

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1006

2005 HOUSE APPROPRIATIONS

HB 1006

the major goal s and objections of this agency (meter #23.2) and the graph depicting State Agency Financial Auditor Turnover Percentages (page 3 of the handout).

Parks and Recreation - Testifying was Doug Prchal HB1020

Mr Prchal reviewed the variances from handout #4-3 (attached).

Rep. Ken Svedjan, Chairman asked if this difficiency appropriation was the one appropriated in the 03-05 Assembly or if it was being asked of this Assembly. **Mr**

Prchal answered that it was appropriated in 03-05. **Rep. Ken Svedjan, Chairman**

clarified that if this bill doesn't pass in the Senate (SB2145), then these FTE's will be removed. **Mr Prchal** agreed. **Rep. Ken Svedjan, Chairman** asked where the

carryover that was listed cam from. **Mr Prchal** clarified that the work at Lake

Sakakawea would continue and funding would come from projects that were scheduled but not done. The projects will carryover into the next biennium, but the monies would

not. **Mr Prchal** finished his overview by asking the representatives to read through the section concerning the goals and objectives of the agency.

Tax Commissioner - Testifying was Mr Rick Clayburgh (meter #41.4) HB1806

Mr Clayburgh reviewed the negative variances dipicted on handout #4-4 (attached).

Rep. Ken Svedjan, Chairman asked if the increase in spending in the budget was part of the Governor's recommended budget that reflected how the governor wants to

change the Homestead Tax Credit program? **Mr Clayburgh** answered yes and stated that a bill regarding eligibility would be forthcoming. In response to a statement

regarding the difficulty in hiring qualified employees, **Rep. Mike Timm, Vice Chairman**

asked how state agencies could be competing for employees if all positions were

classified. **Mr Clayburgh** answered that their agency is competing with other state agencies because of the allowed signing bonuses for some agencies. **Rep. Francis J. Wald** asked the Legislative Council about the monies appropriated in the last Assembly for helping these agencies compete for employee. **Alan from the Legislative Council** answered that there were monies in the 01-03 Biennium and there are monies requested for the 05-07 biennium, but not for the 03-05 biennium. **Rep. Ole Aarsvold** asked if audit proceeds were included in the chart (pg 4, Handout #4-4). **Mr Clayburgh** answered that this was correct. **Rep. Ken Svedjan, Chairman** asked for a clarification of the decrease in federal funds. **Mr Clayburgh** answered that they did not expect any additional dollars for the administration of the Federal Motor Fuel Tax. **Mr Clayburgh** continued explaining the critical issues facing the agency. **Rep. Ken Svedjan, Chairman** asked if the \$12.6 million for the ITD project was coming from general funds. **Mr Clayburgh** answered, yes. **Rep. Bob Skarphol** asked if there was a separate bill referring to this ITD project. **Mr Clayburgh** answered that there was no bill written as of yet but that they were looking for guidance from Appropriations Committee as to whether they should amend an already existing bill or if they should write a new bill to account for this project. **Rep. Francis J. Wald** asked about how we stand concerning efficiency regarding the cost of collections in comparison with other states. **Mr Clayburgh** explained that it was hard to measure this data and can be skewed in comparisons but seem to be doing well in comparison with Montana and said that he would give more comparison information in the extended hearing. **Mr Clayburgh** finished his overview by thanking the committee.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1006

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date Monday, January 24, 2005

Tape Number	Side A	Side B	Meter #
1	X		00-52.8
1		X	00-17.7

Committee Clerk Signature

Ron W. Timbush

Minutes:

Chairman Carlisle called Hearing HB 1006 regarding the Tax Commission to order and then turned the meeting over to **Rep. Timm** because Chairman Carlisle's wife is the Tax Commissioner's Administrative Assistant.

Tax Commission Rick Clayburgh provided written testimony and read that into the record (See Handout #1) In reference to the Homestead Tax Credit, **Comm. Clayburgh** informed the Committee that during the last legislative session, the OMB recommended that the Tax Credit should become a line item within the Tax Commissioner's budget, instead of being a separate appropriation. He reminded the Committee that \$3 million of the Commission's budget is actually used in grants to provide relief for renters or homeowners who are blind, disabled, or a certain age, and they receive relief based on criteria. **Chairman Carlisle** mentioned that SB 2152 which increases the Homestead Tax Credit, is also in the Governor's Budget. **Comm.**

Clayburgh said that bill actually decreases the income thresholds and some of the other requirements, which helps tax payers to receive additional dollars. If that bill is unsuccessful, with the \$3 million in the Commission's budget, the Commission will probably have a turn back of additional dollars within the next biennium. The Commission is at a threshold that without changing the criteria, The Commission doesn't anticipate a lot more usage.

With regard to salary adjustments, **Comm. Clayburgh** told the Committee that that information was provided to Council. He explained that in the last biennium, the Comm. has had two types of adjustments: 1) promotions, reclassifications, job enhancements, certain items that occur within the normal scope of conducting business and 2) reorganization and restructuring. The Commission has challenged employees to provide better service more efficiently. Through this process of regrouping and through the use of technology, the Commission has reduced the number of positions by 20 FTE's and turned back \$4 million in unspent revenues. With this the Commission has provided \$70,000 in equity & salary adjustments (not across the board) which according to Administrative Rules are justified by these efficiencies.

Rep. Kempenich noted that the Temp. Line is decreasing and asked if that's where these reductions came from. **Comm. Clayburgh** pointed out that in the Salary & Wage Line includes both full-time FTE's and the Temps. All of that is managed together. Through the use of technology, such as the electronic document management system and the entire scanning & imaging process, the Commission, for the first time this last season, didn't have to run a second or Saturday shifts and has significantly reduced the need for part-time salaries. Last session with the 95% budget and with the 100% budget this year, with the inflationary costs the Commission deals with, the Commission has worked in those savings in the reductions of part-time salaries.

Rep. Kempenich asked about the operating expenses. Last session, the IT software supplies were at \$70,000 and went to \$149,000; Now, it's up to \$219,000. **Comm. Clayburgh** referred this question to **Ms. Catherine Forsch, Director of Operations, N.D. Tax Department.**

(Meter #12.5) She explained that the expense came from moving things from one object code to another. This project was done with the Enterprise Architecture Process with ITD & OMB to tie the IT plan to the object codes a little better. The Commission also changed some definitions of those object codes.

Comm. Clayburgh returned to the written testimony and reviewed the Commission's "Major Accomplishments" (See p. 2, Handout #1).

(Meter #18.4)

Rep. Timm asked if the time is coming when everyone will be forced to file electronically and what the figures were for those who filed electronically for the federal government. **Comm.**

Clayburgh said that the Legislature would determine how tax payers would file. At this point the Commissioner doesn't recommend requiring electronic filing because 60% of tax payers still prefer paper; in five to ten years, this number may go down. The IRS states that 180,000 N.D. tax payers filed electronically, but these figures are skewed because they include telefiling as electronic filing and the Commission doesn't recognize this. Telefiling is just using the push buttons on the phone. N.D. taxpayers who use this method must file with paper to the State because of the fee

Rep. Timm asked about the percentage nationwide. **Comm. Clayburgh** can provide that information later. He pointed out that N.D. is more aggressive than most states. Minnesota is a

little higher because they mandate electronic filing for practioners and it also takes up to six months to get the refund back if the tax payer uses a paper filing. Massachusetts is close to 60%.

In reference to the Tax Amnesty Program **Chairman Carlisle** asked the Commissioner how much came in. **Comm. Clayburgh** said \$6.9 million from 762 tax payers who paid over due or under reported taxes. \$806,000 of the total was received from 185 new filers of whom the Dept. wasn't aware.

Chairman Carlisle asked when the last amnesty was run and **Comm. Clayburgh** said 20 years.

Rep. Kempenich asked what the recommendation was with regard to how often this should be done. **Comm. Clayburgh** said about once every ten years. To do this more often provides an incentive not to pay taxes.

(Meter #25.4)

Comm. Clayburgh continued with "Agency Future Critical Issues" (see p. 3, Handout #1). He submitted a binder entitled "Intergrated Tax System Business Case, Jan 2005" (See Handout #2). He has been told that both Government Operations and Government Performance will review the proposal, but that no action will be taken until it's brought before the Full Appropriations Committee.

Comm. Clayburgh reviewed the second issue regarding compensation. (See p. 4, Handout #1)

In additon to the written testimony, the Commissioner pointed out that the average length of service at the Commission is slightly over 18 years and the average salary is \$34,500. He commends his employees and supports the Governor's proposal to provide the 4 & 4 and health benefits. He also stated that the separate pool to address merit and equity is important as well, to address the issue of state government falling further behind the job market.

Rep. Kempenich asked how the Commission is dealing with the compression issue. **Comm.**

Clayburgh said that the State is competitive in those jobs with a lower pay range, i.e. clerical or support staff. For these jobs 30-40 people apply. The Commission is not competitive in professional salaries. Only 4 or 5 accountants apply and the quality of the applicants is not the best based on that starting pay area. Before the Commission was at \$2,100, but not it's \$2,350 just to be competitive and attract a better pool of applicants. There are grade ranges within the 4 auditor types. Within each range, there are separate scales. An Auditor 1 comes in at \$2,350, but then there's an Auditor 2 or 3 who's been here for eight years that may be at \$2,600 or \$2,700 and that is where the compression is hitting; this causes morale issues. The Commission just lost two positions to the D.O.T. that paid signing bonuses.

Comm. Clayburgh returned to the first critical issue, the Integrated Tax System. He introduced **Mr. Rick Townsend, Advantax, LLC**. The Commission with Kathy Forsch and ITD came up with the business case. The Commission hired Mr. Townsend as a consultant to oversee the project in two phases: 1) to formulate a sound case and 2) upon successful appropriation from the Legislature, to manage the project.

In reference to "The Solution" (See p. 1, Handout #2) the Commissioner discussed the first option, which is "migrating the existing systems from the mainframe to a more modern hardware platform." He pointed out that this migration doesn't address any of the problems of the existing system. He reviewed the need for changes of the present system outlined on pages 5-6, Handout #2. He restated that the first option just puts off something that must be done in the future, the rewrite of the entire system.

In reference to the second option, the Commissioner pointed out that the Commission in cooperation with ITD could develop its own system, but that would be very labor intensive, costly, and generally doesn't work the way its intended. He cited an example where states hire vendors to start from scratch and try to rewrite a system.

The third option would be to purchase an off-the-shelf software package like the COTS package. It could be loaded into the system, where adjustments could make it specific to N.D. The budget for this program is about \$13.6 million. In the overview before the Full Appropriations Committee a few weeks ago, the Commission asked for \$12.6 million. As the Commission continued to build the business case, it became apparent that a contingency needed to be built into the system. Industry averages about a 10% contingency. The Commission has built in a 7 ½ % contingency, which amounts to about \$800,000. If these dollars are not needed, they won't be spent.

Chairman Carlisle asked why the Governor didn't put this into the Budget. **Comm. Clayburgh** deferred to **Ms. Paulson, OMB**. She stated that it was a matter of not having enough money.

Also, that OMB looked at the IT priorities 1-3. **Comm. Clayburgh** pointed out that the SYTAC Committee ranked the projects that are critical to the State and the ITS project was ranked #4. If you look at the Governor's budget, there were a number of projects that were ranked further down the list that were funded only because of the dollar amount. Because the Commission is a general fund agency, there is no other option than to fund this project with general fund dollars.

When the Commission was putting the budget together, it didn't have all the information available to bring this forward to the Governor. Just after the budgets were submitted, the Commissioner met with the Governor and the Lt. Governor about the project and whether the

Commission could take a loan out or do bonding on this issue. This project shouldn't be paid for all in one biennium. It could be paid for and built and then the receipts could be taken back and paid as the State receives the benefits from it. The payback period is 4.8 years.

Chairman Carlisle asked how many other states use the system. **Comm. Clayburgh** said this COTS system is used in at least five states. He went on to explain what happened in Montana. They worked with UNISYS and another company to rewrite their own system. They started that project and have lost \$50 million in a system that will never be turned on. The Legislature realized they had to do something, so they appropriated Phase 1 of an Integrated COTS system. It has been so successful that they've now appropriated for Phase 2. The total cost \$20 million.

Chairman Carlisle asked how many states have integrated tax systems. **Comm. Clayburgh** said that a lot of states have integrated systems. Five states utilize the system the Commission is considering. "Integrated" is just terminology of the information in the databases. Most states have kept up with their technology. N.D. is trying to deal with something that's 30-40 years old.
(Meter #46.1)

Rep. Kempenich asked how long this would take. **Comm. Clayburgh** said it would take the whole biennium. The system will be implemented by tax types with the intention of having it all done by the end of the biennium. He said the Commission doesn't plan to come back next biennium and ask for Phase 2. The cross training of the Commission's internal people and the ITD people will allow the Commission to add tax types which can be adapted and put into the system by Commission employees. At the end of the biennium, the Commission plans to have an integrated tax system up and running and receiving benefits for the State.

Chairman Carlisle asked what vehicle would be used to carry this request and whether it would be this budget with an amendment or a delayed bill. **Comm. Clayburgh** said there are other options to consider, such as financing. The Legislature could give the Commission loan authority from the Bank of N.D. or provide bonding for this. Now that the Commission has gotten a business case together, the Commission would like to explain the importance of the situation and if the Legislature agrees, the Commission would like to work with the Legislature to determine how to best provide funding for the project that has to be done, understanding that the longer this project is put off, the more expensive it becomes. **Chairman Carlisle** repeated his question and **Comm. Clayburgh** said that if he understood Chairman Svedjan correctly, the vehicle would be an amendment to this bill before the Full House Appropriations Committee.

Rep. Timm asked what the Commissioner felt his chances were to get the bill passed this session. **Comm. Clayburgh** said the business case is a solid case. He supports the idea of allowing the Tax Commission loan authority from the Bank of North Dakota with a payback over 5 years. **Rep. Timm** asked if it wouldn't have been easier if the Governor had agreed to the project before hand. **Comm. Clayburgh** stated that the Governor supports the integrated tax system. It just was not placed as a general fund appropriation within his budget. **Rep. Timm** said it would have been better if they'd agreed to something like a bonding plan. **Comm. Clayburgh** confirms that would have been easier, but the Commission didn't have the information available to put that into a proposal. **Rep. Timm** suggested he get the Governor to write a letter to the Legislature. **Comm. Clayburgh** said he would approach the Governor but he wasn't sure the Governor would write a letter; he said the Governor has spoken with leadership on this issue and said this was an important issue. He deferred to **Ms. Paulson, OMB**, who agreed because, as of

right now, any proposal would have to be a legislative action because it's not in the Governor's Budget.

Rep. Kempenich asked if the cost might be spread over two bienniums. **Comm. Clayburgh** stated the cost of stretching the project over two bienniums would increase the package from 10-30 % because that would mean hiring technical help over a longer period of time.

Chairman Carlisle commented on the number of requests for appropriations above that of the Governor's budget.

(Tape 1, Side B, Meter #00)

Rep. Kroeber asked about bonding proposals. He referred the Committee to consider the "Industrial Commission Financing Options," Attachment 2, Handout #2. He pointed out that "the Commission has the ability to put into place a system in the Tax Department over the next biennium that will not have any pressure on this biennium's general fund dollars, but will actually start to reap benefits to the State of N.D. The one thing different about the Tax Department expenditure and an expenditure on some other project is that we are the revenue agency. Most things you provide to us allow us to insure that your check book is full so that you can go out and do those other items. This is a project that has a payback. It will actually provide benefit and additional revenues to the State of N.D."

He went on to explain to the Committee that currently there are three people who understand how the system works, one in the Tax Department and two in ITD. If something happened to any of them, the Tax Department would have major problems trying to make the system operate. The state of New Mexico has not issued an assessment since 1996 because their system failed. After they brought in an integrated COTS system, they reaped the benefits immediately.

Rep. Kempenich asked if the Commission listed the Attachments in order of preference for financing. **Comm. Clayburgh** said he just provided the information as it was provided to the Commission. In his opinion, he said he would prefer loan authority from the Bank and not bonding.

Ms. Paulson requested some explanation regarding the pay back and what other states have done. **Comm. Clayburgh** said there have been a number of states that have received payback immediately, i.e. Idaho. They implemented the program with a payback over a number of years and the system paid for itself after the first year of operation. They were putting it up over two years, and after they got the first two modules up, before the system was complete, it had already paid for itself. Because N.D. has differences with regard to some of the things that are still done by hand, the Commissioner is reluctant to claim that if the Legislature authorizes \$12-13 million to put in an integrated system, the Commission will guarantee \$30 million before the end of the biennium. The payback for this system is 4.8 years and it will be achieved based on two issues. The payback could be shorter. (Meter #4.8) Some things the Commission can't do because of the technology, i.e. the Schedule K, which is a partnership tax return. That lists all the partners within a partnership. The Commission needs to insure whether all the partners have a filing obligation and if they do, whether or not they filed a tax return. This is done by manually accessing the individual income tax data base. Under the Integrated Tax System a report would be generated automatically and a letter would be sent out inquiring why a return wasn't filed. The majority of those dollars are out of state dollars. The Commission examined this process and estimated that with automation, the Commission could enhance revenue for the state by 2.5 million a year.

Chairman Carlisle asked the Commission how to sell this project to the Full Committee and

Comm. Clayburgh pointed out that the Commission has been talking about this problem for the two previous bienniums and now is the time to act. **Rep. Williams** asked why the time to do it is now. **Comm. Clayburgh** said the Commission doesn't *have* to do it now, but waiting means paying increased costs of dealing with the system. Also, he doesn't know how close the system is to failure, but the potential is very real. The Commission feels it has come to a point in the history of the system where these problems have to be addressed. He restated that's one of the reasons why SYTAC ranked this project #4. **Rep. Williams** summed up the situation: the system is antiquated and a new system will pay for itself in 4-5 years.

