from \$16,000 to \$6,000.

⁶ Funding is reduced for the homestead tax credit program by \$2,690,000, from \$18,690,000 to \$16,000,000. Funding is reduced for the disabled veterans' tax credit program by \$264,891, from \$7,175,091 to \$6,910,200.

This amendment also provides the following:

- Adds a section to identify the funding increases for the health insurance premium increase.
- Adds a section and provides an emergency clause allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2015-17 biennium.
- Adds a section allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2017-19 biennium.
- Adds a section to create a multistate tax audit fund. The collections from the multistate tax commission audit and nexus programs are deposited in the fund, and the related program expenses are paid from the fund pursuant to a continuing appropriation. Excess collections are transferred to the general fund at the end of each year.

February 7, 2017

HB1006/HB1076

Attachment B

**Tax Commissioner - Budget No. 127
House Bill No. 1006
Base Level Funding Changes**

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	136.00	\$54,912,488	\$125,000	\$55,037,488	136.00	\$54,912,488	\$125,000	\$55,037,488	0.00	\$0	\$0	\$0
2017-19 Ongoing Funding Changes												
Base payroll changes	(3.00)	\$25,020		\$25,020				\$0	3.00	(\$25,020)		(\$25,020)
Salary increase - Performance				0				0				0
Health insurance increase		380,646		380,646				0		(380,646)		(380,646)
Employee portion of health insurance		(199,404)		(199,404)				0		199,404		199,404
Adds salary funding to restore budget reductions		436,256		436,256				0		(436,256)		(436,256)
Adds funding for temporary employees		50,000		50,000				0		(50,000)		(50,000)
Reduces funding for operating expenses		(706,487)		(706,487)				0		706,487		706,487
Reduces funding for capital assets		(10,000)		(10,000)				0		10,000		10,000
Reduces funding for tax credit programs		(2,954,891)		(2,954,891)				0		2,954,891		2,954,891
Budget reductions - 1 percent		(517,524)		(517,524)				0		517,524		517,524
Total ongoing funding changes	(3.00)	(\$3,496,384)	\$0	(\$3,496,384)	0.00	\$0	\$0	\$0	3.00	\$3,496,384	\$0	\$3,496,384
One-time funding items				\$0				\$0				\$0
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(3.00)	(\$3,496,384)	\$0	(\$3,496,384)	0.00	\$0	\$0	\$0	3.00	\$3,496,384	\$0	\$3,496,384
2017-19 Total Funding	133.00	\$51,416,104	\$125,000	\$51,541,104	136.00	\$54,912,488	\$125,000	\$55,037,488	3.00	\$3,496,384	\$0	\$3,496,384
										6.8%	0.0%	6.8%

Other Sections in Tax Commissioner - Budget No. 127

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)
Line item transfers	Section 3 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item. Section 7 includes an emergency clause related to the line item transfers.
Motor vehicle fuel tax revenue transfer	Section 4 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

1.

Other Sections in Tax Commissioner - Budget No. 127

Burgum Executive Budget Recommendation
(Changes to Dalrymple Budget in Bold)

House Version

Multistate tax audit fund

Section 5 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year.

Salary of Tax Commissioner

Section 6 provides the statutory changes to increase the Tax Commissioner's annual salary by 1 percent in the second year of the 2017-19 biennium. **(The Burgum budget recommendation removes this section.)**

February 8, 2017

HB1006 / HB1066

Attachment A

17.0491.01002
Title.
Fiscal No. 2

Prepared by the Legislative Council staff for
House Appropriations Committee
February 8, 2017

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1006

Page 1, line 3, replace "and to provide for a transfer" with "to provide for transfers; to create and enact a new section to chapter 57-01 of the North Dakota Century Code, relating to a multistate tax audit fund; and to declare an emergency"

Page 1, replace lines 14 through 22 with:

"Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	7,175,091	(264,891)	6,910,200
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	125,000	0	125,000
Total general fund	\$54,912,488	(\$3,770,410)	\$51,142,078
Full-time equivalent positions	136.00	(3.00)	133.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in Section 1 of this Act includes the sum of \$380,646 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 2, after line 3, insert:

"SECTION 4. LINE ITEM TRANSFERS - 2015-17 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of chapter 40 of the 2015 Session Laws if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section.

SECTION 5. LINE ITEM TRANSFERS - 2017-19 BIENNIUM. The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 8, insert:

"SECTION 7. A new section to chapter 57-01 of the North Dakota Century Code is created and enacted as follows:

Multistate tax audit fund - Continuing appropriation - Transfers to the general fund.

There is created in the state treasury the multistate tax audit fund. The fund consists of all moneys collected and received by the tax commissioner as a result of participation in the multistate tax commission audit and nexus programs. All moneys in the fund are appropriated to the tax commissioner on a continuing basis to pay the multistate tax commission audit and nexus program fees. On or before June thirtieth of

each year, the tax commissioner shall certify to the state treasurer the amount of accumulated funds in the multistate tax audit fund which exceed the audit and nexus program fees for the following year. The state treasurer shall transfer the certified amount from the multistate tax audit fund to the general fund prior to the end of each fiscal year.

SECTION 8. EMERGENCY. Section 4 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$21,528,135	\$73,448	\$21,601,583
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(2,690,000)	16,000,000
Disabled veterans' credit	7,175,091	(264,891)	6,910,200
Total all funds	\$55,037,488	(\$3,770,410)	\$51,267,078
Less estimated income	125,000	0	125,000
General fund	\$54,912,488	(\$3,770,410)	\$51,142,078
FTE	136.00	(3.00)	133.00

Department No. 127 - State Tax Commissioner - Detail of House Changes

	Adjusts Funding for Base Payroll Changes¹	Adds Funding for Health Insurance Increases²	Reduces Funding for Salaries and Wages³	Reduces Funding for Operating Expenses⁴	Reduces Funding for Capital Assets⁵	Reduces Funding for Tax Credit Programs⁶
Salaries and wages	\$25,020	\$380,646	(\$332,218)			
Operating expenses				(878,967)		
Capital assets					(10,000)	
Homestead tax credit						(2,690,000)
Disabled veterans' credit						(264,891)
Total all funds	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
Less estimated income	0	0	0	0	0	0
General fund	\$25,020	\$380,646	(\$332,218)	(\$878,967)	(\$10,000)	(\$2,954,891)
FTE	(3.00)	0.00	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	\$73,448
Operating expenses	(878,967)
Capital assets	(10,000)
Homestead tax credit	(2,690,000)
Disabled veterans' credit	(264,891)
Total all funds	(\$3,770,410)
Less estimated	0

income	
General fund	(\$3,770,410)
FTE	(3.00)

¹ Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes, including the removal of 3 FTE positions (1 tax services FTE position, 1 office assistant FTE position, and 1 document imaging FTE position).

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ Funding is reduced for 3 FTE positions that are vacant.

⁴ Funding is reduced for operating expenses, primarily related to professional services, postage, information technology equipment, and office furniture and equipment.

⁵ Funding is reduced for capital assets, from \$16,000 to \$6,000.

⁶ Funding is reduced for the homestead tax credit program by \$2,690,000, from \$18,690,000 to \$16,000,000. Funding is reduced for the disabled veterans' tax credit program by \$264,891, from \$7,175,091 to \$6,910,200.

This amendment also provides the following:

- Adds a section to identify the funding increases for the health insurance premium increase.
- Adds a section and provides an emergency clause allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2015-17 biennium.
- Adds a section allowing the Tax Commissioner to transfer funding between the homestead tax credit and the disabled veterans' tax credit line items in the 2017-19 biennium.
- Adds a section to create a multistate tax audit fund. The collections from the multistate tax commission audit and nexus programs are deposited in the fund, and the related program expenses are paid from the fund pursuant to a continuing appropriation. Excess collections are transferred to the general fund at the end of each year. This section will reduce estimated general fund revenues by \$450,000 for the 2017-19 biennium.

Department 127 - State Tax Commissioner
House Bill No. 1006

Dalrymple Executive Budget Comparison to Prior Biennium Appropriations

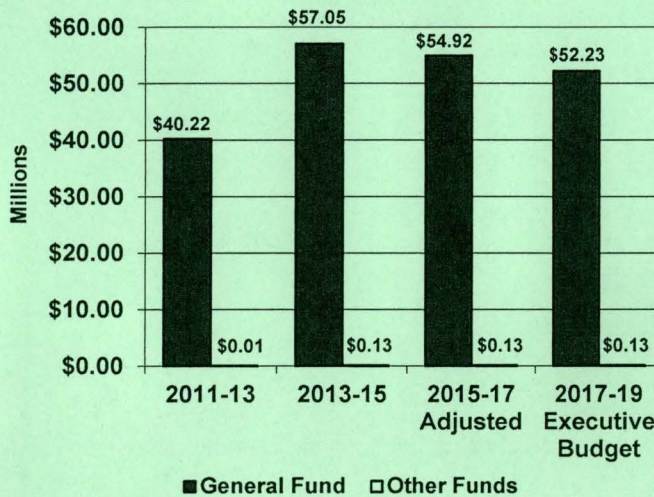
	FTE Positions	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	133.00	\$52,226,535	\$125,000	\$52,351,535
2015-17 Adjusted Legislative Appropriations ¹	136.00	54,920,488	125,000	55,045,488
Increase (Decrease)	(3.00)	(\$2,693,953)	\$0	(\$2,693,953)

¹The 2015-17 biennium agency appropriation amounts reflect general fund budget reductions made in August 2016, but do not include \$20,000 of allocations from the general fund to the agency from the state agency energy impact funding pool for temporary salary adjustments for agency employees located in areas of the state affected by energy development.

