

2011 SENATE APPROPRIATIONS

SB 2006

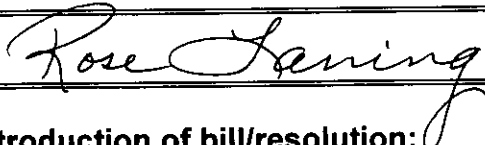
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2006
January 7, 2011
12650

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A bill for an Act to provide an appropriation for defraying the expenses of the office of the State Tax Commissioner and for payment of state reimbursement under the homestead tax credit and disabled veterans credit.

Minutes:

See attached testimony.

Chairman Holmberg called the committee hearing to order on SB 2006. Sheila M. Sandness – Legislative Council; Joe Morrisette – OMB.

Cory Fong, ND State Tax Commissioner – Testimony attached - # 1

Introduced Ryan Rauschenberger, Deputy Tax Commissioner; Nancy Sailer, Human Resources Officer; Glenda Anderson, Director of Fiscal Management; Deneen Gathman, Internal Accounting Supervisor; Myles Vosberg, Director of Tax Administration; Marcie Dickerson, State Supervisor of Assessments; Jay Snustad, Director of Operations.

He presented and explained the Agency overview, Budget overview, Agencies Accomplishments and Future Critical Issues and Needs. The Tax Department is the primary revenue collection agency for the state of ND. They administer 35 different tax types and possibly 36 if the Potash Taxation bill passes. For the 2009-11 biennium, the Tax Department is anticipated to collect nearly 92 % of all general fund dollars (excluding transfers).

One thing he made a special note of is the anticipation of refunds for the Homestead Tax Credit and Disabled Veterans Credit programs will exceed the appropriations. Deficiency appropriations have been requested in SB 2023. The increases for these programs reflect the amounts needed to fully fund these programs based on current program eligibility requirements.

Chairman Holmberg: I note that the deficiency appropriation bill 2023 is a different number for the Homestead Tax Credit. There's about \$8000 differential. Is there a reason for that? You say you need \$1,341,000 and SB 2023 has \$1,349,000.

Cory Fong deferred to **Marcie Dickerson**. They asked **Joe Morrisette- OMB** and they will check into it.

Cory Fong – continuing with his testimony stating that the E-filings system is expanding and 20% of the business taxes came in through eFile. Individual income tax filings increased electronically by 10% and now almost 75% of North Dakotans are filing electronically. The administration of the Oil and Gas Agreement with the Three Affiliated Tribes was very successful and they helped them integrate into the new agreement. During the biennium, they will see approx. \$30 million in oil and gas revenue and potentially \$70 million in the next biennium (2011-13) as a result of the agreement. The department also finalized the 4th motor fuels agreement with the Turtle Mountain Band of Chippewa during the biennium bringing the total number of agreements the department has with the tribes to four. In total, since starting the motor fuels agreement with the tribes, they have received \$9 million dollars in motor fuels tax revenue.

The Department is asking, in addition to the governor's budget, two additional compliance officers. He presented the budget and responsibilities of the 2 extra FTEs. It was requested when they made their recommendation to the governor, but this particular package was not included. With all the activity, compliance efforts should be stepped up.

Senator Warner: There is a tremendous amount of movement in and out of the state, especially within the oil industry, where people might be working 4-10 hour days and then be heading back to Houston, or they might be driving a semi back and forth between Wyoming and ND. Could you address the issue of collecting taxes and determining where the nexus of the activity is? Who gets the income tax when semi is filled on the SD border and pipe purchased in another state & used here?

Cory Fong: This is part of what we're getting at and the challenges that we have in determining those kinds of filing requirements. If they have income that sorts to ND, they would have a ND filing requirement. It requires sending information to those folks and letting them know they have a filing requirement in the state. It's not just in the income tax arena, it's also in sales tax. It's out of state companies coming across the border, for example, and doing work and projects for ND companies where we're also potentially losing revenue. These officers would be partly assigned to help determine those kind of instances where we're losing out on that kind of revenue. Asked Miles Vosberg to address.