Rep. Kroeber asked the Commissioner to cover the second area that would allow the Commission to make a payback in five years. **Comm. Clayburgh** restated that the first would be a tax lift or increased revenues generated because of the Commission's ability to find those who've fallen through the cracks. The second would be the Commission's efficiency in administration. The Commission will be able to do its own programming rather than mainframe programming. There will be cost savings for IT.

Chairman Carlisle suggested that cross-training would be a good idea for future systems.

Comm. Clayburgh said that the Commission considers these things closely in cooperation with ITD. Currently, the old program is written in KOBAL and natural languages and colleges don't teach that any more.

Rep. Kroeber asked if the bonding had to come under the 1/10 of 1% limit or if it is a different type of bonding. Also, would the agency loan be done through the Bank of N.D. now or other

areas. **Ms. Paulson** said that with ITD there is a \$10 million loan. She agreed to check on the limit. **Rep. Kroeber** asked then if the Legislature is within the limit or not.

In summary **Comm. Clayburgh** said, short of the ITS, the Commission is not asking for anything else from the Legislature. He supports the bill as it stands and is not asking for any adjustments for 2006.

Chairman Carlisle commented that the proof is in the numbers, especially with the reduced FTE's.

Comm. Clayburgh invited Committee members to tour of the Commission's processing center.

Hearing Adjourned.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1006

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date Thursday, February 10, 2005

Tape Number	Side A	Side B	Meter #
1	X		9.2-13.5

Committee Clerk Signature



Minutes:

Chairman Carlisle opened the discussion on HB 1006 regarding the Tax Commissioner.

Rep. Timm moved to amend HB 1006 to remove \$50,000 from the operating expenses. **Rep.**

Thoreson seconded. Hearing no discussion, **Chairman Carlisle** called for a roll call vote (#1).

Motion passed 5-0-1.

Rep. Timm moved to amend HB 1006 to remove \$3 million for the Homestead Tax Credit; **Rep.**

Thoreson seconded. **Chairman Carlisle** called for discussion and **Ms. Sandi Paulson,**

Legislative Council, said that Senate Appropriations will amend to postpone until next session.

Hearing no further discussion, **Chairman Carlisle** called for a roll call vote. Motion passed

5-0-1.

Discussion on HB 1006 was closed.

(Meter #13.5)

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1006

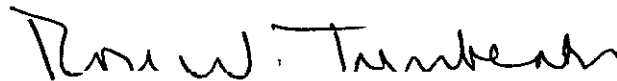
House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date Friday, February 11, 2005

Tape Number	Side A	Side B	Meter #
1	X		18.9-24

Committee Clerk Signature



Minutes:

Chairman Carlisle opened discussion on HB 1006 and Amendment .0101 concerning the Tax Department budget. **Ms. Roxanne Woeste, Legislative Council**, reviewed the following changes:

- Reduce operating expenses by \$50,000 from the general fund (That relates to HB 1155 which does away with the long form for income tax)
- Adjust the compensation package
- Decrease the funding for the Homestead Tax Credit \$3 million from the general fund (The Governor's budget included this to expand the program. The bill just came out of the Senate Appropriations. The Amendment changes the implementation date for those changes to the next biennium, so this funding is not needed.)

Page 2

Government Operations Division

Bill/Resolution Number HB 1006

Hearing Date Friday, February 11, 2005

Rep. Timm moved to approve Amendment .0101; **Rep. Kempenich** seconded. Hearing no discussion, **Chairman Carlisle** asked for a roll call vote (#1). Motion passed 4-2-0.

Rep. Timm moved a DO PASS on HB 1006 as amended; **Rep. Thoreson** seconded. During discussion, **Chairman Carlisle** invited Tax Commissioner Rick Clayburgh, who just entered the room, to comment if he wished. **Comm. Clayburgh** stated that Rep. Carlson will present the Integrated Tax System with amendments to grant authority to develop the system, to the Full Appropriations, if that meets with the approval of the Government Operations Division. The Committee affirmed.

Chairman Carlisle called for a roll call vote (#2). Motion passed 6-0-0.

Chairman Carlisle closed discussion of HB 1006.

(Meter #24.0)

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1006
State Tax Commissioner

House Appropriations Full Committee

☐ Conference Committee

Hearing Date February 15, 2005

Tape Number	Side A	Side B	Meter #
4	X		#28.6 - # end
4		X	#0 - #9.4

Committee Clerk Signature

Chris Alexander

Minutes:

Rep. Ken Svedjan, Chairman opened the discussion on HB1006.

Rep. Mike Timm, Vice Chairman explained this bill is the budget for the tax commissioner's office. The amendment #0101 is for the change in eliminating the long form, the change in the compensation package and the removal of the \$3 million for the Homestead credit which no longer effect this biennium.

Rep. Mike Timm, Vice Chairman moved to adopt amendment #0101 to HB1006.

Rep. Ron Carlisle seconded.

Rep. Pam Gulleason asked about the Homestead Tax Credit

Rep. Mike Timm, Vice Chairman answered that the committee removed the \$3 million that would have been allotted to the Homestead credit act. The threshold was going to be raised from approximately \$47,000 to \$55,000. The Senate bill for this has been changed now so we do not need the money anymore.

Rep. Ken Svedjan, Chairman called for a voice vote on the motion to adopt amendment #0101 to HB1006. Motion carried.

Rep. Mike Timm, Vice Chairman commented that this was a tight budget and thus moved a Do Pass As Amended motion to HB1006.

Rep. Blair Thoreson seconded.

Rep. Al Carlson made a substitute motion to further amend 1006 with the amendment #.01tx.

Rep. Bob Skarphol seconded.

Rep. Al Carlson explained that this amendment allows for a new integrated tax system to collect taxes. This gives the Tax Commission the authority to lease or buy this system. We assume that the new system will collect more taxes that will pay for this system.

Rep. Bob Skarphol commented this project was prioritized at #4 out of 13 projects but it was not put in the Governor's budget due to the cost. It is expected to generate \$2.5 million per year. This system will pay for itself in a short amount of time and will generate more money for the state of North Dakota. (meter Tape #4, side A, #36.9)

Rep. Ole Aarsvold asked if a cost benefit analysis could be done on this project.

Rep. Al Carlson answered that the Tax Commissioner has already done a cost benefit analysis on this. The problem is that you cannot identify the dollars generated by this as it is all lumped together but you can assume that it will be paid out of your appropriation in the next biennium.

Rep. Jeff Delzer asked how much this will add to our appropriation and how long of a time will we be responsible for this.

Rep. Bob Skarphol answered that the repayment schedule is 5.8 years. We would have the money back within 3 biennium.

Rep. Jeff Delzer asked what the payments were for the 5 years

Rep. Bob Skarphol answered \$2.5 million per year is the estimate.

Rep. Al Carlson commented that the one of the advantages of this bill is the flexibility in borrowing so you could shop for best deal.

Rep. Bob Skarphol answered that the approximate principle on this is \$5 million over a biennium.

Rep. Ken Svedjan, Chairman called for a voice vote on the motion to adopt amendment #.01 tx to HB1006. Motion carried.

Rep. Mike Timm, Vice Chairman moved a Do Pass As Amended motion to HB1006.

Rep. Ron Carlisle seconded.

Rep. Ken Svedjan, Chairman called for a roll call vote on the Do Pass As Amended motion for HB1006. Motion failed with a vote of 11 yeas, 11 nays and 1 absence.

Rep. Mike Timm, Vice Chairman commented that this budget needed to be passed.

Rep. Ole Aarsvold commented that he would vote for the budget if the \$14 million were dropped.

Rep. Mike Timm, Vice Chairman moved to reconsider the action to adopt amendment #.01 tx to HB1006.

Rep. Ole Aarsvold seconded.

Rep. Ken Svedjan, Chairman called for a voice vote to reconsider the committee's action to adopt amendment #.01 tx to HB1006. Vote was unclear.

Rep. Ken Svedjan, Chairman called for a roll call vote on the motion to reconsider the committee's action to adopt amendment #.01 tax to HB1006. Motion carried with a vote of 19 yeas, 4 neas, and 0 absences.

Rep. Bob Skarphol commented that state tax commissioner cannot do audits that are coming up on statutes of limitations without the proper tools that this integrated tax system would give him. This system will pay for itself in a short amount of time. (meter Tape #4, side A, #50.3)

Rep. Ken Svedjan, Chairman commented that this amendment is still in front of us.

Rep. James Kerzman asked if this was in the Governor's budget.

Rep. Bob Skarphol answered that this was not in the budget because of the cost, but it was listed as the #4 priority by SITEC

Rep. Pam Gulleeson commented that this issue was a matter of priorities and that this session she was going to invest in people.

Rep. David Monson commented that this was a no risk situation and that the money for this come primarily out of the money it will collect in additional taxes. This is not in the general fund and the tax commissioner is willing to put his budget on the line and make these payments out of his budget so there is no risk in this.

Rep. Al Carlson commented that the payments for this would not even begin until the 07-09 biennium. We are the ones who demand efficiency from our agencies but they don't have the tools they need to accomplish their work. We'll have more money in the end for people and the tax commissioner will just have to come back again if we do not appropriate this now.

Rep. Bob Skarphol commented on what it would cost to migrate off the mainframe if this is not done. (meter Tape #4, side B, #2.2)

Rep. Keith Kempenich move to adopt amendment #.01 tx to HB1006.

Rep. Ron Carlisle seconded.

Rep. Bob Martinson commented that this is phantom money. If we really want to do this then we should appropriate the funding for it.

Rep. Keith Kempenich commented that this is a one time cost that we won't have to look at again for 28 years.

Rep. Eliot Glassheim commented that the general fund is standing behind this. We don't have any set guidelines here for how the tax commissioner will pay this back and we haven't really had the chance to see the cost analysis here.

Rep. Bob Skarphol commented that the energy savings projects don't have to show their savings either. Money is borrowed to pay for this and he is paying it back out of his own budget so where is the risk in this

Rep. Eliot Glassheim asked how the money coming in to pay for this will be measured.

Rep. Bob Skarphol answered that other states have shown an incredible amount of savings when this system was implemented there.

Rep. Ken Svedjan, Chairman called for a roll call vote on the motion to adopt amendment #.01 tx to HB1006. Motion carried with a vote of 13 yeas, 10 nays, and 0 absences.

Rep. Francis J. Wald moved a Do Pass As Amended motion to HB1006.

Rep. Bob Skarphol seconded

Rep. Mike Timm, Vice Chairman asked for help discussing the integrated tax system when this discussion is taken to the house floor.

Rep. Bob Skarphol answered there was an emergency clause to be considered on the floor as well..

Rep. Ken Svedjan, Chairman called for a roll call vote on the Do Pass As Amended motion to HB1006. Motion carried with a vote of 13 yeas, 10 nays, and 0 absences. Rep Timm will carry the bill to the house floor.

Rep. Ken Svedjan, Chairman closed the discussion on HB1006.

Date: 2/10/05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1006

House House Appropriations Government Operations

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken amend AB 1006 to remove \$50,000
from the operating expenses
Motion Made By Rep. Timm Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlisle	✓		Rep. Kroeber	✓	
Rep. Timm	✓		Rep. Williams	✓	
Rep. Kempenich					
Rep. Thoreson	✓				

Total (Yes) 5 No 0

Absent 1

Floor Assignment

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

Date: 2/10/05
Roll Call Vote #: 2

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1006

House House Appropriations Government Operations

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Amend HB 1006 to remove \$3 million
Homestead TAX credit

Motion Made By

Rep. Timm

Seconded By

Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlisle	✓		Rep. Kroeber	✓	
Rep. Timm	✓		Rep. Williams	✓	
Rep. Kempenich					
Rep. Thoreson	✓				

Total (Yes)

5

No

0

Absent

1

Floor Assignment

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

February 10, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1006

Page 1, line 20, replace "621,818" with "568,477"

Page 1, line 21, replace "224,702" with "174,702"

Page 1, remove line 22

Page 1, line 23, replace "3,846,520" with "743,179"

Page 2, line 2, replace "3,841,564" with "738,223"

Page 2, line 9, replace "13,427,930" with "13,374,589"

Page 2, line 10, replace "4,663,329" with "4,613,329"

Page 2, line 12, replace "7,000,000" with "4,000,000"

Page 2, line 13, replace "25,116,259" with "22,012,918"

Page 2, line 15, replace "24,996,259" with "21,892,918"

Page 2, line 25, remove "seven" and overstrike "hundred seventy-four" and insert immediately thereafter "thirty-six"

Page 2, line 26, remove "may not exceed", overstrike "eight hundred", and replace "forty-five" with "seventy-seven"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$13,427,930	(\$53,341)	\$13,374,589
Operating expenses	4,663,329	(50,000)	4,613,329
Capital assets	25,000		25,000
Homestead tax credit	<u>7,000,000</u>	<u>(3,000,000)</u>	<u>4,000,000</u>
Total all funds	\$25,116,259	(\$3,103,341)	\$22,012,918
Less estimated income	<u>120,000</u>		<u>120,000</u>
General fund	\$24,996,259	(\$3,103,341)	\$21,892,918
FTE	133.00	0.00	133.00

Dept. 127 - State Tax Commissioner - Detail of House Changes

	DECREASES FUNDING FOR OPERATIONS ¹	REDUCES COMPENSATION PACKAGE TO 3/4	DECREASES FUNDING FOR THE HOMESTEAD TAX CREDIT ²	TOTAL HOUSE CHANGES
Salaries and wages		(\$53,341)		(\$53,341)
Operating expenses	(\$50,000)			(50,000)
Capital assets				

Homestead tax credit			<u>(\$3,000,000)</u>	<u>(3,000,000)</u>
Total all funds	(\$50,000)	(\$53,341)	(\$3,000,000)	(\$3,103,341)
Less estimated income				
General fund	(\$50,000)	(\$53,341)	(\$3,000,000)	(\$3,103,341)
FTE	0.00	0.00	0.00	0.00

1 This amendment decreases funding for operations.

2 This amendment decreases funding for the homestead tax credit from \$7 million to \$4 million, the 2003-05 level.

Date: 2/11/05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1006

House House Appropriations Government Operations

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 58029.0101

Action Taken Approve Amendment .0101

Motion Made By Rep Timm Seconded By Rep Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlisle	✓		Rep. Kroeber		✓
Rep. Timm	✓		Rep. Williams		✓
Rep. Kempenich	✓				
Rep. Thoreson	✓				

Total (Yes) 4 No 2

Absent 0

Floor Assignment

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

Date: 2/11/05
Roll Call Vote #: 2

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1006

House House Appropriations Government Operations

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 58029.0101

Action Taken DO PASS HB 1006 AS AMENDED

Motion Made By Rep. Timm Seconded By Rep. Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlisle	✓		Rep. Kroeber	✓	
Rep. Timm	✓		Rep. Williams	✓	
Rep. Kempenich	✓				
Rep. Thoreson	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Rep. Timm

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

Date: **February 15, 2005**
Roll Call Vote #: **4**

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1006

House Appropriations - Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number **58029.0102**

Action Taken **DO PASS AS AMENDED**

Motion Made By **Rep Thoreson** Seconded By **Rep Carlisle**

Representatives	Yes	No	Representatives	Yes	No
Rep. Ken Svedjan, Chairman	X		Rep. Bob Skarphol	X	
Rep. Mike Timm, Vice Chairman	X		Rep. David Monson	X	
Rep. Bob Martinson		X	Rep. Eliot Glassheim		X
Rep. Tom Brusegaard	X		Rep. Jeff Delzer		X
Rep. Earl Rennerfeldt	X		Rep. Chet Pollert	X	
Rep. Francis J. Wald	X		Rep. Larry Bellew		X
Rep. Ole Aarsvold		X	Rep. Alon C. Wieland	X	
Rep. Pam Gulleson		X	Rep. James Kerzman		X
Rep. Ron Carlisle	X		Rep. Ralph Metcalf	X	
Rep. Keith Kempenich	X				
Rep. Blair Thoreson		X			
Rep. Joe Kroeber		X			
Rep. Clark Williams		X			
Rep. Al Carlson	X				

Total Yes **13** No **10**

Absent **0**

Floor Assignment **Rep Timm**

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

REPORT OF STANDING COMMITTEE

HB 1006: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 10 NAYS, 0 ABSENT AND NOT VOTING). HB 1006 was placed on the Sixth order on the calendar.

Page 1, line 3, remove the first "and"

Page 1, line 4, after "salary" insert "; to authorize the tax commissioner to enter into a financing agreement to establish an integrated tax system; and to declare an emergency"

Page 1, line 20, replace "621,818" with "568,477"

Page 1, line 21, replace "224,702" with "174,702"

Page 1, remove line 22

Page 1, line 23, replace "3,846,520" with "743,179"

Page 2, line 2, replace "3,841,564" with "738,223"

Page 2, line 9, replace "13,427,930" with "13,374,589"

Page 2, line 10, replace "4,663,329" with "4,613,329"

Page 2, line 12, replace "7,000,000" with "4,000,000"

Page 2, line 13, replace "25,116,259" with "22,012,918"

Page 2, line 15, replace "24,996,259" with "21,892,918"

Page 2, line 25, remove "seven" and overstrike "hundred seventy-four" and insert immediately thereafter "thirty-six"

Page 2, line 26, remove "may not exceed", overstrike "eight hundred", and replace "forty-five" with "seventy-seven"

Page 2, after line 27, insert:

"SECTION 6. FINANCING AGREEMENT AUTHORIZATION - APPROPRIATION. The state tax commissioner is authorized, with the advice of the chief information officer of the state, to purchase, finance the purchase, and lease equipment, software, and services, as may be determined necessary by the state tax commissioner, to establish an integrated tax processing system for use by the office of the state tax commissioner. The principal amount of any financing agreement entered into by the state tax commissioner may not exceed \$14,000,000 and the proceeds acquired from any financing agreement must be used for this stated purpose and are appropriated for the period beginning with the effective date of this Act and ending June 30, 2007. During the biennium beginning July 1, 2007, and ending June 30, 2009, the state tax commissioner shall commence repayment of any financing agreement entered into, and repayment amounts, including principal and interest, must be incorporated in the state tax commissioner's biennial budget requests to the legislative assembly.