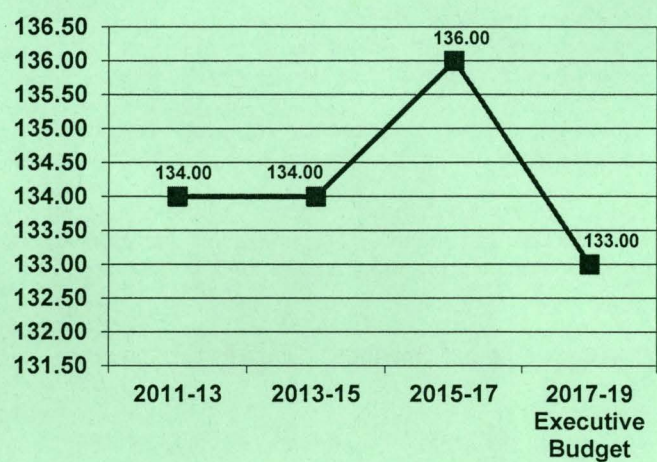
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2017-19 Dalrymple Executive Budget	\$52,226,535	\$0	\$52,226,535
2015-17 Adjusted Legislative Appropriations	54,912,488	8,000	54,920,488
Increase (Decrease)	(\$2,685,953)	(\$8,000)	(\$2,693,953)

Agency Funding



FTE Positions



Dalrymple Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	\$52,226,535	\$125,000	\$52,351,535
2017-19 Base Level	54,912,488	125,000	55,037,488
Increase (Decrease)	(\$2,685,953)	\$0	(\$2,685,953)

First House Action

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

**Dalrymple and Burgum Executive Budget Highlights
(With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Provides funding for base payroll changes, including the removal of 3 FTE positions (1 FTE tax services position, 1 FTE office assistant position, and 1 FTE document imaging position)	\$25,020		\$25,020
2. Provides funding for state employee salary and benefit increases, of which \$93,503 is for salary increases and \$380,646 is for health insurance increases. (The Burgum budget removed funding for salary increases and provided for employees to pay for a portion of health insurance.) The House removed funding for the salary increases.	\$474,149		\$474,149

3. Adds funding for salaries and wages to partially restore 2015-17 biennium budget reductions. The House reduced funding for salaries and wages by \$332,218 from the base level.	\$436,256	\$436,256
4. Adds funding for temporary employees. The House did not add funding for temporary employees.	\$50,000	\$50,000
5. Reduces funding for operating expenses, primarily related to professional services, postage, and office equipment and furniture. The House reduced funding for operating expenses by an additional \$172,480.	(\$706,487)	(\$706,487)
6. Reduces funding for capital assets	(\$10,000)	(\$10,000)
7. Reduces funding for the homestead tax credit program (\$2,690,000) and the disabled veterans' tax credit program (\$264,891)	(\$2,954,891)	(\$2,954,891)
8. The Burgum budget reduced funding for salaries and wages (\$260,942), operating expenses (\$27,480), the homestead tax credit program (\$160,000), and the disabled veterans' tax credit program (\$69,102). The House did not make these reductions.	(\$517,524)	(\$517,524)

Other Sections in House Bill No. 1006

Health insurance increase - Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.

Line item transfers - Sections 4 and 5 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2015-17 biennium and the 2017-19 biennium. Section 8 includes an emergency clause related to the line item transfers in the 2015-17 biennium.

Motor vehicle fuel tax revenue transfer - Section 6 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Multistate tax audit fund - Section 7 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year.

Significant Audit Findings

There are no significant audit findings for this agency.

Major Related Legislation

House Bill No. 1056 - Expands the eligibility of the disabled veterans tax credit program to designated trustees administering the property for an unremarried surviving spouse.

House Bill No. 1354 - Upon written request from the Chairman of the Legislative Management, requires the Tax Department to disclose the amount of tax incentives claimed or earned.

Senate Bill No. 2032 - Section 3 repeals the homestead income tax credit, which was available for tax years 2007 and 2008.

Senate Bill No. 2112 - Updates the terminology in the streamlined sales and use tax agreement to provide consistency with the other member states.

Senate Bill No. 2127 - Limits the eligibility period during which sales and use tax refunds may be claimed on purchases that exceed city or county thresholds. Refunds on purchases prior to July 1, 2017, must be claimed by July 1, 2019. Refunds on purchases after June 30, 2017, must be claimed within 2 years of the date of purchase.

Senate Bill No. 2128 - Extends the records retention period from 3 to 6 years for retailers related to records of the gross proceeds from sales and the records of purchases of inventory intended for resale.

Senate Bill No. 2129 - Provides technical corrections for clarity and consistency relating to background checks for Tax Department employees, the alcoholic beverage gross receipts tax, and claims for refunds.

Tax Commissioner - Budget No. 127
House Bill No. 1006
Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	136.00	\$54,912,488	\$125,000	\$55,037,488	136.00	\$54,912,488	\$125,000	\$55,037,488
2017-19 Ongoing Funding Changes								
Base payroll changes	(3.00)	\$25,020		\$25,020	(3.00)	\$25,020		\$25,020
Salary increase - Performance				0				0
Health insurance increase		380,646		380,646		380,646		380,646
Employee portion of health insurance		(199,404)		(199,404)				0
Adjusts salary funding for budget reductions		436,256		436,256		(332,218)		(332,218)
Adds funding for temporary employees		50,000		50,000				0
Reduces funding for operating expenses		(706,487)		(706,487)		(878,967)		(878,967)
Reduces funding for capital assets		(10,000)		(10,000)		(10,000)		(10,000)
Reduces funding for tax credit programs		(2,954,891)		(2,954,891)		(2,954,891)		(2,954,891)
Budget reductions - 1 percent		(517,524)		(517,524)				0
Total ongoing funding changes	(3.00)	(\$3,496,384)	\$0	(\$3,496,384)	(3.00)	(\$3,770,410)	\$0	(\$3,770,410)
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(3.00)	(\$3,496,384)	\$0	(\$3,496,384)	(3.00)	(\$3,770,410)	\$0	(\$3,770,410)
2017-19 Total Funding	133.00	\$51,416,104	\$125,000	\$51,541,104	133.00	\$51,142,078	\$125,000	\$51,267,078

Other Sections in Tax Commissioner - Budget No. 127

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	House Version
Health insurance increase		Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.
Line item transfers	Section 3 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item. Section 7 includes an emergency clause related to the line item transfers.	Sections 4 and 5 authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2015-17 biennium and the 2017-19 biennium. Section 8 includes an emergency clause related to the line item transfers in the 2015-17 biennium.

Other Sections in Tax Commissioner - Budget No. 127

**Burgum Executive Budget Recommendation
(Changes to Dalrymple Budget in Bold)**

House Version

Motor vehicle fuel tax revenue transfer

Section 4 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Section 6 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Multistate tax audit fund

Section 5 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year.

Section 7 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year. This section will reduce estimated general fund revenues by \$450,000 for the 2017-19 biennium.

Salary of Tax Commissioner

Section 6 provides the statutory changes to increase the Tax Commissioner's annual salary by 1 percent in the second year of the 2017-19 biennium. **(The Burgum budget recommendation removes this section.)**

Department 127 - State Tax Commissioner

Appropriations Comparisons to the Original and Adjusted Base Budgets

General Fund Appropriations Adjustments (As a result of the August 2016 General Fund Budget Reductions)

	Ongoing	One-Time	Total
2015-17 original general fund appropriations	\$58,761,918	\$8,000	\$58,769,918
General fund reductions	(3,849,430)	0	(3,849,430)
Adjusted 2015-17 appropriations	\$54,912,488	\$8,000	\$54,920,488
Dalrymple Executive Budget changes	(2,685,953)	(8,000)	(2,693,953)
2017-19 Dalrymple Executive Budget	\$52,226,535	\$0	\$52,226,535

Summary of August 2016 General Fund Budget Reductions

	Ongoing	One-Time	Total
Vacant positions, delayed salary increases, and fewer temporary employees	(\$1,459,579)		(\$1,459,579)
Operating expenses related to travel, office equipment, professional development, and professional services	(576,942)		(576,942)
Homestead tax credit program	(1,310,000)		(1,310,000)
Disabled veterans' tax credit program	(502,909)		(502,909)
Total reductions	(\$3,849,430)	\$0	(\$3,849,430)
Percentage reduction to ongoing and one-time general fund appropriations	6.55%	0.00%	6.55%