Miles Vosberg, Director of Tax Administration There is a tremendous amount of activity in the state related to the oil & gas industry and if the potash bill passes, there would be a lot of contractors here. They may be collecting tax and not reporting or they may not be collecting tax at all. He received a call from an individual in the Bismarck/Mandan area who said he knows of an individual who's operating a repair business because he used to be a former employee. The person stated that he knew he wasn't registered and doesn't have a sign out, but has to compete with him. How do you compete with someone who doesn't do unemployment, withholding and worker's comp. nor collect sales tax on the parts that that they sell? Not only does he lose work, the state also loses money too because they are not complying with the law.

They usually have problems with the smaller companies. When they do find the companies, they usually ask what took so long for you to tell us about our obligation. Now we have taxes back from a couple years and there's a large amount of interest and a

potential for penalty. If we can locate these companies faster and get them on track, it helps them avoid penalties and large interest fees that is associated.

Chairman Holmberg: The Committee may want to hear from OMB and asked Joe Morrisette to explain the changes that the agency wants to make in the executive budget.

Joe Morrisette, OMB - It wasn't the lack of support for the compliance initiative of the departments. It was more of an overriding goal to limit the number of new FTEs in this budget and that's why it didn't get in governor's budget.

Senator Wardner: How many compliance officers are in field now?

Miles Vosberg: We don't really have compliance officers in the field right now. They are mostly auditors.

Senator Kilzer: What's the latest on collecting internet sales tax?

Cory Fong: We continue to be active. Miles Vosberg and Senator Cook are very involved. There are about 30 states are internet streamlined. We can get the number to you as of how much revenue has been collected. The real issue is with no federal requirement, these online companies don't have to file taxes. We need a federal solution with this. In the meantime, ND continues to be an active member of Streamline. A federal requirement that would have online retailers be required to collect and remit is the way to go about it because all states are losing out on significant sales tax revenue as a result of online sales.

Senator Robinson: In the event that the legislature doesn't approve the request of two compliance officers, what would you as commissioner do to respond with any stop-gap measures or possibility of reassignment of auditors to compliance officers. Have you given that any thought? If it's not funded, it would call for some response from your department. Your request is here and April comes with a lot of increasing activity, is there anything in short term, 18-24 months that could be done to make the situation abit better than it is today?

Cory Fong: We will have to continue to work on the Discovery function of the department where we are using the tools that GenTax has served up to us to do these cross-comparisons across the tax types. As we have retirements and vacancies, we will be evaluating those to see if they could be re-assigned to these kind of functions because there's real revenue tied to this. It's also a tax fairness issue. Folks are complying, registering and remitting and yet someone down the road is not doing that.

If you look to the bottom of 1st page, the tax dept. has been very dedicated to reducing FTEs over the years and we've seen a 70% increase in productivity. But at some point, it gets kind of thin and we could use some additional resources.

Senator Wardner: Were these two positions supposed to be in the field or up in offices?

Cory Fong: That is something that we're still making decisions about. There are some benefits to having them out in the field. We have to consider the cost associated with office space. We have an auditor in Williston, but we'd have to find a new place and real estate in Williston is almost impossible to find. We may keep them in Bismarck, but they would have to travel a lot. We haven't made that decision yet.

Senator Warner: Do you have special problems dealing with liquid form of wealth. Do you have different rates of taxation? Do you have tools that you need to sort out what goes where and what is assessed? Such as pipelines which cross jurisdictions and some of it enters boxcars which leave the state, but others go to refineries or processing plants within the state. Do you feel comfortable that you have all the tools you need to determine the nexus on transactions on such a liquid commodity?

Cory Fong: I think we do. I think we work very closely with Industrial Commission about those kinds of certifications. Where we could use assistance is in compliance area, but oil and gas is a section of our office and is a fairly small group. That's just oil and gas tax, not the sales tax, income tax, and all the revenue associated with oil. It's all the compliance that goes along with the new business activity that's surrounding the oil and gas industry.