SECTION 7. EMERGENCY. Section 6 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

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$13,427,930	(\$53,341)	\$13,374,589
Operating expenses	4,663,329	(50,000)	4,613,329
Capital assets	25,000		25,000
Homestead tax credit	<u>7,000,000</u>	<u>(3,000,000)</u>	<u>4,000,000</u>
Total all funds	\$25,116,259	(\$3,103,341)	\$22,012,918
Less estimated income	<u>120,000</u>		<u>120,000</u>
General fund	\$24,996,259	(\$3,103,341)	\$21,892,918
FTE	133.00	0.00	133.00

Dept. 127 - State Tax Commissioner - Detail of House Changes

	DECREASES FUNDING FOR OPERATIONS ¹	REDUCES COMPENSATION PACKAGE TO 3/4	DECREASES FUNDING FOR THE HOMESTEAD TAX CREDIT ²	TOTAL HOUSE CHANGES
Salaries and wages		(\$53,341)		(\$53,341)
Operating expenses	(\$50,000)			(50,000)
Capital assets				
Homestead tax credit			<u>(\$3,000,000)</u>	<u>(3,000,000)</u>
Total all funds	(\$50,000)	(\$53,341)	(\$3,000,000)	(\$3,103,341)
Less estimated income				
General fund	(\$50,000)	(\$53,341)	(\$3,000,000)	(\$3,103,341)
FTE	0.00	0.00	0.00	0.00

¹ This amendment decreases funding for operations.

² This amendment decreases funding for the homestead tax credit from \$7 million to \$4 million, the 2003-05 level.

This amendment authorizes the State Tax Commissioner to purchase, finance the purchase, and lease equipment, software, and services to establish an integrated tax processing system. The principal amount of any financing agreement entered into may not exceed \$14 million and the proceeds are appropriated.

2005 SENATE APPROPRIATIONS

HB 1006

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1006

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 4, 2005

Tape Number	Side A	Side B	Meter #
1	x		1,569

Committee Clerk Signature

Janet Pinks for Jerry Haas

Minutes:

Chairman Holmberg opened the hearing on HB 1006.

Rick Clayburgh, Tax Commissioner provided written testimony and testified in support of HB 1006. He indicated the purpose of his office, major issues, the tax department system being over 40 years old and in need of change, reduction of employees, and highlighted areas of his testimony providing a budget explanation (Meter #2050).

Chairman Holmberg indicated he wanted the subcommittee be kept informed. The members of the subcommittee are Senators Schobinger, Thane, and Lindaas.

Rick Clayburgh discussed monies the House had removed and has now put back in the eligibility so monies need to be reinstated to the budget. He discussed other changes that had been made by the House.

Chairman Holmberg asked that the system being put on credit be explained.

Rick Clayburgh (Meter # 2898) indicated the lease or loan option would be from a private institution or the Bank of ND and payments would start being paid back in 2007.

Senator Krauter (#3590) asked how the benefit of the cost will be quantified and felt the subcommittee needs further analysis.

Several other questions were asked about the payments, enhanced collections, identifying repayment in future budgets, the big ticket technology projects

Kurt Wolf, Director, ITD, testified in support of an integrated tax system project, indicating the tax system is the oldest system supported by ITD from 1969, it becomes more expensive each year to maintain the system and that there will be more problems down the road if funding doesn't take place for the project this session.

Questions were raised as to whether there was a comprehensive plan in place (#5400), if there will be a date in which the old system will be stopped and whether a 5 year report before and after the date could be created without the migration costs (#5870).

Rick Townsend, Advan Tech LLC, Consultant, Tax Department, (Tape 1 side b) distributed a handout and testified in support of an integrated tax system.

Questions were raised about terminology and whether figures could be provided on the maintenance costs.

Senator Andrist closed the hearing on HB 1006.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1006

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 11, 2005

Tape Number	Side A	Side B	Meter #
1		x	2,449

Committee Clerk Signature



Minutes:

Chairman Holmberg called the subcommittee pre-discussion session to order on HB 1006 regarding the Tax Commissioner. **The subcommittee will be Senators Schobinger, Thane and Lindaas.**

Chairman Holmberg indicated one of the big issues had to do with the computer, a bill regarding the optional long form, another bill the Commissioner talks about that is in the Finance and Tax Committee, decoupling from the Federal Corporate Income Tax. That bill states there is a financial responsibility on the state if we kill the bill and that has some implications here. The subcommittee needs to keep this in mind.

Senator Krauter indicated there is a turn back and seems to be a pattern in the turn back, are we appropriating more money then we need to.

Chairman Holmberg indicated the committee can be looking at that history.

The pre-discussion session was closed.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1006

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 29, 2005

Tape Number	Side A	Side B	Meter #
x	a		1,314

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the discussion on HB 1006.

Senator Schobbing distributed amendments 58029.0301 indicating the changes are relating to the health care changes for a total reduction of \$16,598

Senator Schobbing moved a do pass on the amendments 0301, a second was made.

Discussion followed. A voice vote was taken and the motion carried.

Senator Mathern asked for updating on the computer changes in terms of the tax department and whether or not that was in the bill. The response was that it is in there, the expected completion will be at the end of 2007

Senator Schobbing moved a DO PASS WITH AMENDMENTS, **Senator Thane** seconded. A roll call vote was taken resulting in 14 yes, 0 no and 1 absent. The motion carried and **Senator Schobbing** will carry the bill.

Chairman Holmberg closed the discussion.

Date 3/29/05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1006

Senate **SENATE APPROPRIATIONS**

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Do Pass w amend 301

Motion Made By

Scho

Seconded By

Thane

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG	/		SENATOR KRAUTER	/	
VICE CHAIRMAN BOWMAN	/		SENATOR LINDAAS	/	
VICE CHAIRMAN GRINDBERG	/		SENATOR MATHERN	/	
SENATOR ANDRIST	/		SENATOR ROBINSON	/	
SENATOR CHRISTMANN	/		SEN. TALLACKSON		
SENATOR FISCHER	/				
SENATOR KILZER	/				
SENATOR KRINGSTAD	/				
SENATOR SCHOBINGER	/				
SENATOR THANE	/				

Total (Yes)

14

No

0

Absent

1

Floor Assignment

Schobinger

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

REPORT OF STANDING COMMITTEE

HB 1006, as reengrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO PASS (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Reengrossed
HB 1006 was placed on the Sixth order on the calendar.

Page 1, line 21, replace "568,477" with "551,879"

Page 1, line 23, replace "743,179" with "726,581"

Page 2, line 2, replace "738,223" with "721,625"

Page 2, line 9, replace "13,374,589" with "13,357,991"

Page 2, line 13, replace "22,012,918" with "21,996,320"

Page 2, line 15, replace "21,892,918" with "21,876,320"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$13,427,930	\$13,374,589	(\$16,598)	\$13,357,991
Operating expenses	4,663,329	4,613,329		4,613,329
Capital assets	25,000	25,000		25,000
Homestead tax credit	7,000,000	4,000,000		4,000,000
Integrated tax processing system		14,000,000		14,000,000
Total all funds	\$25,116,259	\$36,012,918	(\$16,598)	\$35,996,320
Less estimated income	120,000	14,120,000		14,120,000
General fund	\$24,996,259	\$21,892,918	(\$16,598)	\$21,876,320
FTE	133.00	133.00	0.00	133.00

Dept. 127 - State Tax Commissioner - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	TOTAL SENATE CHANGES
Salaries and wages	(\$16,598)	(\$16,598)
Operating expenses		
Capital assets		
Homestead tax credit		
Integrated tax processing system		
Total all funds	(\$16,598)	(\$16,598)
Less estimated income		
General fund	(\$16,598)	(\$16,598)
FTE	0.00	0.00

¹ This amendment reduces funding for state employee health insurance premiums from \$559.15 to \$553.95 per month.

2005 TESTIMONY

HB 1006



Rick Clayburgh
Commissioner

STATE OF NORTH DAKOTA

OFFICE OF STATE TAX COMMISSIONER

STATE CAPITOL, 600 E. BOULEVARD AVE., DEPT. 127, BISMARCK, NORTH DAKOTA 58505-0599

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Hearing/Speech Impaired 800-366-6888 (TTY Relay North Dakota)

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Full House Apps

Handout 4-4

1-7-05

DESCRIPTION	2003-05			(2) 2005-07 Recommendation Change (Variance) to 2003-05 Legislative Appropriations	
	2003-05 Legislative Appropriation	Estimated Expenditures or Currently filled FTE Positions	(1) Variance	2005-07 Executive Recommendation	
Salaries & Wages	12,797,654	12,194,003	(603,651 (1a))	13,427,930	630,276 (2a)
Operating Expenses	4,707,085	4,612,000	(95,085 (1b))	4,663,329	(43,756) (2b)
Equipment					
Capital Assets	25,000	25,000	(0)	25,000	0
Grants (Homestead)	4,000,000	3,700,000	(300,000 (1c))	7,000,000	3,000,000 (2c)
Total	\$21,529,739	\$20,531,003	(\$998,736)	\$25,116,259	\$3,586,520
General Fund	21,264,695	20,265,959	(998,736)	24,996,259	3,731,564
Federal Funds	265,044	265,044	0	120,000	(145,044)
Special Funds	0		0		
Total	\$21,529,739	\$20,531,003	(\$998,736)	\$25,116,259	\$3,586,520
FTE	137	128	9	133	-4

All neg #15

1. Explanation of Major Funding and FTE Variances for the 2003-05 Legislative Appropriation to 2003-05 Current Estimates

a. The \$603,651 (1a) variance in Salaries & Wages is due to open positions and a reduction in the need for temporary employees during tax processing seasons. The combination of good technology tools and the commitment of our permanent employees have been key factors in enabling us to identify and eliminate unneeded positions and to reduce our dependence on temporary employees. As part of our routine business practice, the Tax Department reviews each vacant position as it occurs to determine the need for the position. As a result, the department has identified four FTEs as turn-back positions. The remaining open FTEs are intended for:

- Sales Tax Audit and Compliance
- Streamlined Sales Tax implementation

- Expansion of the Nexus Program. (The Nexus Program identifies out-of-state businesses that have a taxable physical presence [nexus] in North Dakota but have not registered with the Tax Department for applicable North Dakota sales or income taxes.)
- The Tax Department has an employee called to military active duty. Federal law requires the department to maintain a vacant FTE position for that employee.
- b. Continued use of technology has created across-the-board efficiencies within the Tax Department, including the Operating Expenses line. The variance of \$95,085 (1b) in Operating Expenses is largely the result of reductions in printing and postal services from the increased use of online tools. Consequently, we have been able to reduce the number of printed publications and mailings.
- c. A decline in the number of recipients who meet income eligibility criteria for the Homestead Tax Credit has resulted in a \$300,000 (1c) variance. The program's limits on income and the maximum benefit available at each income level have restricted the number of eligible applicants and the maximum benefit each applicant may receive.

2. Explanation of Major Funding and FTE Changes (Variances) for the 2005-07 Recommendation to 2003-05 Legislative Appropriations

- a. The \$630,276 (2a) variance in Salaries and Wages is the result of the inclusion of the Governor's salary compensation package offset by the turn-back of four FTEs and a reduction in the need for temporary employees during tax processing seasons.
- b. The variance of \$43,756 (2b) in Operating Expenses is due to continued efficiencies within the Tax Department.
- c. The Governor's Budget provides for an additional \$3 million (2c) to support the expansion of eligibility criteria for the Homestead Tax Credit program.

3. Summary of Major Goals and Objectives and Related Performance Measurement Data for the 2005-07 Biennium (to the extent available)

- a. The mission of the Tax Department is to fairly and effectively administer the tax laws of North Dakota. To accomplish this, the department focuses on providing quality customer service, good stewardship of our resources, and efficient teamwork. The attached chart reflects the department's continued success in meeting this goal.

4. Agency Future Critical Issues

- a. The Tax Department collects approximately 85 percent of all general fund dollars. We do this with a 40-year old computer system that is increasingly difficult and expensive to use and maintain. With such an old system, we have reached a point of diminishing returns in our ability to gain further savings from technology. More importantly, we run the risk of a major failure in our business processes. A rapidly dwindling pool of people with the skills to maintain these old technologies compounds the problem. It is important to point out that simply migrating this system off of the mainframe does not change its underlying

technology, nor does it create any improvements in its capability or useful life. It only constitutes a costly and time-consuming detour from the necessary replacement.

An Integrated Tax System is the key to preventing a collapse in the system, and was ranked by SITAC as the number 4 priority in IT projects for the State. The Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase compliance and improve over-all performance. Some of the specific benefits of the new system will include:

- Reduced operating and maintenance costs
- Improved customer service
- Faster access to taxpayer information
- Speedier refunds
- Increased voluntary compliance
- More reliable data, with better analytical capabilities
- Better modeling and faster implementation of tax law changes
- Elimination of business silos
- Improved productivity and workflow management
- Automated tools that enhance collections management, audit selection and timeliness, and discovery of non-filers

I cannot impress upon you enough the importance this project has for tax administration in North Dakota. To that end, we have retained a consultant who has successfully managed similar projects for revenue agencies in three other states to help us finalize the business case. This analysis will be available shortly. It will include a review of options for funding the project that will allow the costs to be paid as the benefits are realized. This will enable you as legislators to select a funding mechanism that meets your objectives for effective use of general fund dollars.

- b. The Tax Department recognizes that our employees are our biggest asset. We need to retain our highly qualified employees, and when there are vacancies we want to recruit and select the best possible candidates. We need to be competitive with other state agencies that are recruiting the same candidates for positions that require degrees in accounting or business administration. As an example, we have had to increase our starting salaries for Auditor I positions to \$2,350 per month resulting in a compression issue for long-time employees.

As entry level salaries rise, long-time employees do not receive commensurate salary increases. It is important that the department be in a position to provide competitive salaries. This includes the ability to offer salary increases to existing staff members who are affected by the compression issue.

This concludes my presentation. I will be happy to answer your questions.



Rick Clayburgh
Commissioner

STATE OF NORTH DAKOTA

OFFICE OF STATE TAX COMMISSIONER

STATE CAPITOL, 600 E. BOULEVARD AVE., DEPT. 127, BISMARCK, NORTH DAKOTA 58505-0599
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NB 1006

Rick Clay-
burgh,

Tax Comm

H. App. G.O.

BUDGET PRESENTATION HOUSE GOVERNMENT OPERATIONS COMMITTEE HOUSE BILL 1006 JANUARY 24, 2005

Agency Overview

The Office of State Tax Commissioner is the primary revenue collecting agency for the State of North Dakota, administering 35 different tax types and collecting nearly \$2 billion a biennium.

Summary of Major Goals and Objectives and Accountability

The Tax Department uses sound business practices in our daily operations in order to be accountable to the Legislature and taxpayers. We use process measurements in assessing our business functions. We measure areas in which we can be more efficient and increase our productivity. We think we have made considerable progress in this area. The attached chart indicates the Department has improved its productivity by nearly 32 percent since 1996 due to using business process measurements and subsequently implementing changes and improvements in business applications.

Base Budget Preparation

Following guidelines issued by the Governor and OMB, the Tax Department prepared a budget that ensures the Department is able to fairly and effectively administer the tax laws of North Dakota.

By implementing good business practices and effectively using technology the Department is able to identify and implement efficiencies. These efficiencies have enabled the Department to submit a base budget that includes a reduction of 4 FTEs and a reduction in the need for temporary employees. As a result, the Department has reduced the number of full-time equivalents by 20 positions - from 153 positions down to 133 - since 1997. We further reduced the amount requested for operating expenses reflecting the Department's ongoing review of our business processes.

The Department budget request was increased by the Governor and OMB for the following items:

- \$818,440 to fund a 4% salary increase on July 1, 2005, a 4% salary increase on July 1, 2006 with 1% of the amount to be funded from internal budget savings. The requested budget continues to fund 100% of the health insurance for state employees.
- \$3,000,000 to support the expansion of eligibility criteria for the Homestead Tax Credit program.

(Over)

Major Accomplishments

The Tax Department is committed to improving customer service and increasing productivity while reducing costs. Several projects and technology-related initiatives undertaken by the Department have helped improve customer service. The following list identifies the Department's accomplishments during the 2003-05 biennium:

- Continued to add to the Electronic Document Management System (EDMS) processing system to improve form processing; reduce or eliminate manual data entry; reduce the need for paper storage and physical filing space; and process tax returns faster. EDMS was key in enabling the Tax Department to:
 - Eliminate the second shift of temporary employees for the first time during the 2003 processing season.
 - Reduce permanent data entry staff through attrition and staff transfer.
 - Eliminate one technology coordinator position.
 - Complete Individual Income Tax processing before May 31 rather than the traditional June 30.
 - Improve processing turnaround for tax returns so that taxpayer refunds are within measurement benchmarks.
 - Create up-front edits in the automated data capture system for Individual Income Tax returns thus reducing the number of audit worksheets.
 - By using 2D Bar Code technology, the Department was able to eliminate the need for data entry for over 30% of the paper returns received. This is because 2D Bar Code technology contains the tax data in a bar code that is read by the scanners.
 - Remove the paper returns from three vaults in the Capitol basement thus eliminating the need to secure off-site storage.
- Improved the Motor Fuel Tax E-filing service for all licensed motor fuel dealers to electronically file their schedules of gallons received and dispersed. The improved electronic service automates the fuel tax filing, processing, payment, and compliance functions and ensures the consistency, efficiency, and accuracy of tax collections.
- Improved the Sales Tax WebFile service for all sales tax permit holders to file and pay sales and use taxes. Initially established with a third-party vendor, the operation of this system has been assumed by the State's Information Technology Department thereby increasing performance and eliminating much of the unscheduled downtime.
- Developed a Sales Tax Geographic Information System (GIS) that is offered on our Web site. The GIS offers a convenient electronic resource for anyone who wants to identify local sales and use tax rates by using a city or address lookup.
- Promoted free electronic filing opportunities to thousands of North Dakota income tax filers through the Free File Alliance.
- Reallocated IT staff to the Federal-State individual income tax electronic filing system saving the Tax Department in programming costs to a third party.