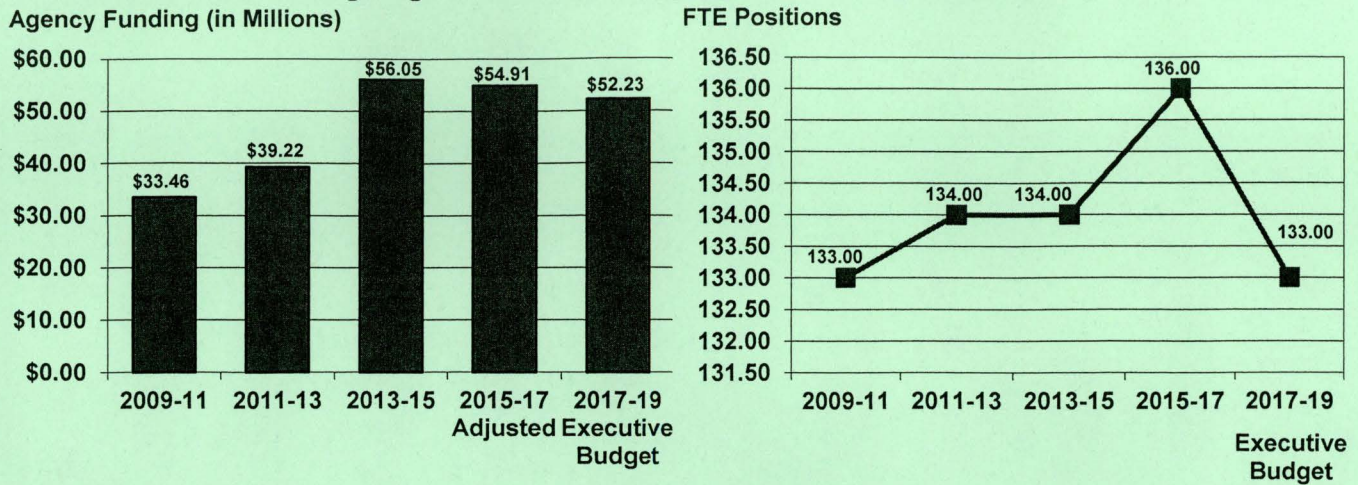
2017-19 Dalrymple Executive Budget Changes to the Original and Adjusted Base Budgets

	Changes to Original Budget	Budget Reduction Adjustments	Changes to Adjusted Budget
Base payroll changes	\$25,020		\$25,020
Adds funding for state employee salary and benefit increases	474,149		474,149
Adjusts funding for FTE positions	(1,023,323)	1,459,579	436,256
Adds funding for temporary employees	50,000		50,000
Adjusts funding for operating expenses primarily related to travel, information technology, professional development, and professional services	(1,283,429)	576,942	(706,487)
Reduces funding for capital assets	(10,000)		(10,000)
Adjusts funding for homestead tax credit program	(4,000,000)	1,310,000	(2,690,000)
Adds funding for disabled veterans' tax credit program	(767,800)	502,909	(264,891)
Total	(\$6,535,383)	\$3,849,430	(\$2,685,953)

Department 127 - State Tax Commissioner

Historical Appropriations Information

Ongoing General Fund Appropriations Since 2009-11



Ongoing General Fund Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Dalrymple Executive Budget
Ongoing general fund appropriations	\$33,462,339	\$39,220,304	\$56,054,140	\$54,912,488	\$52,226,535
Increase (decrease) from previous biennium	N/A	\$5,757,965	\$16,833,836	(\$1,141,652)	(\$2,685,953)
Percentage increase (decrease) from previous biennium	N/A	17.21%	42.92%	(2.04%)	(4.89%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	17.21%	67.51%	64.10%	56.08%

Major Increases (Decreases) in Ongoing General Fund Appropriations

2011-13 Biennium

- 1. Added funding for the homestead tax credit program \$2,828,788
- 2. Added funding for the disabled veterans' tax credit program \$1,243,920
- 3. Added funding for GenTax software support \$940,000
- 4. Added funding for 1 FTE compliance officer position \$142,323

2013-15 Biennium

- 1. Added funding for the homestead tax credit program \$11,207,212
- 2. Added funding for the disabled veterans' tax credit program \$3,434,080
- 3. Added funding for GenTax software support \$1,000,000

2015-17 Biennium

- 1. Added funding for 1 FTE research analyst position and 1 FTE property tax specialist position \$186,611
- 2. Added funding for operating expenses, including \$200,000 for GenTax software support \$560,755
- 3. Reduced funding for the homestead tax credit program (\$1,310,000) and the disabled veterans' tax credit program (\$502,909) related to the August 2016 budget reductions (\$1,812,909)

2017-19 Biennium (Dalrymple and Burgum Executive Budget Recommendations)

- 1. Adds funding for salaries and wages to partially restore 2015-17 biennium budget reductions. **The House reduced funding for salaries and wages by \$332,218 from the base level.** \$436,256
- 2. Adds funding for temporary employees. **The House did not add funding for temporary employees.** \$50,000
- 3. Reduces funding for operating expenses, primarily related to professional services, postage, and office equipment and furniture. **The House reduced funding for operating expenses by an additional \$172,480.** (\$706,487)

4. Reduces funding for the homestead tax credit program (\$2,690,000) and the disabled veterans' tax credit program (\$264,891) (\$2,954,891)
5. The Burgum budget reduced funding for salaries and wages (\$260,942), operating expenses (\$27,480), the homestead tax credit program (\$160,000), and the disabled veterans' tax credit program (\$69,102). **The House did not include these reductions.** (\$517,524)



BUDGET PRESENTATION
SENATE APPROPRIATIONS COMMITTEE
SENATOR RAY HOLMBERG, CHAIRMAN

Agency Overview

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota. We strive to provide prompt, accurate, and courteous service to taxpayers as we promote compliance with the state's tax laws.

As you know, the Office of State Tax Commissioner is the primary revenue collection agency for the state. For the 2015-17 biennium, the department will collect over 90 percent of all general fund dollars, excluding transfers -- an amount expected to exceed \$3.2 billion. In addition, the department is expected to collect nearly \$3 billion in oil tax revenues during the current biennium, based on the executive revenue forecast.

The Office of State Tax Commissioner collects and administers over 30 different taxes, some of which are local taxes, administered on behalf of and allocated to political subdivisions, such as city sales, occupancy, and restaurant and lodging taxes. Some taxes, such as electric transmission line, coal severance, and telecommunications, are collected by the state in lieu of property taxes and are allocated back to counties to provide an important source of revenue for local governments. For each tax type, the department provides education to help taxpayers understand their filing requirements, conducts discovery work to ensure all taxpayers are complying with the law, processes returns, answers taxpayer questions, analyzes data, and conducts audits to ensure taxpayers are paying the correct amount.

The chart on the following page shows the various tax types administered by the department and the amounts collected in fiscal years 2010 and 2016. In many cases, the growth is not merely in the dollars collected, but is a reflection of the increase in the number of filers and returns processed by the department.

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**North Dakota Office of State Tax Commissioner
Statement of Collections Data
Fiscal Years 2010 and 2016**

<u>Description</u>	<u>FY 2010 Net Collections</u>	<u>FY 2016 Net Collections</u>	<u>Change</u>
Sales & Use Tax	\$603,732,481	\$1,017,231,077	\$413,498,596
Motor Vehicle Excise Tax	106,657	145,707	39,050
City Occupancy Tax	1,872,368	3,482,668	1,610,300
City Sales Tax	119,411,810	248,900,701	129,488,891
City Restaurant and Lodging Tax	4,289,399	7,837,962	3,548,563
City Motor Vehicle Rental Tax	110,557	139,597	29,040
Individual Income Tax	304,252,924	355,512,173	51,259,249
Corporate Income Tax	87,874,592	97,580,800	9,706,208
Financial Institutions Tax	10,451,319	324,145	(10,127,174)
Cigarette Tax (Cities)	1,353,442	1,594,266	240,824
Cigarette Tax (Tribe)	64,693	88,266	23,573
Cigarette Tax (GF)	18,454,355	21,802,513	3,348,158
Tobacco Tax	3,976,398	7,247,202	3,270,804
Oil & Gas Gross Production Tax	302,099,211	750,474,504	448,375,293
Oil Extraction Tax	280,611,437	732,866,348	452,254,911
Telecommunications Tax	11,252,316	12,293,973	1,041,657
Wholesale Liquor/beer Tax	7,411,422	9,106,683	1,695,261
Estate Tax	9,174	175	(8,999)
Miscellaneous Remittances	13,019	5,630	(7,389)
Coal Severance Tax	11,506,451	10,948,613	(557,838)
Coal Conversion Tax	26,154,150	26,785,652	631,502
Electric Generation	442,604	10,724,632	10,282,028
Music and Composition Tax	155,923	175,946	20,023
Sales & Use Tax Cash Bonds	51,050	(237,867)	(288,917)
Fuel Dealers & Inspection Fees	0	330,372	330,372
Motor Vehicle Fuel Tax	85,179,818	104,292,909	19,113,091
Special Fuel Tax	66,553,656	92,884,832	26,331,176
Motor Fuel Tax - Cash Bond	(2,000)	2,000	4,000
Nongame Wildlife Fund	19,444	28,721	9,277
Centennial Tree Trust Fund	20,375	33,995	13,620
Organ Transplant Support Fund	11,950	24,647	12,697
Airline Tax	202,399	185,171	(17,228)
Prepaid Wireless Fees	0	984,498	984,498
Provider Assessment	4,094,197	5,887,038	1,792,841
TOTAL COLLECTIONS	\$1,951,737,591	\$3,519,685,549	\$1,567,947,958

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The tremendous economic growth our state experienced in recent years has resulted in a corresponding increase in the workload of the Tax Department. Despite the recent downturn in oil activity, the number of returns remains at record levels in nearly all tax types.