Cory Fong thanked the committee and made himself readily available to any questions.

Senator Bowman closed the hearing on SB 2006.

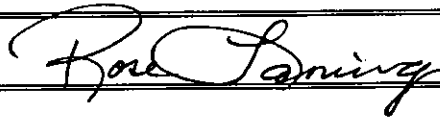
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2006
February 17, 2011
Job # 14705 (Meter starting at 42:50)

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A committee vote on the appropriation for expenses of the office of the State Tax Commissioner

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg

Senator Wanzek handed out amendment 11.8141.01001 and said the amendment is an authorization to expend up to \$50,000 of roll over money or turn back from the previous biennium for the purpose of updating the software used by NDSU and developing the assessment process in appraising farmland.

Senator Wanzek moved Do Pass on amendment 11.8141.01001

Senator Erbele seconded.

A Roll Call vote was taken. Yea: 13 Nay: 0 Absent: 0

Senator Christmann asked about the \$100,000 in technology and travel and he's guessing that the postage increase was done when the Governor's Executive Budget was prepared and the federal government was scheduled for a postage increase in January.

Senator Wanzek said that the post office didn't raise their costs, but only on the 1st ounce of first class. The second ounce, third ounce, fourth ounce – it did raise. Other classes of mail raised slightly. The State Tax Commissioner's office engages in the top program – the Treasury Offset Program. That allows the state to collect from IRS refunds when who owes the state money and files their return and is going to get a refund, the state has the ability to notify the IRS that they are owed money and they can collect or attach their name to that. When they do that, they have to send a certified letter to the individual taxpayer. This is something they've only done in the past few years. Also, with integrated system, the explanation given to me has resulted in more work in identifying folks who aren't paying tax. If someone files their sales tax form and they see the amount of sales tax but they don't see an income tax, it results in a mailing to that individual. Other classes of mail and 1st class beyond the first ounce has seen increases.

Travel – there's \$20,000 of the \$97,000 that is for travel increases. There are 17 field auditors. There's instate and out of state travel – CPAs and attorneys that have to attend continuing education courses. Mileage rates have gone up, meal rates have gone up, lodging has gone up – I'm just telling the explanation that was given to me.

The other \$67,000 cost was based on ITD. Whatever we raise their cost, they get billed for the increased cost and that's what they are projecting them to be.

Senator Wanzek moved Do Pass as Amended on 2006
Senator Erbele seconded.

A Roll Call vote was taken. Yea: 13 Nay: 0 Absent: 0
Senator Wanzek will carry the bill.

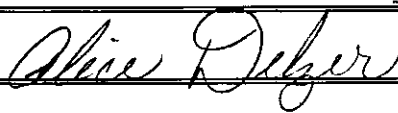
2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

SB 2006
04-06-2011
Job # 16380 (Meter 00 – 5.11)

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Discussion in full Committee RE: SB 2006, Tax Department. (DO CONCUR) (Several Senate Bills were discussed briefly on this Job: 2006, 2019, 2022, 2275)

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg called the committee to order on Wed, April 6. Roll call was taken. All committee members were present. Tad H. Torgerson, OMB and Brady Larson, Legislative Council. were also present.

Chairman Holmberg: discussed what the House did to SB 2006, the Tax Commissioner's budget. They added a study on income tax, Legislative Management shall consider studying the state income tax credit and then they reclassified a position up in the office for a net change of \$2,611.00 and they added contingency funding and an FTE position if the Tax Department can, based on additional tax revenues collected, a section is added providing the criteria for assessing the contingent funding including receiving approval from the emergency commission. So they are saying that they can take \$111,000 to hire one full time equivalent position upon emergency commission approval for the purpose of performing additional compliance projects. The emergency commission may approve the use of these funds and the additional full-time equivalent position only if the Tax Department certifies that compliance projects conducted by the new compliance officer have resulted in the collection that at least \$500,000 during the 9 month period beginning on the date the new compliance officer position is filled. Senator Wanzek, you carried the bill, is this ok in your mind?