- Combined the Withholding Tax and Sales Tax registration form resulting in a simplified registration process for taxpayers.
- Provided taxpayers with the option to make electronic payments via ACH Debits to pay their delinquent tax liability.
- The Tax Department conducted a reorganization of its 30-year old organizational structure for certain tax types in order to define a Department that is more efficient and effective. The restructured Tax Department realigns key processes and organizational units resulting in a Department that is more customer-friendly in the delivery of services.
- Conducted a Tax Amnesty Program from October 1, 2003 through January 31, 2004. Tax Amnesty included all state taxes and local option taxes administered by the Tax Department.

Agency Future Critical Issues

- The Tax Department collects approximately 85 percent of all general fund dollars. We do this with a 40-year old computer system that is increasingly difficult and expensive to use and maintain. With such an old system, we have reached a point of diminishing returns in our ability to gain further savings from technology. More importantly, we run the risk of a major failure in our business processes. A rapidly dwindling pool of people with the skills to maintain these old technologies compounds the problem. It is important to point out that simply migrating this system off the mainframe does not change its underlying technology, nor does it create any improvements in its capability or useful life. It only constitutes a costly and time-consuming detour from the necessary replacement.

An Integrated Tax System is the key to preventing a collapse in the system, and was ranked by SITAC as the number 4 priority in IT projects for the State. The Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase compliance and improve over-all performance. Some of the specific benefits of the new system include:

- Reduced operating and maintenance costs.
- Improved customer service.
- Faster access to taxpayer information.
- Speedier refunds.
- Increased voluntary compliance.
- More reliable data, with better analytical capabilities.
- Better modeling and faster implementation of tax law changes.
- Elimination of business silos.
- Improved productivity and workflow management.
- Automated tools that enhance collections management, audit selection and timeliness, and discovery of non-filers.

We have retained a consultant who has successfully managed similar projects for revenue agencies in three other states to help us finalize the business case. This analysis will be

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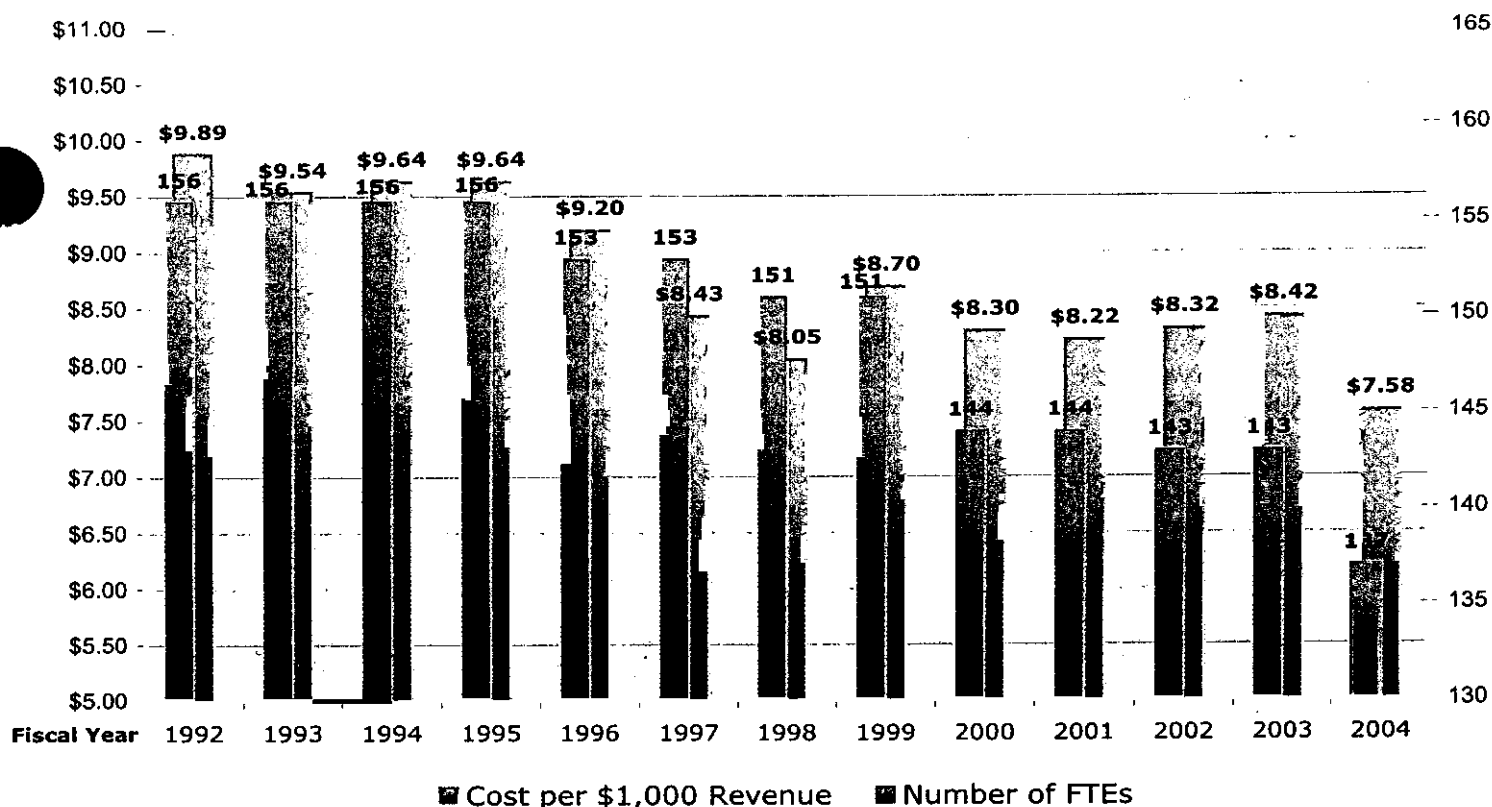
available soon. It will include a review of options for funding the project that will allow the costs to be paid as the benefits are realized. This will enable you as legislators to select a funding mechanism that meets your objectives for effective use of general fund dollars.

- We recognize employees are our biggest asset. We make every effort to recruit and select well qualified employees.

The majority of our openings require a degree in accounting. An applicant with an accounting degree can find a job in the private sector at a higher starting salary than we are offering in the Tax Department. Other state agencies are facing this same problem. In an effort to attract well qualified applicants we have had to raise our starting salaries for auditors.

When we raise the starting salary for auditors we don't give existing audit staff comparable increases, creating a compression issue. It is important that we be able to offer salary increases to existing staff members affected by the compression issue in order to retain the years of knowledge and experience these individuals have provided to the Tax Department.

Tax Department Total Cost per \$1,000 Revenue Collected



The Tax Department's "Cost per \$1,000 Collected" adjusted for inflation:

In 1992, the Tax Department spent \$9.89 for each \$1,000 collected. Adjusting for inflation, the 1992 cost per \$1,000 would be \$13.35 today¹. Most recently, the actual cost of collecting \$1,000 is \$7.58. This represents a nominal drop of \$2.31 and a drop of \$5.77 in real terms. The Tax Department has improved its productivity by over 43% in the past twelve years.

¹ The Consumer Price Index indicates inflation totaled 34.99% from 1992 to July 2004.

Fiscal Year:	1992	1993	1994	1995	1996	1997	1998
Total Revenue collected by Tax Department	\$667,050,171	\$716,433,627	\$704,261,532	\$750,761,199	\$772,661,157	\$840,100,056	\$875,990,181
Tax Department Total Expenditures	\$6,595,717	\$6,837,311	\$6,789,676	\$7,236,185	\$7,112,028	\$7,085,930	\$7,048,198
Tax Department Cost/\$1,000 Revenue Collected	\$9.89	\$9.54	\$9.64	\$9.64	\$9.20	\$8.43	\$8.05
# of FTEs	156	156	156	156	153	153	151

Fiscal Year:	1999	2000	2001	2002	2003	2004
Total Revenue collected by Tax Department	\$907,235,171	\$941,481,981	\$1,002,546,939	\$962,438,805	\$1,017,699,401	\$1,040,298,024
Tax Department Total Expenditures	\$7,889,773	\$7,813,995	\$8,240,360	\$8,004,531	\$8,573,503	\$7,884,009
Tax Department Cost/\$1,000 Revenue Collected	\$8.70	\$8.30	\$8.22	\$8.32	\$8.42	\$7.58
# of FTEs	151	144	144	143	143	137

11/28/05

Handled by
Comm. Dayburgh
foreplace
Attach. #1 (Handout)
#2
Re: ITS.
Re: HB
1006

OFFICE OF STATE TAX COMMISSIONER
ESTIMATE OF STATE RETURN ON INVESTMENT AND FINANCIAL IMPACT
COTS INTEGRATED TAX SYSTEM

	Annual Impact
Mainframe operating cost decrease	(\$249,265)
Programming cost decrease	(\$258,111)
Eliminate use of Great Plains for revenue accounting	(\$12,790)
Software License Renewal Fees	\$300,000
Total Annual Cost Impact	(\$220,166)
Potential Revenue Lift	\$2,500,000
Net Impact	\$2,720,166
Project Cost	\$13,671,133
Years for Payback	5.0

**OFFICE OF STATE TAX COMMISSIONER
ESTIMATE OF ITS BUDGET
COTS INTEGRATED TAX SYSTEM**

Description	Object Code	Cost Estimate
Software		
COTS Integrated Tax System	3005	\$ 2,500,000
Database and Other Support Software	3005	\$ 123,000
Hardware		
Servers	Capital Asset (TI5016)	\$ 99,000
Services		
Staff Overtime	1001	\$ 195,840
Temporary Labor	1001	\$ 72,000
Implementation Services	3008	\$ 7,488,000
Project Management	3008	\$ 654,720
ITD Services	3002	\$ 1,420,673
Project Operating Expenses		
		\$ 164,100
Contingency		
		\$ 953,800
TOTAL		\$ 13,671,133

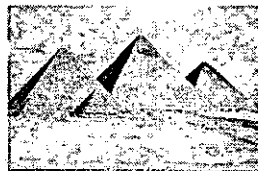


State of North Dakota Office of State Tax Commissioner Integrated Tax System



The Issues

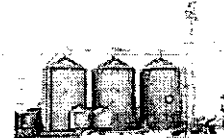
- **System is "Old"**
 - ✓ Difficult and costly to maintain
 - ✓ Dwindling number of qualified support people
 - ✓ Diminished ability to achieve further gains from technology
 - ✓ Potential for failure
 - Not fully compliant with IRS security guidelines





The Issues

- **System is "Siloed"**
 - ✓ Inefficient taxpayer service
 - ✓ Duplicate data entry
 - ✓ Limited cross-matching
 - ✓ Myriad of specialty systems
 - 1,100 Access databases
 - 13,000 Excel spreadsheets
 - ✓ Contributes to organizational silos



The Solution

- **Three Options**
 - ➡ Migrate existing systems off mainframe
 - ➡ Design and program new system from scratch
 - ➡ Implement a commercial-off-the-shelf (COTS) package





The Solution

- **Migration from Mainframe**
 - x Migration has cost and risk**
 - x Does not change underlying technology**
 - x Does not extend useful life**
 - x Does not improve capabilities**
 - x Does not reduce cost of software changes**
 - x Does not reduce cost of operations to Tax Department**



The Solution

- **Custom-Built System**
 - x Very expensive**
 - x Long time to complete**
 - x Significant risk**
 - Number of failures in other states
 - x May give you what you ask for, not necessarily what you need**





The Solution

➤ COTS Package

- ✓ Basic architecture and programming built-in
- ✓ Able to deploy rapidly
 - Users get to see capabilities up front
- ✓ Focus on business process, not system design
- ✓ Proven success in other states



The Solution

➤ Using a COTS Package will:

- Reduce risk
- Reduce cost
- Reduce time to implement
- Take advantage of product upgrades
- Allow Tax Department to easily adapt to new challenges





The Solution

➤ Why Now?

- ❖ Economy not conducive last two biennia
 - Tight State budgets
 - Focus on front-end services and internal processes
 - E-file, Scanning, OCR, EDMS, 2D Barcodes
- ❖ COTS products have matured
 - Functionality
 - Implementation methods
- ❖ SITAC's Priority No. 4 IT project
- ❖ Mainframe migration project driving decision



The Risks

➤ Risks for not doing the project:

- x Possible system failure
 - Disruption in business process
 - Potential loss of revenue
- x Unable to meet taxpayer expectations
- x Reduced ability to respond to change
- x Slowdown in ability to complete audits
 - Expiration of statute of limitations
- x Potential loss of data integrity





The Benefits

- **A modern Integrated Tax System will provide:**
 - ✓ **Reduced operating and maintenance costs**
 - ✓ **Improved customer service**
 - ✓ **More reliable data with better analytical capabilities**
 - ✓ **Improved productivity and workflow management**
 - ✓ **Elimination of business silos**
 - ✓ **Better tools for discovery and selection**



The Benefits

- **Potential Revenue Increases**
 - + **Better identification of non-resident non-filers**
 - + **Better identification of sales tax nexus**
 - + **Faster audits and collections**
 - + **More audits**
- **Note: at least 4 other states (ID, LA, MT, NM) have seen significant revenue increases from similar systems**





The Bottom Line

Project Cost	\$13,700,000
Annual Cost Savings	\$200,000
Annual Revenue Increase	\$2,500,000
Payback Period	5 Years



The Request

- The Tax Department is requesting authority to finance (loan or lease) the Integrated Tax System
 - Borrowing in 2005-2007
 - Repayment in 2007-2013
 - Repayment submitted as supplemental item in biannual budget request
 - Annual payment approximately \$2.5 million
 - Annual revenue increases and cost decreases approximately \$2.7 million
 - Matches costs to benefits





Rick Clayburgh
Commissioner

STATE OF NORTH DAKOTA

OFFICE OF STATE TAX COMMISSIONER

STATE CAPITOL, 600 E. BOULEVARD AVE., DEPT. 127, BISMARCK, NORTH DAKOTA 58505-0599

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BUDGET PRESENTATION SENATE APPROPRIATIONS COMMITTEE HOUSE BILL 1006 MARCH 4, 2005

Agency Overview

The Office of State Tax Commissioner is the primary revenue-collecting agency for the State of North Dakota, administering 35 different tax types and collecting nearly \$2 billion a biennium.

Summary of Major Goals and Objectives

The Tax Department uses sound business practices in our daily operations in order to be accountable to the Legislature and taxpayers. We use process measurements in assessing our business functions. We measure areas in which we can be more efficient and increase our productivity. We think we have made considerable progress in this area. The attached chart indicates the Department has improved its productivity by nearly 32 percent since 1996 due to using business process measurements and subsequently implementing changes and improvements in business applications.

Major Accomplishments

The Tax Department is committed to improving customer service and increasing productivity while reducing costs. Several projects and technology-related initiatives undertaken by the Department have helped improve customer service. The following list identifies the Department's accomplishments during the 2003-05 biennium:

- Continued to add to the Electronic Document Management System (EDMS) processing system to improve form processing; reduce or eliminate manual data entry; reduce the need for paper storage and physical filing space; and process tax returns faster. EDMS was key in enabling the Tax Department to:
 - Eliminate the second shift of temporary employees for the first time during the 2003 processing season.
 - Reduce permanent data entry staff through attrition and staff transfer.
 - Eliminate one technology coordinator position.
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- Remove the paper returns from three vaults in the Capitol basement thus eliminating the need to secure off-site storage.
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- Developed a Sales Tax Geographic Information System (GIS) that is offered on our Web site. The GIS offers a convenient electronic resource for anyone who wants to identify local sales and use tax rates by using a city or address lookup.
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- Reallocated IT staff to the Federal-State individual income tax electronic filing system saving the Tax Department in programming costs to a third party.
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- Provided taxpayers with the option to make electronic payments via ACH Debits to pay their delinquent tax liability.
- The Tax Department conducted a reorganization of its 30-year old organizational structure for certain tax types in order to define a Department that is more efficient and effective. The restructured Tax Department realigns key processes and organizational units resulting in a Department that is more customer-friendly in the delivery of services.
- Conducted a Tax Amnesty Program from October 1, 2003 through January 31, 2004. Tax Amnesty included all state taxes and local option taxes administered by the Tax Department.

Agency Future Critical Issues

The Tax Department administers 35 different tax types and collects nearly \$2 billion a biennium. We do this with a 40-year old computer system that is increasingly difficult and expensive to use and maintain. With such an old system, we have reached a point of diminishing returns in our ability to gain further savings from technology. More importantly, we are running a greater risk of a major failure in our business processes.

Department Solution:

The Tax Department has reviewed the options for resolving this issue. The first alternative would be to attempt to upgrade the existing systems and move them to new hardware platforms. This option has significant cost and risk and does not provide the required level of improvement in business process and system capability. The more effective alternative is to implement an Integrated Tax System.

An Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase identification of under-reporters and non-filers (particularly out-of-state), and provide more reliable data with better analytical capabilities. It was also ranked by SITAC as the number 4 priority in IT projects for the State.