The following statistics illustrate the growth in the Office of State Tax Commissioner's workload since 2006:

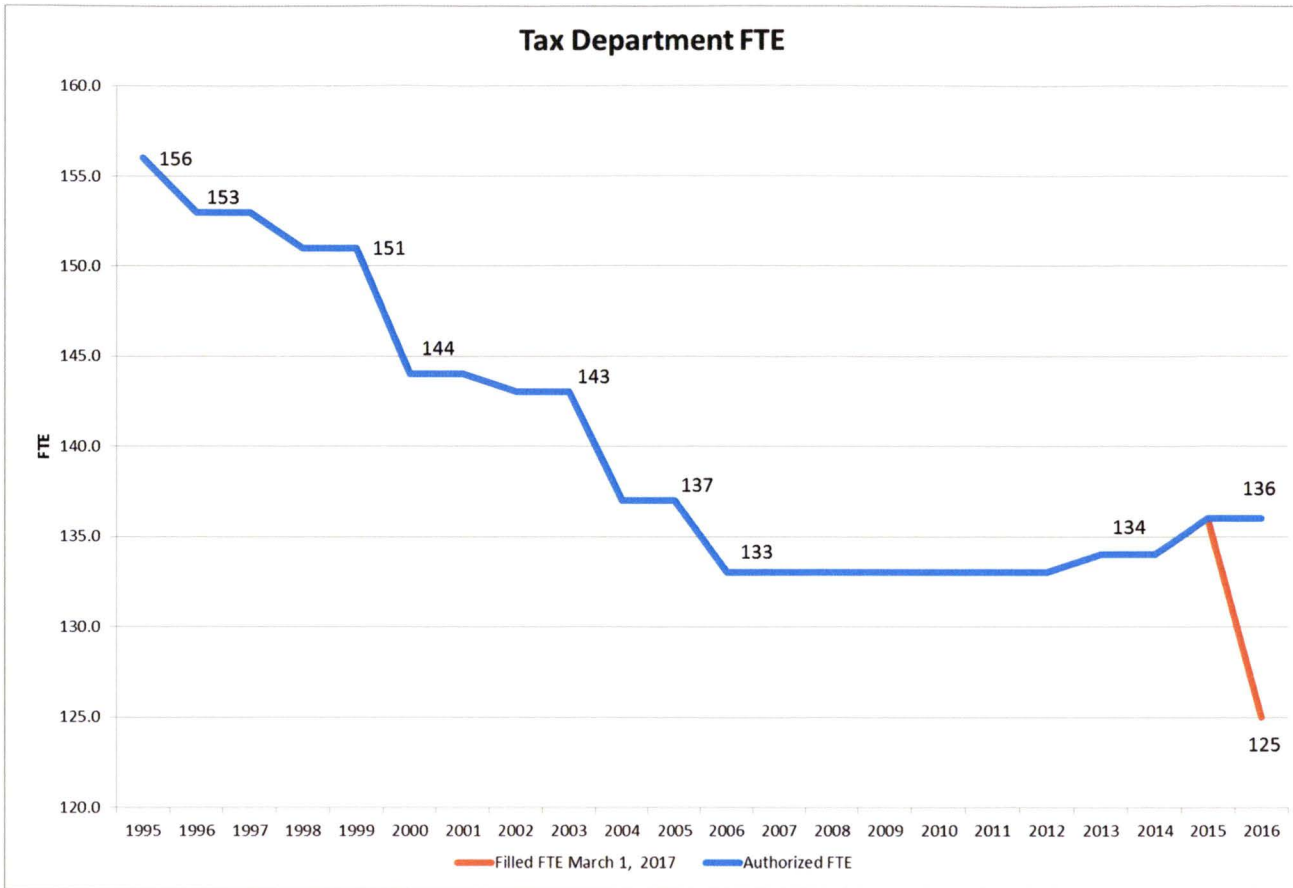
	2006	2014	2016	2006-2016 Increase	Percent Increase
Sales tax – original returns filed	135,968	194,856	203,717	67,749	50%
Individual income tax withholding - original returns filed	101,965	148,213	148,985	47,020	46%
Individual income tax - original returns filed	332,489	480,903	503,033	170,544	51%
Partnership and S Corp - original returns filed	20,748	38,835	42,354	21,606	104%
Corporate income tax - original returns filed by out of state corporations	4,921	7,419	7,881	2,960	60%
Oil and gas tax - active wells	3,638	11,900	13,457	9,819	270%
Oil and gas tax - amended returns filed	770	2,595	3,514	2,744	356%
Collections statements mailed	81,067	192,758	230,515	149,448	184%
Canadian resident sales tax refund requests	4,998	25,022	12,058	7,060	141%

Despite this record workload level, we have kept several of our authorized positions unfilled in the current biennium to generate budgetary savings. As of March 1, 2017, we have eleven unfilled positions that we are not planning to fill for the remainder of the biennium.

The number of positions authorized for the Department has declined significantly over the past twenty years, from 156 in 1995 to 136 in the current biennium. This reduction in staff has been made possible through our continual efforts to be more efficient. Much of this efficiency has been made possible through technological advancements, such as an increasing percentage of electronically filed returns, the implementation of web-file solutions for businesses such as the recently implemented Taxpayer Access Point (TAP), and the implementation of our integrated tax system known as GenTax. However, with the workload growth we have seen during the last ten years, coupled with a greatly reduced number of filled positions, we struggle to keep up. We are forced to constantly prioritize and focus on those critical tasks that need to be done, sometimes forgoing other tasks that should be done and are in the best interest of the Tax Department and the state.

The following chart shows a long-term history of the staffing level for the Office of State Tax Commissioner.

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To provide you a better understanding of the structure of the Office of State Tax Commissioner and how the positions are spread throughout the agency by function, attached to my testimony is an organizational chart with the number of filled positions in each section.

Agency Operations Budget
2015-17 Biennium “Base Level” Budget

Line item	2015-17 Original Appropriation	Allotment and One-Time Funding Reductions	2015-17 Base Level Amount	Percent of Total
Salaries and wages	22,987,714	(1,459,579)	21,528,135	73.8%
Operating expenses	8,205,204	(576,942)	7,628,262	26.1%
Capital assets	24,000	(8,000)	16,000	.1%
Total	31,216,918	(2,044,521)	29,172,397	100%

As an agency that relies on staff to meet its statutory obligations and perform all of the work the legislature has directed us to do, we have a budget that consists primarily of salaries and wages. Approximately 74 percent of our current biennium operating budget, after allotments, is for salaries and wages. The original appropriation for salaries and wages for the 2015-17 biennium was \$22.9 million. Approximately \$1.5 million was reduced from this line item to meet the allotment requirements.

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Although authorized for 136 full-time equivalent positions for the 2015-17 biennium, the base level after allotment provides funding for 130 FTE's and recognizes savings due to staff turnover. In addition to not filling 6 positions, other positions were held open and hiring was delayed in order to generate savings. In some cases, long-tenured employees retired and positions were filled at a lower salary level, which also contributed to budget savings in this line. Also, salary adjustments for the second year of the biennium were postponed from July 1 to September 1 to generate additional savings.

The original appropriation for operating expenses for the 2015-17 biennium was \$8.2 million. Approximately \$577,000 was reduced from this line item to meet the allotment requirements. The operating expenses line item includes \$3.4 million for an ongoing contract with the provider of the state's integrated tax system, GenTax. This large amount included in the operating line limits our flexibility to make reductions and required significant cuts to other budget amounts within this line. In addition, approximately \$1.1 million included in this line is for data processing charges paid to the Information Technology Department, further limiting our flexibility in this line. However, we used this period of budget reduction as an opportunity to examine all aspects of our operations and business processes and look for savings and efficiencies. Through a strategic effort involving all levels of management and staff, we identified business process changes, areas where printing or postage could be reduced, or made decisions to simply get by with less.

Significant reductions were made to travel, professional development, subscriptions, postage, printing, IT equipment, office furniture and equipment, advertising, and professional services. This means our staff will have less training; we will print and mail fewer forms, booklets, guidelines and statements; and we will spend less to promote programs such as the homestead tax credit. However, within our base level, we will continue our core functions.

2017-19 Biennium 90 Percent Budget

Line item	2015-17 Base Level Amount	Base Budget Adjustments	2017-19 90% Budget Amount	Percent of Total
Salaries and wages	21,528,135	25,020	21,553,155	75.68%
Operating expenses	7,628,262	(706,487)	6,921,775	24.3%
Capital assets	16,000	(10,000)	6,000	.02%
Total	29,172,397	(691,467)	28,480,930	100%

To meet the 90 percent budget limit for 2017-19, we followed the same strategy as was used to meet the 6.55 percent allotment for 2015-17: reducing salary expenditures by leaving positions vacant whenever possible and reducing operating expenses through efficiencies and work process changes. The following is a brief summary of the steps we have taken to reduce our budget:

- Positions were left unfilled whenever possible
- Temporary salary funding was reduced
- Nearly \$300,000 was "unfunded" from the salaries and wages line in anticipation of savings that we will work to achieve during the 2017-19 biennium (as of now the specific positions are not identified)
- The following 8 positions, which became vacant due to attrition, were left unfilled:
 - 2 auditors in the Corporate Income Tax section (which will result in fewer corporate income tax audits being completed and reduced general fund revenue collections)

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- 1 tax service specialist in the Individual Income Tax section (which will result in additional work distributed to other members of the section and slower processing time for returns)
- 1 office assistant in the Information Management and Technology division (positions were combined and job duties reassigned to permanent and temporary positions)
- 1 document imaging specialist in the Information Management and Technology division (which will result in additional temporary employee costs as the position will be filled for the individual income tax filing season)
- 1 research analyst in the Research and Communications section (this new position was authorized for the 2015-17 biennium and not filled for budgetary reasons; filling the position would have allowed knowledge transfer and backup for our research analyst)
- 2 auditors in the Sales Tax Field Audit section (which will result in fewer sales tax audits and reduced general fund revenue collections)
- Significant reductions were made to travel, professional development, subscriptions, postage, printing, IT equipment, office furniture and equipment, advertising, and professional services.
- In addition, through negotiations with our software vendor for GenTax, the vendor agreed to not only forego \$200,000 in normal inflationary increases anticipated under the vendor maintenance, support, and update contract, but agreed to continue the current level of service at a reduced cost in recognition of our current budget situation and long-standing working relationship. Through these negotiations, the contract amount will be reduced from \$3.4 million in the current biennium to \$3.26 million in the 2017-19 biennium.
- In addition to the 8 positions left unfilled to meet the 90 percent budget requirement, the following three positions, which became vacant since our budget was submitted, have also been left unfilled to generate additional budget savings:
 - 1 office assistant in the Commissioner's Division (the position, which is necessary to cover the main receptionist area on the 8th floor, is being covered by rotating other staff as needed)
 - 1 office assistant in the Individual Income Tax section (which will result in additional temporary employee costs as the position will be filled for the individual income tax filing season)
 - 1 account technician in the accounting section which processed payroll and accounts payable (duties have been temporarily reassigned to other positions within the section)

Governor Dalrymple authorized the following additions to our budget to determine the 2017-19 biennium 90 percent budget:

- \$280,206 to continue 2015-17 biennium legislatively authorized salary increases
- \$100,198 to fully fund a property tax specialist position authorized by the 2015 legislature but only funded for part of the 2015-17 biennium

2017-19 Biennium Requested Budget

Priority 1 – Multi-state Tax Commission Audit and Nexus Programs

The Tax Department currently participates in the Multi-State Tax Commission (MTC) Audit and National Nexus programs, which I will explain in more detail later in my testimony. These programs provide a positive return for the state. Our highest priority request to the Governor was to restore \$431,026 to continue participation in these programs. However, this funding will not be needed if you approve the proposed statutory change included in the Engrossed Bill to make these programs self-funding. This change was also included in the Governor Dalrymple executive budget.

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Priorities 2 and 4 – Positions and salary funding

Our executive budget request includes \$1,410,696 to provide funding for 8 positions and restoration of \$300,000 unfunded from the Department's pay plan to meet the 90 percent budget requirement.

The highest priority request to Senate Appropriations is to restore funding for 2 corporate audit positions and 2 sales and use tax audit positions. The \$640,000 to fully fund these positions is a cost effective investment for the state to ensure continued general fund revenue collections in these tax types. From July 2012 through December 2016, average annual general fund audit collections per auditor have averaged over \$700,000 per sales tax auditor and nearly \$3 million per corporate income tax auditor.

Although normal attrition always results in some savings in the salaries and wages line item, it is unknown if normal turnover will result in savings equal to the \$300,000. Recognizing the current budget situation, the Tax Department is withdrawing the request for funding for the 4 non-audit positions and the \$300,000 underfunding in the salaries line. However, it will be a challenge to meet the workload demands with fewer FTE and manage our hiring process in such a way that we are able to realize this amount of savings.

Governor Dalrymple's budget recommendation included \$436,256 of this request to fund 3 of the 8 positions. This funding was removed by the House and is not in the Engrossed Bill.

The Tax Department requests \$640,000 to restore four audit positions.

Priority 3 - Operating expenses

Our executive budget request includes \$405,731 for restoration of certain amounts in the operating expenses line. The attached Schedule A shows the various adjustments to the Department's operating line required to meet the 90 percent budget level.

Many of the efficiencies and business process changes we are implementing will result in ongoing cost savings for the 2017-19 biennium. However, we are especially concerned with the level of funding for postage. A postage rate increase took effect in January 2017 and future rate increases are unknown. Despite our efforts to make information available electronically, we are still required to send a large volume of mailings and as I discussed earlier, we are dealing with a record number of filers in nearly all tax types. In many cases, our efforts to reduce mailings will limit the growth in this area, but actual reductions are difficult to achieve. To meet our 90 percent budget requirements, we reduced this account code by \$163,314. We are concerned this may be difficult to achieve due to unknown factors that affect postage expenditures for the Tax Department. However, in consideration of the current budget situation, the Tax Department is withdrawing this request.

Operating expenses were further reduced by the House by \$172,480, including the removal of funding for replacement of all agency desktop computers pursuant to the recommended ITD replacement cycle.

The Tax Department is withdrawing this request.

Priority 5 – Temporary salaries

This request includes \$210,111 for temporary salaries. The Tax Department is heavily reliant on temporary staff to meet seasonal workload demands of the tax processing season. Hiring temporary employees is the most cost effective way to manage this type of workload.

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This funding would also allow a modest increase in the wage rate for temporary employees, raising it from an average of \$12 per hour to \$13 per hour. This funding would also allow us to retain the knowledge and experience of returning temporary or retired former employees who provide a cost-effective way to deal with a reduced number of full-time equivalent positions. This funding would also allow us to provide health insurance benefits to qualifying temporary employees.

Governor Dalrymple’s budget recommendation includes \$50,000 to partially fund this request. However, this funding was removed by the House and is not included in the Engrossed Bill.

The Tax Department is withdrawing this request.

Grant Programs – Homestead Tax Credit and Disabled Veterans Credit

2015-17 Biennium “Base Level” Budget

The homestead tax credit program provides property tax relief for qualifying low-income persons who are 65 years of age or older or who are disabled. The credit is up to 100 percent of the taxes levied on the first \$125,000 of true and full value, for applicants with annual income below \$22,000. A reduced level of credit is available to applicants with annual income up to \$42,000.

The original appropriation for this line for the 2015-17 biennium was \$20 million. Expenditures during the first year of the biennium totaled slightly less than \$7 million. The adjusted appropriation after allotments is \$18.69 million. Although we won’t know fiscal year 2017 expenditures for another few weeks, we estimate that the remaining appropriation will be adequate. Our best estimate at this time is for 2015-17 biennium expenditures to total approximately \$14.8 million.

The disabled veterans credit program provides property tax relief for disabled veterans with a service-connected disability of 50 percent or greater. The credit is up to 100 percent of the taxes levied on the first \$150,000 of true and full value. The percentage of credit allowed is equal to the percentage of the disabled veteran’s disability compensation rating.

The original appropriation for this line for the 2015-17 biennium was \$7.7 million. Expenditures during the first year of the biennium totaled just under \$4 million. The adjusted appropriation after allotments is \$7.2 million. Our best estimate for 2015-17 biennium expenditures is approximately \$8.4 million, \$1.2 million more than the appropriation. No statutory authority exists for the appropriation to be prorated. After the credit is granted by counties to eligible tax payers, the county receives reimbursement from the state.

2017-19 Biennium 90 Percent Budget

For the required 90 percent budget, the Tax Department requested \$16 million for the homestead tax credit program and \$8.5 million for the disabled veterans credit program. Governor Dalrymple included the full \$16 million for the homestead tax credit program, but included only \$6.9 million for the disabled veterans credit program (90 percent of the original appropriation of \$7.7 million).