We have retained a consultant who has successfully managed similar projects for revenue agencies in three other states to help us finalize the business case. This analysis has been completed and will be presented to each of the committee members in a separate binder. Based on this business case, the House has passed the Tax Department's appropriation bill, including an amendment authorizing us to borrow the funds necessary to acquire and implement an Integrated Tax System. This is an effective approach that will enable us to pay the costs of the system once it is in place and we are realizing its benefits. The Tax Department conservatively estimates that the capabilities of the new system will generate additional revenues at least equal to the repayment amounts. Rick Townsend of AdvanTech, the consultant mentioned above, will present the business case in more detail.

Budget Overview

DESCRIPTION	2003-05 Legislative Appropriation	2005-07 Executive Recommendation	2005-07 Recommendation Change (Variance) to 2003-05		House Adjustments
			Legislative Appropriations		
Salaries & Wages	12,797,654	13,427,930	630,276	(53,341)	13,374,589
Operating Expenses	4,707,085	4,663,329	(43,756)	(50,000)	4,613,329
Equipment					0
Capital Assets	25,000	25,000	0		0
Grants (Homestead)	4,000,000	7,000,000	3,000,000	(3,000,000)	4,000,000
Total	\$21,529,739	\$25,116,259	\$3,586,520	(3,103,341)	\$22,012,918
General Fund	21,264,695	24,996,259	3,731,564	(3,103,341)	21,892,918
Federal Funds	265,044	120,000	(145,044)		120,000
Special Funds	0				0
Total	\$21,529,739	\$25,116,259	\$3,586,520	(\$3,103,341)	\$22,012,918
FTE	137	133	-4		

Following guidelines issued by the Governor and OMB, the Tax Department prepared a budget that ensures the Department is able to fairly and effectively administer the tax laws of North Dakota.

By implementing good business practices and effectively using technology the Department is able to identify and implement efficiencies. These efficiencies have enabled the Department to submit a base budget that includes a reduction of 4 FTEs and a reduction in the need for temporary employees. As a result, the Department has reduced the number of full-time equivalents by 20 positions - from 153 positions down to 133 - since 1997. We further reduced the amount requested for operating expenses reflecting the Department's ongoing review of our business processes.

The Executive recommendation increased the Department's budget request in the following areas:

- \$818,440 to fund a 4% salary increase on July 1, 2005, a 4% salary increase on July 1, 2006 with 1% of the amount to be funded from internal budget savings. The requested budget continues to fund 100% of the health insurance for state employees.
- \$3,000,000 to support the expansion of eligibility criteria for the Homestead Tax Credit program.

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The House adjusted the Executive recommendation in the following areas:

- Removed \$53,341 from Salaries & Wages to reflect HB 1050 regarding state employee compensation adjustments of a 3% salary increase on July 1, 2005 and a 4% salary increase on July 1, 2006.
- Removed \$50,000 from Operating Expenses to reflect HB 1155 relating to the elimination of the optional long form individual income tax return.
- Removed \$3,000,000 from Grants to reflect SB 2157, relating to the eligibility for and application of the Homestead Property Tax Credit.
- Added Section 6 – Financing Agreement Authorization. This authorizes the Tax Commissioner to purchase, finance the purchase, and lease equipment, software, and services, as may be determined necessary by the state tax commissioner, to establish an integrated tax processing system for use by the office of state tax commissioner. The principal amount of any financing agreement may not exceed \$14 million and the proceeds acquired for any financing agreement must be used for the stated purpose. Payments will start during the 2007-2009 biennium with repayment amounts incorporated into the state tax commissioner's biennial budget requests to the legislative assembly.



State of North Dakota

OFFICE OF STATE TAX COMMISSIONER

Rick Clayburgh, Tax Commissioner

#2
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Izive
Clayburgh
Tax Comm.
H. App. 6.0.

INTEGRATED TAX SYSTEM

BUSINESS CASE

January 2005

Prepared by:



AdvanTech, LLC

Innovative Technology Management



STATE OF NORTH DAKOTA

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Rick Clayburgh
Commissioner

INTEGRATED TAX SYSTEM PROJECT BUSINESS CASE

EXECUTIVE SUMMARY

The attached represents an analysis and justification for the implementation of an integrated tax system by the Office of the State Tax Commissioner. The format of the document follows the guidelines developed by the State's Information Technology Department.

The Issue

The Office of State Tax Commissioner is the primary revenue collecting agency for the State of North Dakota, administering 35 different tax types and collecting nearly \$2 billion a biennium. This is currently being done using a conglomeration of software systems. The most critical of these are built on 40-year old technology that is increasingly difficult and expensive to use and maintain. A rapidly dwindling pool of people with the skills to maintain these old technologies compounds the problem.

With such an old system, the Tax Department has reached a point of diminishing returns in its ability to gain further savings from technology. More importantly, there is a significant risk of a major failure in the Department's business processes, which could also lead to potential losses of revenue. As an example, New Mexico had to cease sending individual income tax assessments for an extended period because their old system could no longer handle the processing.

The Solution

The Tax Department has evaluated the three available options for dealing with this issue. These include:

- ▶ Migrating the existing systems from the mainframe to a more modern hardware platform.
- ▶ Designing and programming a new system from scratch.
- ▶ Implementing a commercial off-the-shelf (COTS) integrated tax system.

Migrating the old system off of the mainframe does not change its underlying technology, nor does it create any improvements in its capability or useful life. The need to replace the existing systems will still remain. The migration effort will only be a costly and time-consuming detour from the necessary replacement.

Developing a new system that is totally customized for North Dakota is extremely risky. This "start-from-scratch" approach is very expensive, takes a long time to complete, and often does not yield the desired results. There have been a number of these projects in other revenue agencies that have failed.

The Tax Department will acquire and implement a COTS integrated tax system. With a COTS package, the basic architecture and programming are already complete. The project will be able to deploy the system rapidly and get something in front of the users quickly. Both during and after implementation, changes can be made on the fly, since the business rules are maintained in reference tables, not embedded in "hard" code.

Overall, implementing a COTS package will:

- ▶ Reduce risk
- ▶ Reduce cost
- ▶ Shorten the implementation schedule
- ▶ Take advantage of upgrades that are made to the core product
- ▶ Enable North Dakota to quickly adapt to tomorrow's business challenges

In order to maximize the above benefits, the Tax Department will take the approach of molding its business processes to the manner in which the COTS system is designed, rather than trying to customize the system. This will ensure that upgrades to the product can be more easily incorporated, and that overall maintenance costs will be minimized.

An Integrated Tax System is the key to preventing the interruption of critical government services and was ranked by SITAC as the number 4 priority in IT projects for the State. The Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase compliance, and improve overall performance.

The Benefits and Costs

An up-to-date integrated tax system will provide a myriad of benefits for the State of North Dakota. Some of the specific benefits of the new system will include:

- ▶ Reduced operating and maintenance costs
- ▶ Improved customer service
- ▶ Faster access to taxpayer information
- ▶ Speedier refunds
- ▶ Increased voluntary compliance
- ▶ More reliable data, with better analytical capabilities
- ▶ Better modeling and faster implementation of tax law changes
- ▶ Elimination of business silos
- ▶ Improved productivity and workflow management
- ▶ Automated tools that enhance collections management, audit selection and timeliness, and discovery of non-filers

An initial analysis has also been made to identify those areas within the Tax Department where the added capabilities of the new system could potentially yield additional revenues. The most likely areas are related to increased discovery of non-resident taxpayers through enhanced records matching, better tools for prioritizing collections and audit activities, and a general increase in the number of audits due to better access to data and more effective workflow management tools. The total potential increase is estimated at \$2.5 million annually. It should be noted that there are many variables that affect revenue for the State, and isolating those to specific improvements generated by a new tax system is difficult.

The key components of cost for the project include: software, particularly the license for the COTS product; hardware, particularly the servers to run the application and related databases; services, including implementation support from the COTS vendor, professional project management, and programming, data conversion and hosting services from ITD; project operating expenses such as space and equipment; and contingency to cover differences in bid prices to current estimates and other changes in circumstance. The overall budget for the project is approximately \$13,700,000.

In addition to the potential for increased revenues, there will also be an estimated savings in operating costs of \$220,000 per year. The net result is a project payback of approximately five years.

There are a variety of options for funding the project that will allow the costs to be paid as the benefits are realized. The Tax Department has reviewed certain bonding and direct loan possibilities with the Industrial Commission and the Bank of North Dakota. However, the intent is to have the Legislature select a funding mechanism that meets its objectives for optimizing use of general fund dollars.

This project has a high level of importance for ensuring effective tax administration in North Dakota. In order to identify the best solution, maximize results, and minimize risks, the Tax Department has retained a consulting firm that has successfully managed similar projects for revenue agencies in three other states.

The Integrated Tax System Project has been analyzed in more detail in the following pages using ITD's standard business case template for information technology initiatives.

PROJECT BUSINESS CASE

Project Name: Integrated Tax System

Project Short Name: ND-ITS

Agency: Office of the State Tax Commissioner

Business Unit/Program Area: All

Type of Project: New Initiative

Date: January 17, 2005

Version: 2

Project Description

ND-ITS is a multi-phased, 2-year project that will convert most of the Tax Department's myriad of well-worn computerized tax processing systems to a modern integrated tax system, one more capable of quickly adapting to the State's ever-changing tax laws and regulations. The Integrated Tax System project will replace the existing legacy tax systems that were designed over 40 years ago and are rooted in old technology with a modernized system designed to use newer, less costly technology.

The project will consist of acquiring and implementing a packaged tax administration system. Major activities will include configuring the system to meet the specific North Dakota requirements, converting data from the existing legacy systems, testing the functionality of the system and the accuracy of the converted data, and training system users and operators.

The objectives of the project include:

- ▶ Migration of Sales, Withholding, Corporate, and Individual Income taxes (including small business, partnership, and fiduciary returns) to the new system.
- ▶ Implementation of fully integrated tax administration for these taxes, including the following functions:
 - ◆ Administration of taxpayer information
 - ◆ Returns issuance and processing
 - ◆ Interfaces with front-end processing (OCR) and data entry systems
 - ◆ Interfaces with e-filing programs
 - ◆ Payments processing
 - ◆ Refunds processing
 - ◆ Transaction management and taxpayer accounting
 - ◆ Revenue accounting
 - ◆ Compliance functions, including workflow management for:
 - Non-filer
 - Collections
 - Audit
 - ◆ Records management

- ◆ Image management
 - ◆ Letters issuance
 - ◆ Report generation
 - ◆ Ad hoc data inquiry and analysis
- ▶ Migration of accounts receivable to the new system.
 - ▶ Migration of revenue accounting to the new system.
 - ▶ Elimination of the use of the mainframe by the Tax Department.

Taxpayers are increasing their demands for more functionality over the Internet while demanding that the information be safe and secure. Additionally, taxpayers - individuals and business owners alike - are demanding streamlined methods of dealing with the Tax Department in order to improve their own efficiencies.

On the State side of the equation, the Tax Department needs to continue to enhance its ability to improve compliance and collections, and refine audit and fraud detection processes. An integrated tax system will offer solutions to both taxpayers and state government by providing streamlined centralized service to the taxpayer while improving the Department's internal processes.

Upon completion of the two-year implementation project, there will still be a number of smaller tax types that will not have been migrated to the integrated tax system. In order to achieve the full benefits of the new system, the Tax Department will develop plans to migrate these tax types over time. The current intent is to utilize internal resources that will have gained knowledge and experience in configuring the system during the main project to handle the further migrations.

Business Need/Problem

The Tax Department collects the bulk (approximately 85%) of all general fund dollars for the State. This is currently being done using a conglomeration of software systems. The current tax systems were originally developed in 1960 and converted (not redeveloped) to a different file system in the mid-eighties. Although they have been generally stable and reliable, they are not cost effective to operate or maintain. Even minor changes can require costly programming and can take a significant amount of time. The application development cycle is lengthy and often "out of step" with the business process it intends to serve. A rapidly dwindling pool of people with the skills to maintain these old technologies compounds the problem.

The more important of these systems also reside on the mainframe. Because the mainframe also represents an aging and expensive technology, the State's Information Technology Department is pursuing an initiative to migrate all applications off of the mainframe to more modern platforms. However, it is important to point out that simply migrating the aging tax software off of the mainframe and on to new hardware does not change its underlying technology, nor does it create any improvements in its capability or useful life. It only constitutes a costly and time-consuming detour from the necessary replacement.

The "silo" design of the tax systems (separate systems for each tax type) prevents meaningful collection, compliance, and discovery functions as much of the cross-check and discovery work is

manual. The use of these outdated legacy applications hampers the Tax Department in its efforts to improve customer service and increase revenue with enhanced compliance, audit, discovery, and collections tools.

Because these systems are limited by their age and effectiveness, the various sections of the Tax Department have resorted to using other tools such as Microsoft Access and Excel to process and maintain significant elements of tax administration data. There are currently almost 1,300 Access databases and 11,000 Excel spreadsheets employed by the Tax Department. Many of these contain data that would better serve the agency if it were maintained in a central system. While these tools are valuable to support specialized functions, they do not provide the level of security and data integrity needed in enterprise systems.

In addition, the Tax Department continues to receive numerous requests to provide analytical information, such as evaluating impacts on projected state revenue that might occur as the result of various proposed changes to tax rates, laws, and/or rules. Responding to these “ad hoc” requests in a timely manner using the current computer system is very time-consuming and resource intensive.

With such an old system, the Tax Department has reached a point of diminishing returns in its ability to gain further savings from technology. More importantly, there is a significant risk of a major system failure and the interruption of critical government services, which could also lead to potential losses of revenue.

Additional Issues

► Business Issues

- ◆ As indicated above, the current tax systems were constructed as silos of information pertinent to only that tax type. This makes sharing data with other tax systems difficult, requiring custom interfaces. Tax Department efficiencies are hampered and revenue dollars due the State may remain uncollected since taxpayer and tax data cannot be automatically compared across the different tax types.
- ◆ By establishing a single Taxpayer Account across multiple tax types, the option of having a single view on the taxpayer’s history in the collection process will enable increased voluntary compliance, reduce taxpayer burden, and improve performance in customer service.
- ◆ Tax systems that are designed as silos tend to enable the creation of business processes and rules that are also “siloed”. Processes that could be the same across the organization are not because they were developed by tax type rather than function. An Integrated Tax System would lend itself toward unified business rules and processes, thereby improving operational efficiencies and reducing the cost to collect revenue.
- ◆ In 1985, a group of legislators and legislative staff representing several states convened and created a report – Principles of a High-Quality State Revenue System. An integrated tax system addresses the following principles as defined in this report:
 - A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.

- A high-quality revenue system promotes fair, efficient, and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.

► **Technology Issues**

The Enterprise Architecture ITD Systems Architect has presented a Servers and Operating Systems Future State to the State Information Technology Advisory Committee and the Interim IT Committee. In the report, there are compelling arguments for migrating away from the mainframe platform:

- ◆ The current server and operating system infrastructure presents the State with challenges that must be addressed:
 - Every major operating system currently available is part of the State infrastructure and supporting a wide variety of platforms requires a wide variety of skill sets and so implies a larger staff.
 - The operation and maintenance of these systems requires staff with mainframe skill sets.
 - As of 2002 some 60% of the people with these legacy skill sets were age 50 or older.
 - People entering the IT field are not trained in these legacy skill sets.
 - The server hardware is becoming a commodity item dominated by Intel compatible machines.
 - The commoditization of server hardware is driving the operating system market towards Microsoft Windows and Linux.
 - Business applications will need to be developed in a flexible manner, i.e.; the application must be hardware and operating software platform neutral so that its operation is platform independent.
- ◆ Continued support of these business critical legacy systems will require one of three approaches:
 - Migrate these legacy systems to some other platform,
 - Provide in house training to assure the availability of trained staff, or
 - Outsource the support and maintenance of these systems.
- ◆ State Government will be presented with three alternatives for systems that address core business needs such as the tax administration system:
 - Deploy custom built software tailored to the specific business needs.
 - Deploy Commercial-Off-The-Shelf (COTS) software and modify business processes to meet the software.
 - Deploy COTS software that is customized to meet specific business needs.

Solution

The Tax Department plans to acquire and implement a commercial off-the-shelf (COTS) integrated tax system. With a COTS package, the basic architecture and programming is already complete. Since tax processing and administration is generally similar across jurisdictions, certain software companies have been able to develop packages that have much of the required functionality already inherent in the system. This will allow the main emphasis of the project to be configuring the system with the specific business rules applicable to North Dakota.

With a COTS approach, the project will be able to deploy the system rapidly and get something in front of the users quickly. The Tax Department will be able to make changes on the fly since the business rules are maintained in reference tables, not embedded in "hard" code. It will also allow the project to focus testing on business rules rather than on infrastructure.

Using a COTS package the majority of functions are available through configuration, rather than coding. With this in mind, the Tax Department will take the approach of molding its business processes to the manner in which the COTS system is designed, rather than trying to customize the system. Business processes will be analyzed and adjusted to optimize the power of the new system. This will provide added opportunities for the Tax Department to increase operating efficiencies. It will also ensure that upgrades to the product can be more easily incorporated and that overall maintenance costs will be minimized.

Compared to designing and programming a customized system from scratch, implementing a COTS package will:

- ▶ Reduce risk
- ▶ Reduce overall cost – implementation and maintenance
- ▶ Shorten the implementation schedule
- ▶ Enable North Dakota to take advantage of system upgrades that are being regularly made to the core product
- ▶ Enable North Dakota to quickly adapt to tomorrow's business challenges

As part of the planning phase of the project, the Tax Department will finalize requirements and prepare a Request for Proposal. The Department has already identified those vendors that are offering COTS integrated tax systems. The intent of the selection process will be to acquire a package that provides solid functionality in a cost effective manner. The Tax Department will also be looking for a vendor that understands tax processing and whose system has been employed in more than one other revenue agency.