2017-19 Biennium Requested Budget

Priority 1 - Disabled Veterans Credit Program

For the 2017-19 biennium, the Tax Department requests an additional \$1,589,800 to fully fund the anticipated cost of the disabled veterans credit program.

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Other Requests

Multi-State Tax Commission Audit Fund

The Tax Department currently participates in the MTC audit program for both corporate income tax and sales and use tax. Twenty-two states participate in the corporate income tax audit program and eighteen states in the sales and use tax program. Audits are typically multi-state or multi-national corporations with only a small presence in North Dakota. During the past ten years, the return on investment for the state has been \$5 in additional audit collections for every \$1 spent on fees.

The Tax Department also participates in the MTC National Nexus program which is a voluntary disclosure program for corporate income tax and sales and use tax. The program provides a central point of contact to allow a taxpayer to become compliant in multiple states. Currently, 37 states participate. During the past four years, the state's return on investment through the program has been \$5 for every \$1 spent.

In past bienniums, the Tax Department has received a general fund appropriation to participate in these programs, which provide a direct benefit to the state general fund. However, to meet the 90 percent budget requirement, this funding was removed from the Department budget. The Tax Department requests your support of the statutory change recommended by Governor Dalrymple and approved by the House, included in Section 7 of the Engrossed Bill. This proposed new section would:

- Continue the state's participation in the Multi-State Tax Commission (MTC) Audit and Nexus Programs, but require that the programs be self-funding.
- Create a new special fund – the multistate tax audit fund
- Require all audit and tax settlement moneys received through the MTC Audit and Nexus programs to be deposited in the fund
- Provide continuing appropriation authority to pay the related fees to MTC each year (currently about \$220,000 per year)
- Provide for a transfer at least annually to the general fund of any moneys in the fund in excess of the amount needed to pay the fees in the subsequent year (allowing a balance to cash flow the payment to MTC which is billed in July).

Line Item Transfers

Appropriations for the homestead tax credit program and disabled veterans program are based on estimated program costs. Program costs are difficult to estimate and occasionally result in either a deficiency request or a turnback to the general fund. The current biennium is good example of this situation, with a potential turnback in the homestead tax credit program and a potential deficiency in the disabled veterans credit line.

The Tax Department requests your support of the line item transfer authority recommended by Governor Dalrymple and approved by the House, included in Sections 4 and 5 of the Engrossed Bill, along with the Emergency Clause contained in Section 8. This authority will allow the Tax Department to address the current biennium shortfall in the disabled veterans credit line item by allowing a transfer from the homestead tax credit line. Funding could only be transferred between these two lines and nowhere else within the Tax Department budget. The authority would be in effect to address a similar situation if it would develop at the close of the 2017-19 biennium.

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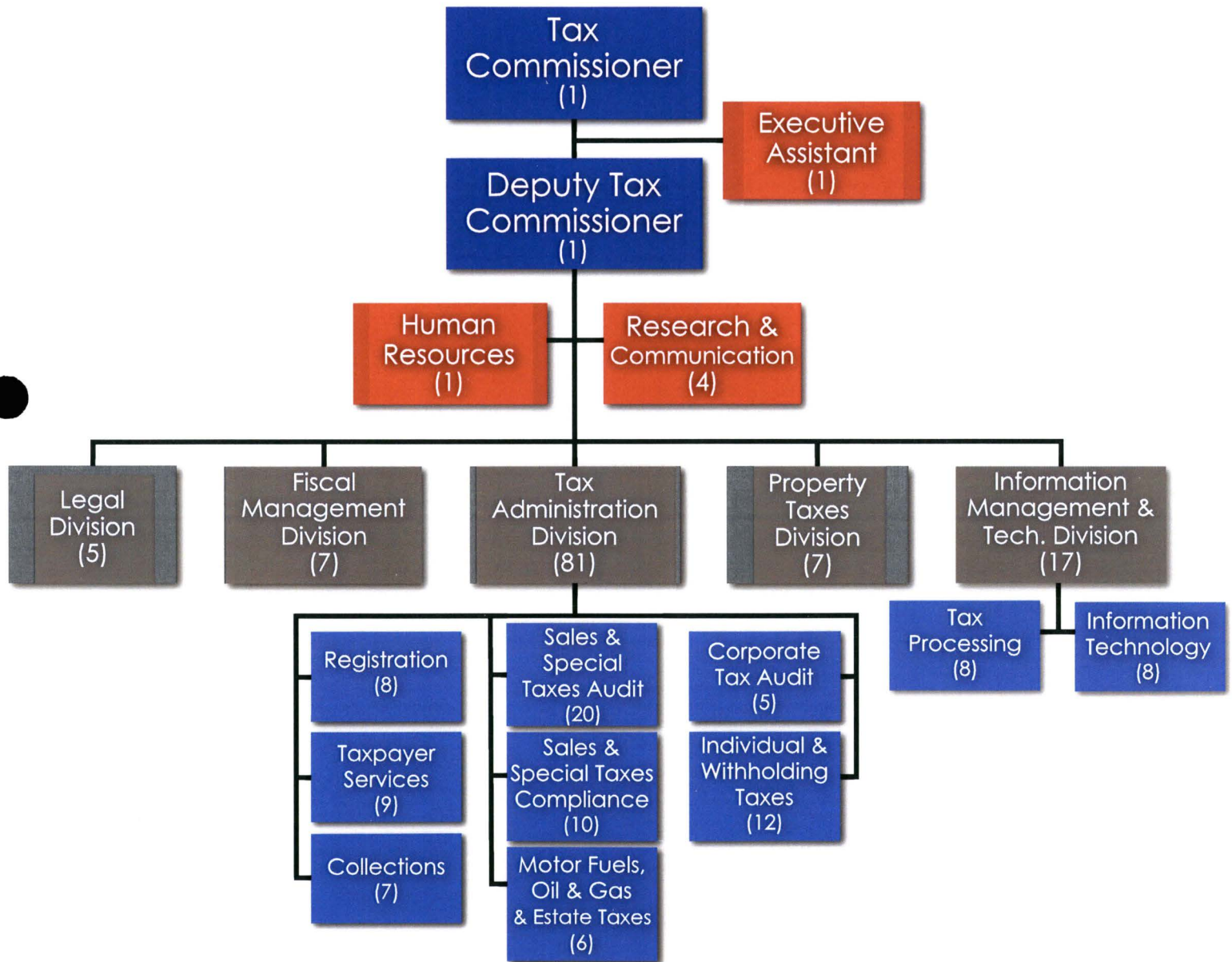
Attachments

- 1- Organizational chart with filled positions shown by section
- 2- Schedule A – Budget reductions by account code for the 2015-17 base level after allotments, and 2017-19 executive budget and House version
- 3- Schedule B – Total optional adjustment requests, those included in the executive budget, and those included in the current request to Senate Appropriations
- 4- Schedule C – Comparison of budget adjustments recommended by Governor Burgum and budget adjustments made by the House
- 5- Schedule D – Estimated 2015-17 expenditures