The final integrated product will be designed for the business of government and will be rich with features and functions based on revenue solution experts' knowledge and prior work. The solution will provide:

- ▶ Tax Revenue and Return Processing supporting taxpayer identification, registration, and return filing through multiple channels (web, phone, etc).
- ▶ Collection processing that includes taxpayer history and multiple payment methods as well as risk management that models taxpayer behavior based on past history. This functionality supports the collectors' activities by focusing on the cases with the highest likelihood of collection. Risk Management tools allow collection staff to apply the three R's of tax administration – getting the right account to the right resource at the right time.
- ▶ Audit and discovery support that enables comprehensive audit management tools and other case prioritization tools. The audit function will provide a warehouse of data for known and potential taxpayers that will allow auditors to select cases that optimize the potential for generating revenue. The discovery function will enable the audit groups to identify potential

taxpayers who were previously unknown. This approach will also minimize intrusion on taxpayers who are most likely to be compliant.

- ▶ Fraud detection tools that will quickly identify and flag suspect tax returns to avoid loss of revenue. Recovering refunds that have been incorrectly distributed based on fraudulent returns is often impossible. The fraud detection tool will compare returns to external patterns that match potential known fraudulent activity, allowing the Tax Department to remove high-risk refunds from the normal tax processing cycle.

Consistency/Fit with Organization's Mission

The mission of the Office of the State Tax Commissioner is to fairly and effectively administer all taxes as defined in N.D.C.C. § 57 to meet the resource needs for the State of North Dakota. An integrated tax system will allow the agency to achieve that mission without the risk of disruption posed by the aging legacy systems.

The new system would also help the Tax Department meet the goals that are aligned with its Mission, Vision, and Guiding Principles:

- ▶ Excellent customer service
 - ◆ Compliance is less burdensome for taxpayers
 - ◆ Single taxpayer accounts provide for one-stop-shopping
 - ◆ Providing accurate, reliable data quickly as required by the taxpayer
- ▶ Wise and prudent use of all resources through effective and efficient operations
 - ◆ Improved internal business processes (do more with less)
 - ◆ Reduced IT operational costs
- ▶ Increased Revenues
 - ◆ Voluntary compliance
 - ◆ Audit tools
 - ◆ Improved collection tools
 - ◆ Greater fraud detection

The Tax Department has continued to find new and improved ways of employing technology to benefit the State and its citizens. However, as the old system becomes more cumbersome to maintain, the Department is losing its ability to make further gains in efficiencies. A new integrated tax system would provide the agency with a state-of-the-art platform and open additional opportunities to leverage technology in the future.

This project also aligns with ITD's Enterprise Architecture (EA) domain team's future state. ITD will be involved in every aspect and their Chief Architect has completed some preliminary research for the Tax Department. This project relates to an analysis regarding the mainframe replacement (Platforms and Operating Systems Study) currently underway with ITD and EA. There is potential for partnering with other agencies on this project.

Cost Benefit Analysis

Anticipated Benefits:

The benefits realized from a project of this nature fall into four major categories:

- ▶ Better customer service.
- ▶ Increased employee productivity.
- ▶ Cost savings due to easier software changes and maintenance, and more cost effective hardware environments (client server vs. mainframe).
- ▶ Additional revenues generated from more effective processing and compliance activities.

An integrated tax system will provide faster access to taxpayer information. It will allow for consolidated taxpayer accounts and will help provide a "one-stop-shopping" experience for the taxpayer. Customer service is enhanced with the ability to solve issues quickly the first time. This will also lead to fewer complaints and a higher level of voluntary compliance.

Also, from a customer service perspective, the new system will provide a sound technological underpinning for continuing to increase the types of service that can be provided online. The system will give the Tax Department the foundation to achieve its mission of fairly and effectively administering the tax laws of the State of North Dakota.

In the area of productivity, the system will provide a unified solution that presents users a single consistent view of taxpayer information across all tax types and across all business functions. It will give users automated tools that enhance collections management, audit selection and timeliness, and discovery of non-filers. It will incorporate workflow management tools that help employees and managers better prioritize their activities. The capabilities of the system and the process of implementing it will provide opportunities to revise business processes and eliminate organizational silos.

It will also ensure more reliable data with better analytical capabilities. This will in turn allow for better modeling and faster implementation of tax law changes.

Ongoing cost savings will occur in two areas. Moving the primary tax system from a mainframe-based technology to the new system operating in a client-server environment will generate a net savings of approximately \$250,000 per year. Reductions in the cost of software programming changes and maintenance will be about \$270,000 per year. These two elements of savings will be partially offset by an estimated cost of \$300,000 per year for an upgrade and maintenance contract with the COTS software vendor. This results in an overall savings of \$220,000 per year or \$440,000 per biennium.

Potential revenue increases are more difficult to estimate. There are many variables that affect annual revenues for the State, and isolating those to specific improvements generated by a new tax system is problematic. Several states that have implemented new systems with enhanced capabilities have attempted to capture this information and segregate it into separate components such as increased collections, improved audit response, reduced non-filers, etc.

Some of the results have been fairly astounding. In Idaho, the Tax Commission attributed \$15.2 million in increased revenues to better tools provided by the new system in its first year of operation alone. Totals for three years now exceed \$60 million. In New Mexico, they experienced an initial revenue lift of several million dollars. However, in both cases the increases were generated by activating processes in conjunction with implementing a new system that their old systems could no longer support.

In most cases the North Dakota Tax Department is currently handling the necessary business processes. However, to do so requires extensive manual effort and the use of less effective tools. It may be more important to consider the benefit as stopping the loss of revenue because of inadequacies in the old technology, rather than generating new revenues. This loss of revenue is something that could occur in North Dakota if current systems are not replaced in the near future.

An attempt has been made to identify those areas within the Tax Department where the added capabilities of the new system could potentially yield additional revenues. The most likely areas are related to increased discovery of non-resident taxpayers through enhanced records matching, better tools for prioritizing collections and audit activities, and a general increase in the number of audits due to better access to data and more effective workflow management tools.

Estimates of the potential increases by section are shown in the following table. It must be noted that this represents a best effort evaluation, but that actual results cannot be easily measured or guaranteed.

Major Tax Types	Revenue FY2004	% Revenue Increase	Potential Revenue Increase	Basis	Annual Total	% Increase	Reasons
Sales Tax	\$373,537,967	0.11%	\$ 400,000	Audit	\$ 4,000,000	10.0%	Better discovery and prioritization tools
		0.09%	\$ 350,000	Compliance	\$ 350,000,000	0.1%	Better identification of nexus
Individual Income Tax	\$84,977,557	0.59%	\$ 500,000	Audit	\$ 2,500,000	20.0%	Better non-resident identification and more timely audits
Withholding Tax	\$160,860,604	0.09%	\$ 150,000	Audit	\$ 150,000,000	0.1%	More formalized audit program
		0.09%	\$ 150,000	Compliance	\$ 150,000,000	0.1%	Better non-resident identification
Corporate Income Tax	\$57,657,511	1.04%	\$ 600,000	Audit	\$ 6,000,000	10.0%	Better identification of nexus and increased # of small audits
Accounts Receivable	\$27,108,124	1.29%	\$ 350,000	Contact Collections	\$ 7,000,000	5.0%	Better workflow tools increase efficiency in collection process
TOTAL	\$704,141,762	0.36%	\$ 2,500,000				

Cost Estimate:

The costs for a project of this nature fall into four major categories:

Software – the largest element of software is the license for the COTS integrated system. This will be procured using an RFP process. The estimate for these costs is based on the experience of other states that have completed similar projects. Also included in the software category are the licenses for the underlying relational database, the operating systems for the various servers, and any tools to be used to support the programming, configuration, migration, and documentation of the tax system.

Hardware – this consists primarily of the servers that will be used to run the COTS application and the related databases. The costs include provision for sufficient hardware to maintain the production environment along with the capacity to provide mirrored back-up and continued development and testing. The project budget has been built on the assumption that the Tax Department would purchase the hardware as part of the project, and then have ITD provide operations and maintenance services. The alternative of having ITD acquire the hardware and then charge back the Tax Department at an increased hosting cost will also be evaluated.

Services – this consists of the services acquired from outside vendors to support the implementation of the COTS package and the management of the project. It also includes the incremental cost (any overtime) for Tax Department personnel assigned to the project, and the cost of services provided by ITD to assist with implementation and conversion, and to host the hardware and software.

Project Operating Expenses – this consists of general overhead expenses for maintaining a project office during the implementation effort including space, equipment, and network connectivity.

Contingency – with a project of this nature, there is a level of uncertainty at this early planning stage related to some cost elements. This necessitates the inclusion of a contingency amount in the budget to cover unforeseen circumstances. As an example, the costs of the COTS software license and related implementation services represent the major portion of the budget. Since the bidding process has not yet occurred, there is a possibility that the prices in the winning proposal will be different than the estimated costs used in the budget.

The budget for the project is summarized as follows:

Description	Object Code	Cost Estimate
Software		
COTS Integrated Tax System	3005	\$ 2,500,000
Database and Other Support Software	3005	\$ 123,000
Hardware		
Servers	Capital Asset (TI5016)	\$ 99,000
Services		
Staff Overtime	1001	\$ 195,840
Temporary Labor	1001	\$ 72,000
Implementation Services	3008	\$ 7,488,000
Project Management	3008	\$ 654,720
ITD Services	3002	\$ 1,420,673
Project Operating Expenses		\$ 164,100
Contingency		\$ 953,800
TOTAL		\$ 13,671,133

A detailed budget for the project has been prepared and is included as Attachment 1.

The Tax Department is almost exclusively funded using general fund dollars. As such, there is no anticipation of any federal or other special funding for this project. There is also no mechanism for charging out the services to customers.

The Tax Department does recognize that there may be various methods to finance the project other than a direct general fund appropriation in the upcoming biennium. The Department has reviewed certain possibilities with the Industrial Commission and the Bank of North Dakota. These include issuing bonds through the North Dakota Building Authority or obtaining a direct loan. The report from the Industrial Commission providing details for these options is included as Attachment 2.

In any case, the intent is to better match the outflow of cost to the timing of the benefits. The Tax Department is seeking guidance from the Legislature on the most effective means for funding the project.

Cost/Benefit Analysis:

The following table summarizes the potential cost savings and revenue increases, and compares them to the overall project budget to calculate a payback period for the project.

	Annual Impact
Mainframe operating cost decrease	(\$249,265)
Programming cost decrease	(\$258,111)
Eliminate use of Great Plains for revenue accounting	(\$12,790)
Software License Renewal Fees	\$300,000
Total Annual Cost Impact	(\$220,166)
Potential Revenue Lift	\$2,500,000
Net Impact	\$2,720,166
Project Cost	\$13,671,133
Years for Payback	5.0

Project Risks

The single biggest risk for North Dakota and the Tax Department is to not proceed with the project. Without a new system, the Tax Department runs the risk of a major failure in its existing systems that could lead to a significant disruption in its business, with a potential loss of revenue for the State. As noted above, New Mexico had to cease sending individual income tax assessments for an extended period because their old system could no longer handle the processing. This resulted in a significant slowdown and loss of revenue.

Beyond that, there are other risks associated with not replacing the system. Some of these include:

- ▶ Slowdown in the ability to complete audits resulting in the expiration of the statute of limitations.
- ▶ Reduced ability to respond in a timely manner to tax law changes.
- ▶ Potential loss of data integrity since the same data elements need to be entered across multiple systems.
- ▶ Inability to meet taxpayer expectations regarding the expanded use of technology to provide customer service.

The implementation of an integrated tax system faces a variety of risks. These risks can generally be divided between technology risks and project risks. Examples include:

Technology Risks

- ▶ System capability
- ▶ Functionality gaps
- ▶ Technical infrastructure
- ▶ System architecture
- ▶ System maintenance and supportability
- ▶ Expandability

Project Risks

- ▶ Cost
- ▶ Schedule
- ▶ Unclear requirements and scope creep
- ▶ Excessive customization
- ▶ Converted data problems
- ▶ Availability of resources
- ▶ Skills gaps

Each of these areas requires ongoing monitoring and a plan for mitigating the risk. In the case of technology, the risk will be minimized by selecting a commercially available packaged tax system that has been proven to work in other revenue agencies. The selected system should be developed using up-to-date programming tools that support an open architecture and work with any SQL-compliant database. It should also be designed to operate in an n-tier client-server environment to provide maximum flexibility and cost effectiveness in hardware selection.

To effectively manage project risk, the Tax Department will take several key steps. First, the Department has contracted with a professional project management firm (AdvanTech, LLC) to

provide planning and oversight services. AdvanTech has particular strength in the revenue and taxation arena, having provided a variety of services related to the management, planning, and implementation of COTS-based integrated tax systems for the Idaho State Tax Commission, Louisiana Department of Revenue, and Montana Department of Revenue.

Second, the selection process used to acquire the COTS product will also require the software vendor to provide implementation support services with personnel that understand both the system and the business of tax administration.

Finally, the project will utilize implementation methodologies that have been proven on similar projects. These will incorporate the areas of system configuration and development, testing, data conversion, user training, technical knowledge transfer, and business process and organizational change management. The project will also employ widely accepted tools and processes for monitoring and controlling the project's scope, schedule, cost, and quality.

FISCAL YEAR 2006

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL FY 2006
Software													
COTS License		625,000					625,000						1,250,000
Database	25,000			25,000			25,000						75,000
Operating System	21,000						21,000						42,000
Version Control	3,000												3,000
Programming Tools													-
Documentation Tools	3,000												3,000
Reporting/Data Mining													-
Data Conversion	52,000	625,000	-	25,000	-	-	671,000	-	-	-	-	-	1,373,000
Hardware													
Application Servers	12,000						12,000						24,000
Database Servers	25,000			25,000			25,000						75,000
Reporting Servers													-
Imaging Servers													-
Data Storage													-
Network Routers													-
Printers													-
Services													
Staff Overtime	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	97,920
Temporary Labor	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Implementation Support	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	3,744,000
Project Management	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	327,360
ITD Programmers	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	543,920
Data Conversion	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	106,416
ITD Hosting	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	4,915,616
Operating Expenses													
Office Space	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000
Workstations/Furniture	12,500												12,500
Cabling/Improvements	725	725	725	725	725	725	725	725	725	725	725	725	8,700
PCs w/ Desktop Apps.													-
Printers													-
Computer Projector	400	400	400	400	400	400	400	400	400	400	400	400	4,800
Copiers	675	675	675	675	675	675	675	675	675	675	675	675	8,100
Telephones/Telecom	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Office Supplies	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Miscellaneous Exp.													-
Travel													-
Meeting Expenses	18,817	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	88,300
Subtotal	517,451	1,040,951	415,951	465,951	415,951	415,951	1,123,951	415,951	415,951	415,951	415,951	415,951	6,475,916
Contingency @ 7.5%	38,809	78,071	31,196	34,946	31,196	31,196	84,296	31,196	31,196	31,196	31,196	31,196	485,694
Total	556,260	1,119,023	447,148	500,898	447,148	447,148	1,208,248	447,148	447,148	447,148	447,148	447,148	6,961,610

STATE OF NORTH DAKOTA
OFFICE OF THE TAX COMMISSIONER

INTEGRATED TAX SYSTEM PROJECT
BUDGET

2005
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FISCAL YEAR 2007

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL FY2007	TOTAL PROJECT
Software														
COTS License	625,000						625,000						1,250,000	2,500,000
Database														75,000
Operating System														42,000
Version Control														3,000
Programming Tools														-
Documentation Tools														3,000
Reporting/Data Mining														-
Data Conversion							625,000						1,250,000	2,623,000
Hardware														
Application Servers														24,000
Database Servers														75,000
Reporting Servers														-
Imaging Servers														-
Data Storage														-
Network Routers														-
Printers														-
Services														99,000
Staff Overtime	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	97,920	195,840
Temporary Labor	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000	72,000
Implementation Support	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	3,744,000	7,488,000
Project Management	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	327,360	654,720
ITD Programmers	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	45,327	543,920	1,087,840
Data Conversion	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	106,416	212,832
ITD Hosting	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000	120,000
	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	409,635	4,915,616	9,831,232
Operating Expenses														
Office Space	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000	100,000
Workstations/Furniture	725	725	725	725	725	725	725	725	725	725	725	725	8,700	17,400
Cabling/Improvements														-
PCs w/ Desktop Apps.														-
Printers														-
Computer Projector														-
Copiers	400	400	400	400	400	400	400	400	400	400	400	400	4,800	9,600
Telephones/Telecom	675	675	675	675	675	675	675	675	675	675	675	675	8,100	16,200
Office Supplies	250	250	250	250	250	250	250	250	250	250	250	250	3,000	6,000
Miscellaneous Exp.	100	100	100	100	100	100	100	100	100	100	100	100	1,200	2,400
Travel														-
Meeting Expenses	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	6,317	75,800	151,600
Subtotal	1,040,951	415,951	415,951	415,951	415,951	415,951	1,040,951	415,951	415,951	415,951	415,951	415,951	6,241,416	12,717,332
Contingency @ 7.5%	78,071	31,196	31,196	31,196	31,196	31,196	78,071	31,196	31,196	31,196	31,196	31,196	468,106	953,800
Total	1,119,023	447,148	447,148	447,148	447,148	447,148	1,119,023	447,148	447,148	447,148	447,148	447,148	6,709,523	13,671,132

STATE OF NORTH DAKOTA
OFFICE OF THE STATE
TAX COMMISSIONER

INTEGRATED TAX SYSTEM PROJECT
STAFFING PLAN

7/20/2005
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FISCAL YEAR 2006													TOTAL FY2006
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
Staff Overtime													
Number	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	
Hours per Person	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	
Total Hours	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	2,880.0
Rate	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	
Amount	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	97,920
Temporary Labor													
Number	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Hours per Person	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	
Total Hours	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	3,000.0
Rate	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	
Amount	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Implementation Support													
Number	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	
Total Hours	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	24,960.0
Contingency @ 0%													
Budgeted Hours	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	
Rate	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	
Amount	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	3,744,000
Project Management													
Number	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	
Hours per Person	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	
Total Hours	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	
Rate	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	
Amount	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	327,360
ITD Senior Developers													
Number	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	
Total Hours	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	
Rate	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	
Amount	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	241,280
ITD Developers													
Number	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	
Total Hours	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	
Rate	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	
Amount	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	224,640

STATE OF NORTH DAKOTA
OFFICE OF THE STATE
TAX COMMISSIONER

INTEGRATED TAX SYSTEM PROJECT
STAFFING PLAN

7/20/2005
3:45 PM

FISCAL YEAR 2006													TOTAL FY2006
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
ITD Project Manager													
Number	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	
Total Hours	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	1,040.0
Rate	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	
Amount	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
Conversion CPU Usage													
CPU Seconds	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	99,454.5
Rate	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	
Amount	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	106,416

STATE OF NORTH DAKOTA
OFFICE OF THE STATE
TAX COMMISSIONER

INTEGRATED TAX SYSTEM PROJECT
STAFFING PLAN

7/20/2005
3:45 PM

		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL FY2007	TOTAL PROJECT
Staff Overtime															
Number	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0		
Hours per Person	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0		
Total Hours	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0	2,880.0	5,760.0
Rate	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00	\$ 34.00		
Amount	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	8,160	97,920	195,840
Temporary Labor															
Number	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0		
Hours per Person	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0		
Total Hours	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	3,000.0	6,000.0
Rate	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00		
Amount	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000	72,000
Implementation Support															
Number	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0		
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3		
Total Hours	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	24,960.0	49,920.0
Contingency @															
Budgeted Hours	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0	2,080.0		
Rate	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00		
Amount	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	312,000	3,744,000	7,488,000
Project Management															
Number	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1		
Hours per Person	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0		
Total Hours	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	176.0	2,112.0	4,224.0
Rate	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00	\$ 155.00		
Amount	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	27,280	327,360	654,720
ITD Senior Developers															
Number	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0		
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3		
Total Hours	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	4,160.0	8,320.0
Rate	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00		
Amount	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	20,107	241,280	482,560
ITD Developers															
Number	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0		
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3		
Total Hours	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	346.7	4,160.0	8,320.0
Rate	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00	\$ 54.00		
Amount	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	18,720	224,640	449,280

STATE OF NORTH DAKOTA
OFFICE OF THE STATE
TAX COMMISSIONER

INTEGRATED TAX SYSTEM PROJECT
STAFFING PLAN

7/20/2005
3:45 PM

FISCAL YEAR 2007													TOTAL PROJECT
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
ITD Project Manager													
Number	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
Hours per Person	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	173.3	
Total Hours	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7	2,080.0
Rate	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	\$ 75.00	
Amount	8,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
Conversion CPU Usage													
CPU Seconds	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	8,287.9	99,454.5
Rate	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	\$ 1.07	
Amount	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	8,868	212,833

Software

COTS License	\$ 2,500,000	split into	4 semi-annual payments	
Database	\$ 12,500	per processor	6 total processors	2 proc/server
Operating System	\$ 3,000	per processor	14 total processors	
Version Control	\$ 3,000	SourceSafe or?		
Programming Tools		assumed to be VB.net; Tax Dept. already has licenses		
Documentation Tools	\$ 3,000	HDK or RoboHelp or ?		
Reporting/Data Mining		assumed to be included in COTS ITS package		
Data Conversion		assumed that will be developed by project team		

Hardware

Application Servers	8	comprised of	2 batch prod	4 online prod	2 devel/test	\$ 3,000
Database Servers	3	comprised of	1 production	1 reporting	1 devel/test	\$ 25,000
Reporting Servers		N/A				
Imaging Servers		N/A				
Data Storage		N/A				
Network Routers		N/A				
Printers		assumes usability of existing production printers (or replacement when lease expires)				

Services

Staff Overtime	2.0	primary people from Accounting will be assigned to project				
	2.0	primary people from Accounts Receivable will be assigned to project				
	2.0	primary people from Information Technology will be assigned to project				
	1.0	primary person each from Sales, Withholding, Individual Income, Corporate Income, Motor Fuels				
	5.0	non-primary people from Department assigned to assist project at various stages				
		regular time for permanent FTEs will remain in regular Department operating budgets				
	20.0	OT hours per month each, charged to project				

Temporary Labor

	5.0	temporary employees to provide assistance for permanents assigned to the project				
	50.0	per month per temporary employee				

Implementation Support
Project Management

See Staffing
Plan

based on comparative projects
per AdvanTech proposal

ITD Programmers

	2.0	full time Senior Developers on the project				
	2.0	full time Developers on the project				
	0.5	ITD project manager on the project				
		hours cover all ITD activities for the ITS project				

STATE OF NORTH DAKOTA
OFFICE OF THE STATE TAX
COMMISSIONER

INTEGRATED STEM PROJECT
BUDGET ASSUMPTIONS

3/2005
3:45 PM

Data Conversion 198,909.0 seconds of batch CPU time for one year; assume 50% required for data conversion @ \$ 1.07
ITD Hosting \$ 5,000 per month (see worksheets provided by Dan Sipes)

Operating Expenses

Office Space 5,000 square feet @ \$ 10 per foot per year
Workstations/Furniture 25 set-ups @ \$ 500 each
Cabling/Improvements 25 connections @ \$ 29 per month
PCs w/ Desktop Apps. available from existing resources
Printers available from existing resources
Computer Projector available from existing resources
Copiers 400 per month
Telephones/Telecom 25 connections @ \$ 27 per month
Office Supplies 250 per month
Miscellaneous Exp. 100 per month
Travel minimal travel funded within regular agency budget
Meeting Expenses assumes use of State facilities at no charge

OFFICE OF STATE TAX COMMISSIONER
ESTIMATE OF STATE RETURN ON INVESTMENT AND FINANCIAL IMPACT
COTS INTEGRATED TAX SYSTEM
POTENTIAL INCREASED REVENUE

Major Tax Types	Revenue FY2004	% Revenue Increase	Potential Revenue Increase	Basis	Annual Total	% Increase	Reasons
Sales Tax	\$373,537,967	0.11%	\$ 400,000	Audit	\$ 4,000,000	10.0%	Better discovery and prioritization tools
		0.09%	\$ 350,000	Compliance	\$ 350,000,000	0.1%	Better identification of nexus
Individual Income Tax	\$84,977,557	0.59%	\$ 500,000	Audit	\$ 2,500,000	20.0%	Better non-resident identification and more timely audits
Withholding Tax	\$160,860,604	0.09%	\$ 150,000	Audit	\$ 150,000,000	0.1%	More formalized audit program
		0.09%	\$ 150,000	Compliance	\$ 150,000,000	0.1%	Better non-resident identification
Corporate Income Tax	\$57,657,511	1.04%	\$ 600,000	Audit	\$ 6,000,000	10.0%	Better identification of nexus and increased # of small audits
Accounts Receivable	\$27,108,124	1.29%	\$ 350,000	Contact Collections	\$ 7,000,000	5.0%	Better workflow tools increase efficiency in collection process
TOTAL	\$704,141,762	0.36%	\$ 2,500,000				



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

MEMORANDUM

TO: The Honorable Rick Clayburgh
North Dakota State Tax Commissioner

FR:  Karlene Fine, Executive Director,
Industrial Commission of North Dakota

DT: October 1, 2004

RE: Financing Options

Attached is the information you requested at our recent meeting regarding options to review as you consider methods for financing the proposed Tax Department Integrated Tax System IT Project.

Eric and I would appreciate an opportunity to sit down and visit with you about these options and to answer any questions you might have. Eric is out of state early next week but would be available on October 7 or 8. Please let me know what is convenient for you. You can reach me at 328-3722 or at kfine@state.nd.us

Karlene

Attachment

c: Eric Hardmeyer, Bank of North Dakota

**Industrial Commission
Financing Options
September 30, 2004**

**Tax Department
Integrated Tax System IT Project
\$13,000,000**

Summary Page

NOTE: *Current interest rates have been utilized in preparing the various options. It is anticipated that the interest rates levels would be higher in August, 2005.*

Bonding Options for a \$13,000,000 Project

Two options for bonding have been provided on the attached spreadsheet. The first option is for a five-year payback (final payment June 1, 2012) and the second option is for a six-year payback (final payment June 1, 2013). For both of the bonding options the rate will be fixed and the costs of issuing the bonds have been included. In the five-year option the interest rate is 3.4889669% with a total net debt service cost of **\$15,279,039**. In the six-year option the interest rate is 3.552720% with a total net debt service cost of **\$15,564,890**. In both options there will be some additional fees for the life of the bond issue—Trustee Fees, arbitrage calculations, audit fees—costs would generally be less than \$10,000 a year. The assumption was made that the debt service reserve fund would be invested at 3.1776% for the five-year option and 3.2678% for the six-year option.

Pros for Bonding Options:

- Ability to access the national capital markets and obtain fixed low interest rates.
- Legislature is less likely to delay appropriations for the debt service as the State's rating could be jeopardized.

Cons for Bonding Options:

- The Tax Department will not be able to prepay the bonds—perhaps they could defease the bonds by setting aside the dollars in an escrow agreement.
- Additional work with the issuance of bonds—more paperwork, legal review, and there are some ongoing Trustee fees and arbitrage calculations fees for the life of the bonds.

Bank of North Dakota Options for a \$13,000,000 Loan

The Bank of North Dakota has provided two options (fixed and variable) on the attached spreadsheet. The first fixed option which is titled "Bank of North

Dakota – Fixed – 5 Year" is based off the current 7-year Federal Home Loan Bank Advanced Rate of 4.36% plus a spread of 1.50%. This rate would be locked for 7 years. The interest rate is 5.86%. Total debt service cost of **\$16,646,847** plus closing fees. Final payment made in June 2012. The second fixed option which is titled "Bank of North Dakota – Fixed – 6 Year" is based off the current 8-year Federal Home Loan Bank Advanced Rate of 4.43% plus a spread of 1.50%. This rate would be locked for 8 years. The interest rate is 5.93%. Total debt service cost of **\$17,154,532** plus closing fees. Final payment made in June 2013.

The variable options are based off the current variable rate of the 30-day LIBOR of 1.84% plus 1.50%. This rate would adjust on the first of each month. The interest rate is currently 3.34%. The total debt service cost for the five-year variable option is **\$15,033,202** plus closing fees with a final payment date of August 1, 2012. The total debt service cost for the six-year variable option is **\$15,262,742** plus closing fees with the final payment made in June 1, 2013.

Pros for Bank of North Dakota Fixed Option:

- The Bank of North Dakota option will require less paperwork – just a loan agreement

Cons for Bank of North Dakota Fixed Option:

- If the Fixed Rate option is selected the Bank may need to impose a pre-payment penalty.
- Debt service costs are higher than other options.

Pros for Bank of North Dakota Variable Option:

- The Bank of North Dakota option will require less paperwork – just a loan agreement
- The Bank of North Dakota variable rate option will allow the Tax Department to repay the entire loan at any time.

Cons for Bank of North Dakota Variable Option:

- Uncertainty of interest rate from month to month and thus difficulty in projecting amount of loan payments and total debt service. The current market expectation is that short-term rates will continue to rise. This would result in higher debt service costs.

More detailed amortization schedules are attached.

I also indicated that I would provide you with a preliminary draft of possible legislation. This is very preliminary. This legislation would allow the Tax Commissioner and the Industrial Commission with the flexibility to choose whatever option is preferred closer to the actual date of when funding is needed. If you wish to proceed with legislation that has an option for bonding, I would need to have bond counsel review and possibly fine tune

the language and they may require that Tax Counsel also review the use of bond proceeds. There are costs that cannot be funded with tax exempt proceeds (such as certain training costs) and some taxable bonds may need to be issued. It is important that early on there is a fairly detailed breakdown of how the \$13,000,000 will be utilized in developing an Integrated Tax System. Also, it is my understanding that none of the \$13,000,000 will be used to reimburse the Tax Department for costs they may have already incurred in this project. If the Tax Department wishes to be reimbursed for some of its costs, this needs to be discussed with bond counsel as soon as possible since there are some strict time limits for setting up future reimbursement from the proceeds of tax-exempt bonds.

The industrial commission, acting as the North Dakota building authority, may arrange through the issuance of evidences of indebtedness under chapter 54-17.2, beginning with the effective date of this Act and ending June 30, 2007 for the funding in the amount of \$13,000,000 plus costs of issuance, any reasonably required reserve fund, and any credit enhancement to be loaned to the tax commissioner for the Integrated Tax System IT Project, declared to be in the public interest. *(If not described elsewhere in the Tax Department appropriation bill, there needs to be a brief description of the Project.)* The Integrated Tax System IT Project is, for the purpose of this Act, a project as that term is defined in chapter 54-17.2. If the industrial commission issues evidences of indebtedness under this section, it must be with the condition that debt service payments need not begin until July 1, 2007. The authority of the industrial commission to issue evidences of indebtedness under this section ends June 30, 2007, but the industrial commission may continue to exercise all other powers granted to it under chapter 54-17.2 and this Act and comply with any covenants entered into before that date. For purposes of this Act, loan or debt service repayments are equivalent to lease rental payments as that term is used in chapter 54-17.2. Alternatively, the industrial commission may arrange such funding through a loan from the bank of North Dakota to the tax commissioner on such terms and conditions as the industrial commission may establish and any such loan may be evidenced by a note, loan agreement or other evidence of indebtedness. The proceeds of any evidences of indebtedness and other available funds are appropriated to the tax commissioner beginning with the effective date of this Act and ending June 30, 2007, and may be used for any Integrated Tax System IT Project costs, debt service repayment, and refunding of any interim borrowings. The Tax Department shall seek a General Fund appropriation in subsequent biennia for debt service on any outstanding evidences of indebtedness.

The limitation provided in section 54-17.2-23 does not apply to repayments allocable to the evidences of indebtedness issued for the tax commissioner Integrated Tax System IT Project.

Tax Department Financing

[illegible]

Revised 9/30/04

Attachment 1

Attachment 2

Bond

Tax Department Financing

Date	BND Fixed - 5 Yr		BND Fixed - 6 Yr		BND Variable - 5 Yr		BND Variable - 6 Yr	
	Total Debt Service	Biennium Total	Total Debt Service	Biennium Total	Total Debt Service	Biennium Total	Total Debt Service	Biennium Total
12/1/2005								
6/1/2006								
12/1/2006								
6/1/2007								
05-07 Bi								
8/1/2007	2,774,474.54		2,450,647.41		2,505,533.67		2,180,391.75	
12/1/2007								
6/1/2008								
8/1/2008	2,774,474.54		2,450,647.41		2,505,533.67		2,180,391.75	
12/1/2008								
6/1/2009								
07-09 Bi		5,548,949.08		4,901,294.82		5,011,067.34		4,360,783.50
8/1/2009	2,774,474.54		2,450,647.41		2,505,533.67		2,180,391.75	
12/1/2009								
6/1/2010								
8/1/2010	2,774,474.54		2,450,647.41		2,505,533.67		2,180,391.75	
12/1/2010								
6/1/2011								
09-11 Bi		5,548,949.08		4,901,294.82		5,011,067.34		4,360,783.50
8/1/2011	2,774,474.54		2,450,647.41		2,505,533.67		2,180,391.75	
12/1/2011								
6/1/2012	2,774,474.54							
8/1/2012			2,450,647.41		2,505,533.67		2,180,391.75	
12/1/2012								
6/1/2013			2,450,647.41				2,180,391.75	
11-13 Bi		5,548,949.08		7,351,942.23		5,011,067.34		6,541,175.25
	16,646,847.24	16,646,847.24	17,154,531.87	17,154,531.87	15,033,202.02	15,033,202.02	15,262,742.25	15,262,742.25

Revised 9/30/04

Attachment 3

Attachment 4

Attachment 5

Attachment 6

Attachment 1

SOURCES AND USES OF FUNDS

North Dakota Building Authority
Bonding for Tax Department IT Project
Final Maturity as of June 1, 2012
Current 'AA' MMD as of 9/22/04

Sources:

Bond Proceeds:	
Par Amount	15,670,000.00
	15,670,000.00

Uses:

Project Fund Deposits:	
Construction Fund	13,000,000.00
Other Fund Deposits:	
Debt Service Reserve Fund	1,567,000.00
Capitalized Interest Fund	707,981.44
	2,274,981.44
Cost of Issuance:	
Other Cost of Issuance	90,000.00
Underwriter's Discount:	
Other Underwriter's Discount	125,360.00
Other Delivery Date Expenses:	
Insurance	179,112.16
Other Uses of Funds:	
Additional Proceeds	546.40
	15,670,000.00

BOND SUMMARY STATISTICS

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2012
 Current 'AA' MMD as of 9/22/04

Dated Date	08/01/2005
Delivery Date	08/01/2005
Last Maturity	06/01/2012
Arbitrage Yield	3.177579%
True Interest Cost (TIC)	3.100518%
Net Interest Cost (NIC)	3.090399%
All-In TIC	3.489669%
Average Coupon	2.926698%
Average Life (years)	4.887
Duration of Issue (years)	4.567
Par Amount	15,670,000.00
Bond Proceeds	15,670,000.00
Total Interest	2,241,216.25
Net Interest	2,366,576.25
Total Debt Service	17,911,216.25
Maximum Annual Debt Service	3,420,295.00
Average Annual Debt Service	2,621,153.60
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	8.000000
Total Underwriter's Discount	8.000000
Bid Price	99.200000