ORGANIZATIONAL CHART

FILLED FTE POSITIONS AS OF MARCH 1, 2017 - 125 FTE



OFFICE OF STATE TAX COMMISSIONER
ANALYSIS OF 2017-19 BUDGET REQUEST

	A	B	C	D	E	F	G	H	I	J
LINE ITEM/OBJECT DESCRIPTION	2015-2017 ORIGINAL APPROPRIATION	ALLOTMENT AND ONE-TIME FUNDING REDUCTION	2015-2017 BASE LEVEL AMOUNT	BASE BUDGET ADJUSTMENTS	2017-2019 BASE BUDGET REQUEST	ADJUSTMENTS BY OMB	2017-2019 EXECUTIVE BUDGET	ADJUSTMENTS MADE BY HOUSE	2017-2019 HOUSE VERSION	
1 TOTAL SALARIES AND WAGES	22,987,714	(1,459,579)	21,528,135	25,020	21,553,155	960,405	22,513,560	(911,977)	21,601,583	
FTE Employees	136					(3)	133			
OPERATING EXPENSES										
2 Travel	336,023	(125,000)	211,023	86,862	297,885	0	297,885	(22,000)	275,885	
3 Supplies - IT Software	167,421	0	167,421	0	167,421	0	167,421		167,421	
4 Supply/Material-Professional	130,350	(20,884)	109,466	(19,484)	89,982	0	89,982		89,982	
5 Bldg, Ground, Maintenance	0	0	0	0	0	0	0		0	
6 Miscellaneous Supplies	30,070	0	30,070	0	30,070	0	30,070		30,070	
7 Office supplies	96,147	0	96,147	(10,000)	86,147	0	86,147		86,147	
8 Postage	991,966	(37,278)	954,688	(126,036)	828,652	0	828,652		828,652	
9 Printing	215,441	(17,000)	198,441	(23,000)	175,441	0	175,441		175,441	
10 IT Equipment under \$5,000	172,300	(22,450)	149,850	(22,550)	127,300	0	127,300	(123,000)	4,300	
Other Equip under \$5,000	1,618	0	1,618	0	1,618	0	1,618		1,618	
12 Office Equip & Furn Supplies	210,871	(125,000)	85,871	0	85,871	0	85,871	(15,000)	70,871	
13 Insurance	8,588	0	8,588	1,175	9,763	0	9,763		9,763	
14 Leases/Rents - Equipment	61,003	0	61,003	6,203	67,206	0	67,206		67,206	
15 Leases/Rents - Buildings/Land	117,742	0	117,742	4,170	121,912	0	121,912	(12,480)	109,432	
16 Repairs	152,665	(100,000)	52,665	24,140	76,805	0	76,805		76,805	
17 IT - Data Processing	1,099,199	(40,000)	1,059,199	74,014	1,133,213	0	1,133,213		1,133,213	
18 IT - Communications	170,656	0	170,656	(10,000)	160,656	0	160,656		160,656	
19 IT Contractual Services	3,493,095	0	3,493,095	(233,095)	3,260,000	0	3,260,000		3,260,000	
20 Professional Development	176,345	(29,508)	146,837	(20,000)	126,837	0	126,837		126,837	
21 Operating Fees & Services	116,591	(23,822)	92,769	(21,178)	71,591	0	71,591		71,591	
22 Professional Services	457,113	(36,000)	421,113	(417,708)	3,405	0	3,405		3,405	
23 TOTAL OPERATING EXPENSES	8,205,204	(576,942)	7,628,262	(706,487)	6,921,775	0	6,921,775	(172,480)	6,749,295	
24 TOTAL CAPITAL ASSET	24,000	(8,000)	16,000	(10,000)	6,000	0	6,000	0	6,000	
Subtotal General Fund	31,091,918	(2,044,521)	29,047,397	(691,467)	28,355,930	960,405	29,316,335	(1,084,457)	28,231,878	
Subtotal Federal Fund	125,000	0	125,000	0	125,000	0	125,000	0	125,000	
25 Subtotal Tax Department	31,216,918	(2,044,521)	29,172,397	(691,467)	28,480,930	960,405	29,441,335	(1,084,457)	28,356,878	
26 HOMESTEAD TAX CREDIT	20,000,000	(1,310,000)	18,690,000	(2,690,000)	16,000,000	0	16,000,000	0	16,000,000	
27 DISABLED VETERANS CREDIT	7,678,000	(502,909)	7,175,091	(264,891)	6,910,200	0	6,910,200	0	6,910,200	
28 TOTAL GENERAL FUND	58,769,918	(3,857,430)	54,912,488	(3,646,358)	51,266,130	960,405	52,226,535	(1,084,457)	51,142,078	
29 TOTAL FEDERAL FUND	125,000	0	125,000	0	125,000	0	125,000	0	125,000	
30 TOTAL FOR DEPARTMENT	58,894,918	(3,857,430)	55,037,488	(3,646,358)	51,391,130	960,405	52,351,535	(1,084,457)	51,267,078	

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OFFICE OF STATE TAX COMMISSIONER
CHANGE PACKAGE SUMMARY
2017-19 BIENNIUM

DESCRIPTIONS	OPTIONAL REQUESTS	OPTIONALS NOT INCL IN 2017-19 GOV RECOM.	AMOUNT IN 2017-2019 EXECUTIVE BUDGET	AMOUNT IN HOUSE VERSION	AMOUNT IN CURRENT REQUEST TO SENATE
Salary & Wages					
Restore Salary package 1 4 auditor positions plus addition underfunding	830,592	530,176	300,416	0	640,000
Restore Salary package 2 4 positions: Taxpayer Service Tech, Office Asst, Doc Image Specialist, and Research Analysty	580,104	444,264	135,840	0	0
Restore Tempoary Salary wages	210,111	160,111	50,000	0	0
Market Equity Adjustments	269,380	269,380	0	0	0
Total Salary and Wages Optional Requests	1,890,187	1,403,931	486,256	0	640,000
Operating Expenses					
Restore Multistate Tax Commissioner	451,026	451,026	0	0	0
Restore various operating expense items	405,731	405,731	0	0	0
Total Operating Expenses Optional Requests	856,757	856,757	0	0	0
Total Agency Salary and Operating Requests	2,746,944	2,260,688	486,256	0	640,000
Disabled Veterans Credit	1,589,800	1,589,800	0	0	1,589,800
Total Grant Program Requests	1,589,800	1,589,800	0	0	1,589,800

Schedule B

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SUMMARY OF CHANGES RECOMMENDED BY GOVERNOR BURGUM
AND ADJUSTMENTS MADE BY HOUSE

LINE ITEM/OBJECT DESCRIPTION	2017-2019 EXECUTIVE BUDGET	REMOVE COMPENSATION	5% HEALTH INSURANCE TO BE COVERED EMBY PLOYEE	OTHER ADJUSTMENTS	TOTAL GOVERNOR BURGUM ADJUSTMENTS	ACTUAL ADJUSTMENTS MADE BY HOUSE	DIFFERENCE BETWEEN GOV & HOUSE ADJUSTMENTS
TOTAL SALARIES AND WAGES	22,513,560	(93,503)	(199,404)	(260,942)	(553,849)	(911,977)	(358,128)
FTE Employees	133						
OPERATING EXPENSES	6,921,775	0	0	(27,480)	(27,480)	(172,480)	(145,000)
TOTAL CAPITAL ASSET	6,000	0	0	0	0	0	0
Subtotal General Fund	29,316,335	(93,503)	(199,404)	(288,422)	(581,329)	(1,084,457)	(503,128)
Subtotal Federal Fund	125,000	0	0	0	0	0	0
Subtotal Tax Department	29,441,335	(93,503)	(199,404)	(288,422)	(581,329)	(1,084,457)	(503,128)
HOMESTEAD TAX CREDIT	16,000,000	0	0	(160,000)	(160,000)	0	160,000
DISABLED VETERANS CREDIT	6,910,200	0	0	(69,102)	(69,102)	0	69,102
TOTAL GENERAL FUND	52,226,535	(93,503)	(199,404)	(517,524)	(810,431)	(1,084,457)	(274,026)
TOTAL FEDERAL FUND	125,000	0	0	0	0	0	0
TOTAL FOR DEPARTMENT	52,351,535	(93,503)	(199,404)	(517,524)	(810,431)	(1,084,457)	(274,026)

Schedule C

FD #2

ANALYSIS OF 2015-2017 BASE LEVEL BUDGET AND
ESTIMATED 2015-17 EXPENDITURES

LINE ITEM/OBJECT DESCRIPTION	2015-2017 BASE LEVEL AMOUNT	ESTIMATED EXPENSES 2015-2017	VARIANCE	COMMENTS
TOTAL SALARIES AND WAGES	21,528,135	21,418,988	109,147	Savings from not filling vacancies
OPERATING EXPENSES				
1 Travel	211,023	161,023	50,000	Cut back in travel for allotment. Variance is all estimated unspent federal funds
2 Supplies - IT Software	167,421	166,780	641	
3 Supply/Material-Professional	109,466	103,466	6,000	Cut 2 subscriptions for 6 mos and combined 2 others for a savings
4 Bldg, Ground, Maintenance	0	0	0	
5 Miscellaneous Supplies	30,070	70	30,000	Variance is all estimated unspent federal funds
6 Office supplies	96,147	85,692	10,455	
7 Postage	954,688	924,259	30,429	Cut mailing IIT bkit, moved some stmts to qtrly, utilize TAP emails
8 Printing	198,441	181,441	17,000	Cut printing IIT bkit, svgs on forms
9 IT Equipment under \$5,000	149,850	149,850	0	
10 Other Equip under \$5,000	1,618	1,618	0	
11 Office Equip & Furn Supplies	85,871	75,398	10,473	
12 Insurance	8,588	8,521	67	
13 Leases/Rents - Equipment	61,003	53,296	7,707	Xerox lease decr offset with incr in estimate for repair/maintenance
14 Leases/Rents - Buildings/Land	117,742	116,955	787	Moved Minot office to smaller space and less rent cost
15 Repairs	52,665	64,722	(12,057)	Xerox incr, excess print usage above base, key access system change
16 IT - Data Processing	1,059,199	1,039,833	19,366	
17 IT - Communications	170,656	163,395	7,261	
18 IT Contractual Services	3,493,095	3,485,402	7,693	
19 Professional Development	146,837	126,837	20,000	Cut back seminars for allotment. Variance is all estimated unspent federal funds
20 Operating Fees & Services	92,769	88,423	4,346	Lower job posting ads & background checks
21 Professional Services	421,113	416,679	4,434	
TOTAL OPERATING EXPENSES	7,628,262	7,413,660	214,602	
TOTAL CAPITAL ASSET	16,000	10,956	5,044	
Subtotal General Fund	29,047,397	28,818,604	228,793	
Subtotal Federal Fund	125,000	25,000	100,000	
Subtotal Tax Department	29,172,397	28,843,604	328,793	
HOMESTEAD TAX CREDIT	18,690,000	14,768,225	3,921,775	
DISABLED VETERANS CREDIT	7,175,091	8,387,755	(1,212,664)	Authority to do a line item transfer between Homestead and Disabled Veterans line would alleviate the need to request a deficiency appropriation for this line.
TOTAL GENERAL FUND	54,912,488	51,974,584	2,937,904	
TOTAL FEDERAL FUND	125,000	25,000	100,000	
TOTAL FOR DEPARTMENT	55,037,488	51,999,584	3,037,904	