Bond Component	Par Value	Price	Average Coupon	Average Life
Serial Bonds	15,670,000.00	100.000	2.927%	4.887
	15,670,000.00			4.887
			All-In TIC	Arbitrage Yield
Par Value	15,670,000.00	15,670,000.00		15,670,000.00
+ Accrued Interest				
+ Premium (Discount)				
- Underwriter's Discount	-125,360.00	-125,360.00		
- Cost of Issuance Expense		-90,000.00		
- Other Amounts		-179,112.16		-179,112.16
Target Value	15,544,640.00	15,275,527.84		15,490,887.84
Target Date	08/01/2005	08/01/2005		08/01/2005
Yield	3.100518%	3.489669%		3.177579%

BOND DEBT SERVICE

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2012
 Current 'AA' MMD as of 9/22/04

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
08/01/2005					
12/01/2005			148,402.50	148,402.50	
06/01/2006			222,603.75	222,603.75	
06/30/2006					371,006.25
12/01/2006			222,603.75	222,603.75	
06/01/2007			222,603.75	222,603.75	
06/30/2007					445,207.50
12/01/2007			222,603.75	222,603.75	
06/01/2008	2,975,000	2.350%	222,603.75	3,197,603.75	
06/30/2008					3,420,207.50
12/01/2008			187,647.50	187,647.50	
06/01/2009	3,045,000	2.650%	187,647.50	3,232,647.50	
06/30/2009					3,420,295.00
12/01/2009			147,301.25	147,301.25	
06/01/2010	3,125,000	2.900%	147,301.25	3,272,301.25	
06/30/2010					3,419,602.50
12/01/2010			101,988.75	101,988.75	
06/01/2011	3,215,000	3.050%	101,988.75	3,316,988.75	
06/30/2011					3,418,977.50
12/01/2011			52,960.00	52,960.00	
06/01/2012	3,310,000	3.200%	52,960.00	3,362,960.00	
06/30/2012					3,415,920.00
	15,670,000		2,241,216.25	17,911,216.25	17,911,216.25

NET DEBT SERVICE

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2012
 Current 'AA' MMD as of 9/22/04

Date	Total Debt Service	Debt Service Reserve Fund	Capitalized Interest Fund	Net Debt Service
12/01/2005	148,402.50		148,402.50	
06/01/2006	222,603.75		222,603.75	
12/01/2006	222,603.75		222,603.75	
06/01/2007	222,603.75		222,603.75	
12/01/2007	222,603.75	24,896.33		197,707.42
06/01/2008	3,197,603.75	24,896.33		3,172,707.42
12/01/2008	187,647.50	24,896.33		162,751.17
06/01/2009	3,232,647.50	24,896.33		3,207,751.17
12/01/2009	147,301.25	24,896.33		122,404.92
06/01/2010	3,272,301.25	24,896.33		3,247,404.92
12/01/2010	101,988.75	24,896.33		77,092.42
06/01/2011	3,316,988.75	24,896.33		3,292,092.42
12/01/2011	52,960.00	24,896.33		28,063.67
06/01/2012	3,362,960.00	1,591,896.33		1,771,063.67
	17,911,216.25	1,815,963.30	816,213.75	15,279,039.20

RESERVE FUND

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2012
 Current 'AA' MMD as of 9/22/04

Debt Service Reserve Fund (DSRF)

Date	Deposit	Interest @ 3.1775793%	Principal	Capitalized Interest Fund	Debt Service	Balance
08/01/2005	1,567,000					1,567,000
12/01/2005		16,597.56		-16,597.56		1,567,000
06/01/2006		24,896.33		-24,896.33		1,567,000
12/01/2006		24,896.33		-24,896.33		1,567,000
06/01/2007		24,896.33		-24,896.33		1,567,000
12/01/2007		24,896.33			-24,896.33	1,567,000
06/01/2008		24,896.33			-24,896.33	1,567,000
12/01/2008		24,896.33			-24,896.33	1,567,000
06/01/2009		24,896.33			-24,896.33	1,567,000
12/01/2009		24,896.33			-24,896.33	1,567,000
06/01/2010		24,896.33			-24,896.33	1,567,000
12/01/2010		24,896.33			-24,896.33	1,567,000
06/01/2011		24,896.33			-24,896.33	1,567,000
12/01/2011		24,896.33			-24,896.33	1,567,000
06/01/2012		24,896.33	1,567,000		-1,591,896.33	
	1,567,000	340,249.85	1,567,000	-91,286.55	-1,815,963.30	

Yield To Receipt Date: 3.1780308%
 Arbitrage Yield: 3.1775793%
 Value of Negative Arbitrage: -43.14

RESERVE FUND

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2012
 Current 'AA' MMD as of 9/22/04

Capitalized Interest Fund (CAPI)

Date	Deposit	Interest @ 2.07%	Principal	Debt Service Reserve Fund	Scheduled Draws	Balance
08/01/2005	707,981.44					707,981.44
12/01/2005		4,876.68	126,928.26	16,597.56	148,402.50	581,053.18
06/01/2006		6,013.90	191,693.52	24,896.33	222,603.75	389,359.66
12/01/2006		4,029.87	193,677.55	24,896.33	222,603.75	195,682.11
06/01/2007		2,025.31	195,682.11	24,896.33	222,603.75	
	707,981.44	16,945.76	707,981.44	91,286.55	816,213.75	

Yield To Receipt Date:	2.0699992%
Arbitrage Yield:	3.1775793%
Value of Negative Arbitrage:	8,799.95

Attachment 2

SOURCES AND USES OF FUNDS

North Dakota Building Authority
Bonding for Tax Department IT Project
Final Maturity as of June 1, 2013
Current 'AA' MMD as of 9/22/04

Sources:

Bond Proceeds:	
Par Amount	15,705,000.00
	15,705,000.00

Uses:

Project Fund Deposits:	
Construction Fund	13,000,000.00
Other Fund Deposits:	
Debt Service Reserve Fund	1,570,500.00
Capitalized Interest Fund	732,706.00
	2,303,206.00
Cost of Issuance:	
Other Cost of Issuance	90,000.00
Underwriter's Discount:	
Other Underwriter's Discount	125,640.00
Other Delivery Date Expenses:	
Insurance	182,876.50
Other Uses of Funds:	
Additional Proceeds	3,277.50
	15,705,000.00

BOND SUMMARY STATISTICS

North Dakota Building Authority
Bonding for Tax Department IT Project
Final Maturity as of June 1, 2013
Current 'AA' MMD as of 9/22/04

Dated Date	08/01/2005
Delivery Date	08/01/2005
Last Maturity	06/01/2013
Arbitrage Yield	3.267828%
True Interest Cost (TIC)	3.193038%
Net Interest Cost (NIC)	3.184257%
All-In TIC	3.552720%
Average Coupon	3.036536%
Average Life (years)	5.416
Duration of Issue (years)	5.002
Par Amount	15,705,000.00
Bond Proceeds	15,705,000.00
Total Interest	2,582,650.00
Net Interest	2,708,290.00
Total Debt Service	18,287,650.00
Maximum Annual Debt Service	2,909,302.50
Average Annual Debt Service	2,334,593.62
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	8.000000
Total Underwriter's Discount	8.000000
Bid Price	99.200000

Bond Component	Par Value	Price	Average Coupon	Average Life
Serial Bonds	15,705,000.00	100.000	3.037%	5.416
	15,705,000.00			5.416
	TIC	All-In TIC	Arbitrage Yield	
Par Value	15,705,000.00	15,705,000.00	15,705,000.00	
+ Accrued Interest				
+ Premium (Discount)				
- Underwriter's Discount	-125,640.00	+125,640.00		
- Cost of Issuance Expense		-90,000.00		
- Other Amounts		-182,876.50		-182,876.50
Target Value	15,579,360.00	15,306,483.50	15,522,123.50	
Target Date	08/01/2005	08/01/2005	08/01/2005	
Yield	3.193038%	3.552720%	3.267828%	

BOND DEBT SERVICE

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2013
 Current 'AA' MMD as of 9/22/04

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
08/01/2005					
12/01/2005			153,515.00	153,515.00	
06/01/2006			230,272.50	230,272.50	
06/30/2006					383,787.50
12/01/2006			230,272.50	230,272.50	
06/01/2007			230,272.50	230,272.50	
06/30/2007					460,545.00
12/01/2007			230,272.50	230,272.50	
06/01/2008	2,445,000	2.350%	230,272.50	2,675,272.50	
06/30/2008					2,905,545.00
12/01/2008			201,543.75	201,543.75	
06/01/2009	2,505,000	2.650%	201,543.75	2,706,543.75	
06/30/2009					2,908,087.50
12/01/2009			168,352.50	168,352.50	
06/01/2010	2,570,000	2.900%	168,352.50	2,738,352.50	
06/30/2010					2,906,705.00
12/01/2010			131,087.50	131,087.50	
06/01/2011	2,645,000	3.050%	131,087.50	2,776,087.50	
06/30/2011					2,907,175.00
12/01/2011			90,751.25	90,751.25	
06/01/2012	2,725,000	3.200%	90,751.25	2,815,751.25	
06/30/2012					2,906,502.50
12/01/2012			47,151.25	47,151.25	
06/01/2013	2,815,000	3.350%	47,151.25	2,862,151.25	
06/30/2013					2,909,302.50
	15,705,000		2,582,650.00	18,287,650.00	18,287,650.00

NET DEBT SERVICE

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2013
 Current 'AA' MMD as of 9/22/04

Date	Total Debt Service	Debt Service Reserve Fund	Capitalized Interest Fund	Net Debt Service
12/01/2005	153,515.00		153,515.00	
06/01/2006	230,272.50		230,272.50	
12/01/2006	230,272.50		230,272.50	
06/01/2007	230,272.50		230,272.50	
12/01/2007	230,272.50	25,660.62		204,611.88
06/01/2008	2,675,272.50	25,660.62		2,649,611.88
12/01/2008	201,543.75	25,660.62		175,883.13
06/01/2009	2,706,543.75	25,660.62		2,680,883.13
12/01/2009	168,352.50	25,660.62		142,691.88
06/01/2010	2,738,352.50	25,660.62		2,712,691.88
12/01/2010	131,087.50	25,660.62		105,426.88
06/01/2011	2,776,087.50	25,660.62		2,750,426.88
12/01/2011	90,751.25	25,660.62		65,090.63
06/01/2012	2,815,751.25	25,660.62		2,790,090.63
12/01/2012	47,151.25	25,660.62		21,490.63
06/01/2013	2,862,151.25	1,596,160.62		1,265,990.63
	18,287,650.00	1,878,427.44	844,332.50	15,564,890.06

RESERVE FUND

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2013
 Current 'AA' MMD as of 9/22/04

Debt Service Reserve Fund (DSRF)

Date	Deposit	Interest @ 3.2678283%	Principal	Capitalized Interest Fund	Debt Service	Balance
08/01/2005	1,570,500					1,570,500
12/01/2005		17,107.08		-17,107.08		1,570,500
06/01/2006		25,660.62		-25,660.62		1,570,500
12/01/2006		25,660.62		-25,660.62		1,570,500
06/01/2007		25,660.62		-25,660.62		1,570,500
12/01/2007		25,660.62			-25,660.62	1,570,500
06/01/2008		25,660.62			-25,660.62	1,570,500
12/01/2008		25,660.62			-25,660.62	1,570,500
06/01/2009		25,660.62			-25,660.62	1,570,500
12/01/2009		25,660.62			-25,660.62	1,570,500
06/01/2010		25,660.62			-25,660.62	1,570,500
12/01/2010		25,660.62			-25,660.62	1,570,500
06/01/2011		25,660.62			-25,660.62	1,570,500
12/01/2011		25,660.62			-25,660.62	1,570,500
06/01/2012		25,660.62			-25,660.62	1,570,500
12/01/2012		25,660.62			-25,660.62	1,570,500
06/01/2013		25,660.62	1,570,500		-1,596,160.62	
	1,570,500	402,016.38	1,570,500	-94,088.94	-1,878,427.44	

Yield To Receipt Date: 3.2682527%
 Arbitrage Yield: 3.2678283%
 Value of Negative Arbitrage: -45.73

RESERVE FUND

North Dakota Building Authority
 Bonding for Tax Department IT Project
 Final Maturity as of June 1, 2013
 Current 'AA' MMD as of 9/22/04

Capitalized Interest Fund (CAPI)

Date	Deposit	Interest @ 2.07%	Principal	Debt Service Reserve Fund	Scheduled Draws	Balance
08/01/2005	732,706					732,706.00
12/01/2005		5,046.99	131,360.93	17,107.08	153,515.00	601,345.07
06/01/2006		6,223.92	198,387.96	25,660.62	230,272.50	402,957.11
12/01/2006		4,170.61	200,441.27	25,660.62	230,272.50	202,515.84
06/01/2007		2,096.04	202,515.84	25,660.62	230,272.50	
	732,706	17,537.56	732,706.00	94,088.94	844,332.50	

Yield To Receipt Date:	2.0700004%
Arbitrage Yield:	3.2678283%
Value of Negative Arbitrage:	9,841.08

Attachment 3

Rate Period: Exact Days

Nominal Annual Rate: 5.860 %

CASH FLOW DATA

	Event	Date	Amount	Number	Period	End Date
1	Loan	08/01/2005	13,000,000.00	1		
2	Payment	08/01/2007	2,774,474.54	5	Annual	08/01/2011
3	Payment	06/01/2012	2,774,474.54	1		

AMORTIZATION SCHEDULE - U.S. Rule (no compounding)

	Date	Payment	Interest	Principal	Balance
Loan	08/01/2005				13,000,000.00
1	08/01/2007	2,774,474.54	1,523,600.00	1,250,874.54	11,749,125.46
2	08/01/2008	2,774,474.54	690,385.05	2,084,089.49	9,665,035.97
3	08/01/2009	2,774,474.54	566,371.11	2,208,103.43	7,456,932.54
4	08/01/2010	2,774,474.54	436,976.25	2,337,498.29	5,119,434.25
5	08/01/2011	2,774,474.54	299,998.85	2,474,475.69	2,644,958.56
6	06/01/2012	2,774,474.54	129,515.98	2,644,958.56	0.00
Grand Totals		16,646,847.24	3,646,847.24	13,000,000.00	

Attachment 4

09/29/2004 4:45:40 PM Page 1

Rate Period: Exact Days

Nominal Annual Rate: 5.930 %

CASH FLOW DATA

	Event	Date	Amount	Number	Period	End Date
1	Loan	08/01/2005	13,000,000.00	1		
2	Payment	08/01/2007	2,450,647.41	6	Annual	08/01/2012
3	Payment	06/01/2013	2,450,647.41	1		

AMORTIZATION SCHEDULE - U.S. Rule (no compounding)

	Date	Payment	Interest	Principal	Balance
Loan	08/01/2005				13,000,000.00
1	08/01/2007	2,450,647.41	1,541,800.00	908,847.41	12,091,152.59
2	08/01/2008	2,450,647.41	718,969.75	1,731,677.66	10,359,474.93
3	08/01/2009	2,450,647.41	614,316.86	1,836,330.55	8,523,144.38
4	08/01/2010	2,450,647.41	505,422.46	1,945,224.95	6,577,919.43
5	08/01/2011	2,450,647.41	390,070.62	2,060,576.79	4,517,342.64
6	08/01/2012	2,450,647.41	268,612.33	2,182,035.08	2,335,307.56
7	06/01/2013	2,450,647.41	115,339.85	2,335,307.56	0.00
Grand Totals		17,154,531.87	4,154,531.87	13,000,000.00	

Attachment 5

09/30/2004 11:24:54 AM Page 1

Rate Period: Exact Days

Nominal Annual Rate: 3.340 %

CASH FLOW DATA

	Event	Date	Amount	Number	Period	End Date
1	Loan	08/01/2005	13,000,000.00	1		
2	Payment	08/01/2007	2,505,533.67	6	Annual	08/01/2012

AMORTIZATION SCHEDULE - U.S. Rule (no compounding)

	Date	Payment	Interest	Principal	Balance
Loan	08/01/2005				13,000,000.00
1	08/01/2007	2,505,533.67	868,400.00	1,637,133.67	11,362,866.33
2	08/01/2008	2,505,533.67	380,559.52	2,124,974.15	9,237,892.18
3	08/01/2009	2,505,533.67	308,545.60	2,196,988.07	7,040,904.11
4	08/01/2010	2,505,533.67	235,166.20	2,270,367.47	4,770,536.64
5	08/01/2011	2,505,533.67	159,335.92	2,346,197.75	2,424,338.89
6	08/01/2012	2,505,533.67	81,194.78	2,424,338.89	0.00
Grand Totals		15,033,202.02	2,033,202.02	13,000,000.00	

Attachment 6

09/29/2004 4:50:48

Rate Period: Exact Days

Nominal Annual Rate: 3.340 %

CASH FLOW DATA

	Event	Date	Amount	Number	Period	End Date
1	Loan	08/01/2005	13,000,000.00	1		
2	Payment	08/01/2007	2,180,391.75	6	Annual	08/01/2012
3	Payment	06/01/2013	2,180,391.75	1		

AMORTIZATION SCHEDULE - U.S. Rule (no compounding)

	Date	Payment	Interest	Principal	Balance
Loan	08/01/2005				13,000,000.00
1	08/01/2007	2,180,391.75	868,400.00	1,311,991.75	11,688,008.25
2	08/01/2008	2,180,391.75	391,449.01	1,788,942.74	9,899,065.51
3	08/01/2009	2,180,391.75	330,628.79	1,849,762.96	8,049,302.55
4	08/01/2010	2,180,391.75	268,846.71	1,911,545.04	6,137,757.51
5	08/01/2011	2,180,391.75	205,001.10	1,975,390.65	4,162,366.86
6	08/01/2012	2,180,391.75	139,403.94	2,040,987.81	2,121,379.05
7	06/01/2013	2,180,391.75	59,012.70	2,121,379.05	0.00
Grand Totals		15,262,742.25	2,262,742.25	13,000,000.00	