Schedule D #2 P5

HB 1006 sub.com
 3-29-17 #1

	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Estimated 2017	Estimated 2018	Estimated 2019
Homestead tax credit										
Expenditures	3,455,905	3,967,755	3,896,716	3,935,676	5,642,348	7,258,744	6,868,225	6,900,000	7,225,000	7,575,000
Change		511,850	(71,039)	38,960	1,706,672	1,616,396	(390,519)	31,775	325,000	350,000
% Change		14.8%	-1.8%	1.0%	43.4%	28.6%	-5.4%	0.5%	4.7%	4.8%
Disabled veterans credit										
Expenditures	1,632,446	1,970,865	2,306,258	2,612,026	2,764,832	2,650,211	3,987,755	3,800,000	3,965,000	4,145,000
Change		338,419	335,393	305,768	152,806	(114,621)	1,337,544	(187,755)	165,000	180,000
% Change		20.7%	17.0%	13.3%	5.9%	-4.1%	50.5%	-4.7%	4.3%	4.5%
Total - Tax Credit Programs	5,088,351	5,938,620	6,202,974	6,547,702	8,407,180	9,908,955	10,855,980	10,700,000	11,190,000	11,720,000
Biennium total								21,555,980		22,910,000
Total appropriation								25,865,091		22,910,000
Remaining amount								4,309,111		0

Pg 1

HB 1006
 3-30-17
 #1

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1006

Page 1, replace lines 16 through 23 with:

"Salaries and wages	\$21,528,135	\$685,869	\$22,214,004
Operating expenses	7,628,262	(878,967)	6,749,295
Capital assets	16,000	(10,000)	6,000
Homestead tax credit	18,690,000	(3,890,000)	14,800,000
Disabled veterans' credit	<u>7,175,091</u>	<u>935,109</u>	<u>8,110,200</u>
Total all funds	\$55,037,488	(\$3,157,989)	\$51,879,499
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$54,912,488	(\$3,157,989)	\$51,754,499"

P1

Page 2, line 2, replace "\$380,646" with "\$353,067"

Page 2, line 3, replace "\$1,249" with "\$1,241"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1006 - State Tax Commissioner - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$21,528,135	\$21,601,583	\$612,421	\$22,214,004
Operating expenses	7,628,262	6,749,295		6,749,295
Capital assets	16,000	6,000		6,000
Homestead tax credit	18,690,000	16,000,000	(1,200,000)	14,800,000
Disabled veterans' credit	<u>7,175,091</u>	<u>6,910,200</u>	<u>1,200,000</u>	<u>8,110,200</u>
Total all funds	\$55,037,488	\$51,267,078	\$612,421	\$51,879,499
Less estimated income	<u>125,000</u>	<u>125,000</u>	<u>0</u>	<u>125,000</u>
General fund	\$54,912,488	\$51,142,078	\$612,421	\$51,754,499
FTE	136.00	133.00	0.00	133.00

Department No. 127 - State Tax Commissioner - Detail of Senate Changes

	Adjusts Funding for Health Insurance Increases ¹	Adds Funding for Salaries and Wages ²	Rebalances Funding for Tax Credit Programs ³	Total Senate Changes
Salaries and wages	(\$27,579)	\$640,000		\$612,421
Operating expenses				
Capital assets				
Homestead tax credit			(1,200,000)	(1,200,000)
Disabled veterans' credit			<u>1,200,000</u>	<u>1,200,000</u>
Total all funds	(\$27,579)	\$640,000	\$0	\$612,421
Less estimated income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
General fund	(\$27,579)	\$640,000	\$0	\$612,421
FTE	0.00	0.00	0.00	0.00

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¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is adjusted to reflect this change.

² Funding of \$640,000 from the general fund is added to restore funding for 4 FTE auditor positions that had been reduced as part of the 2015-17 biennium budget reductions.

³ Funding of \$1.2 million is transferred from the homestead tax credit program to the disabled veterans' tax credit program to align the appropriations with the anticipated funding needs for the 2017-19 biennium.

April 11, 2017

HB1006

Attachment A

**Tax Commissioner - Budget No. 127
House Bill No. 1006
Base Level Funding Changes**

	House Version				Senate Version				Senate Changes to House Version Increase (Decrease) - House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	136.00	\$54,912,488	\$125,000	\$55,037,488	136.00	\$54,912,488	\$125,000	\$55,037,488	0.00	\$0	\$0	\$0
2017-19 Ongoing Funding Changes												
Base payroll changes	(3.00)	\$25,020		\$25,020	(3.00)	\$25,020		\$25,020				\$0
Health insurance increase		380,646		380,646		353,067		353,067		(27,579)		(27,579)
Adjusts salary funding for budget reductions		(332,218)		(332,218)		307,782		307,782		640,000		640,000
Reduces funding for operating expenses		(878,967)		(878,967)		(878,967)		(878,967)				0
Reduces funding for capital assets		(10,000)		(10,000)		(10,000)		(10,000)				0
Reduces funding for tax credit programs		(2,954,891)		(2,954,891)		(2,954,891)		(2,954,891)				0
Rebalances funding for tax credit programs				0				0				0
Total ongoing funding changes	(3.00)	(\$3,770,410)	\$0	(\$3,770,410)	(3.00)	(\$3,157,989)	\$0	(\$3,157,989)	0.00	\$612,421	\$0	\$612,421
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(3.00)	(\$3,770,410)	\$0	(\$3,770,410)	(3.00)	(\$3,157,989)	\$0	(\$3,157,989)	0.00	\$612,421	\$0	\$612,421
2017-19 Total Funding	133.00	\$51,142,078	\$125,000	\$51,267,078	133.00	\$51,754,499	\$125,000	\$51,879,499	0.00	\$612,421	\$0	\$612,421

Other Sections in Tax Commissioner - Budget No. 127

	House Version	Senate Version
Health insurance increase	Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.	Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.
Line item transfers	Sections 4 and 5 authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2015-17 biennium and the 2017-19 biennium. Section 8 includes an emergency clause related to the line item transfers in the 2015-17 biennium.	Sections 4 and 5 authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2015-17 biennium and the 2017-19 biennium. Section 8 includes an emergency clause related to the line item transfers in the 2015-17 biennium.
Motor vehicle fuel tax revenue transfer	Section 6 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.	Section 6 provides for a transfer of \$2,016,120 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Other Sections in Tax Commissioner - Budget No. 127

Multistate tax audit fund

House Version

Section 7 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year. This section will reduce estimated general fund revenues by \$450,000 for the 2017-19 biennium.

Senate Version

Section 7 creates a multistate tax audit fund and provides continuing appropriation to the Tax Commissioner to receive collections from the multistate tax commission audit and nexus programs and to pay the related expenses of the programs from the fund. Excess collections are transferred to the general fund at the end of each year. This section will reduce estimated general fund revenues by \$450,000 for the 2017-19 biennium.

April 7, 2017

HB1006

Attachment B

Vigesaa, Donald W.

From: Anderson, Glenda J.
Sent: Monday, April 10, 2017 10:33 AM
To: Vigesaa, Donald W.
Cc: Rauschenberger, Ryan A.; Morrissette, Joe R.
Subject: FW: Audit FTE's
Attachments: Senate restored positions for Rep Vigesaa 4 10 2017.xlsx

Importance: High

Below is a listing of the four audit positions restored by the Senate. This same information is in the file attached.

Please let me know if you need anything else.

ND OFFICE OF STATE TAX COMMISSIONER
2017-19 Executive
Budget

Pos #	Classification	Section	Date Vacated	Total Salary & Fringes
775	Auditor III	Sales	7/2/2016	164,367
813	Auditor III	Sales	9/7/2016	204,254
798	Auditor I	Corporate	11/23/2015	136,049
820	Auditor I	Corporate	7/8/2015	136,049
				640,719

100,000 in collections
2 million in collections

Request to restore \$640,000

Glenda Anderson
Director, Fiscal Management Division
ND Office of State Tax Commissioner
600 E Boulevard Avenue Dept 127
Bismarck ND 58505-0599
Phone: 701-328-3462
Email: gjanderson@nd.gov

From: Rauschenberger, Ryan A.
Sent: Monday, April 10, 2017 10:14 AM
To: Anderson, Glenda J. <gjanderson@nd.gov>
Cc: Morrissette, Joe R. <jrmorrissette@nd.gov>
Subject: Audit FTE's
Importance: High

Glenda,