Senator Wanzek: What I understand that is that they are saying if this new compliance officer, or if they can show that the compliance officer is collecting \$500,000 in relation to the \$100 and some thousand dollar appropriation, in other words they are making money for us, then there would be a contingent appropriation to fund another one, is it 1 ½, he was told it's 1 FTE. If they are going to make money and they will be able to pay for themselves plus put money into the Tax Department as a revenue generator I guess I don't have a real problem with it. I don't know how the rest of the committee feels.

Chairman Holmberg: I am going to mark it DO CONCUR. Discussion closed on SB 2006.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

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

Page 1, line 4, after "salary" insert "; and to provide an exemption"

Page 2, after line 27, insert:

"SECTION 5. EXEMPTION - GRANT TO NORTH DAKOTA STATE UNIVERSITY. Up to \$50,000 of the general fund appropriation to the state tax commissioner in section 1 of chapter 6 of the 2009 Session Laws is not subject to the provisions of section 54-44.1-11 and may be distributed by the state tax commissioner as a grant to North Dakota state university, department of agribusiness and applied economics, for the purpose of converting the software of the core model used for the preparation of agricultural land valuations as required under section 57-02-27.2, during the biennium beginning July 1, 2011, and ending June 30, 2013."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2006 - State Tax Commissioner - Senate Action

This amendment allows the Tax Commissioner to continue up to \$50,000 from the commissioner's 2009-11 general fund appropriation which the commissioner may provide as a grant to North Dakota State University for the purpose of converting the software of the core model used for preparation of agricultural land values as required under Section 57-02-27.2 during the 2011-13 biennium. This provision will result in a \$50,000 reduction to estimated 2009-11 biennium general fund tumbback.

Date: 2-17-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2006

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

11-8141-01001

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☒ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By

Wanzek

Seconded By

Erbele

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	<input checked="" type="checkbox"/>		Senator Warner	<input checked="" type="checkbox"/>	
Senator Bowman	<input checked="" type="checkbox"/>		Senator O'Connell	<input checked="" type="checkbox"/>	
Senator Grindberg	<input checked="" type="checkbox"/>		Senator Robinson	<input checked="" type="checkbox"/>	
Senator Christmann	<input checked="" type="checkbox"/>				
Senator Wardner	<input checked="" type="checkbox"/>				
Senator Kilzer	<input checked="" type="checkbox"/>				
Senator Fischer	<input checked="" type="checkbox"/>				
Senator Krebsbach	<input checked="" type="checkbox"/>				
Senator Erbele	<input checked="" type="checkbox"/>				
Senator Wanzek	<input checked="" type="checkbox"/>				

Total (Yes) 13 No 0

Absent 0

Floor Assignment _____

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

Date: 2-17-11
Roll Call Vote # 2

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2006

Senate Approp. Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☒ Do Pass ☐ Do Not Pass ☒ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Wanzek Seconded By Erbele

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Wanzek

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

REPORT OF STANDING COMMITTEE

SB 2006: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2006 was placed on the Sixth order on the calendar.

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Renumber accordingly

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2011 HOUSE APPROPRIATIONS

SB 2006

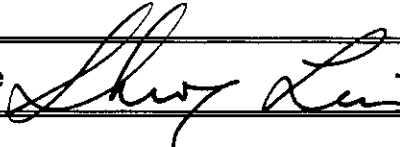
2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division
Medora Room, State Capitol

SB2006
March 9, 2011
Recorder Job# 15207

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the state tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veterans credit; to provide for a transfer; to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the tax commissioner's salary; and to provide an exemption.

Minutes:

Chairman Thoreson: Opened the hearing on HB2006.

Corey Fong, Tax Commissioner, Office of North Dakota State Tax Commissioner:
See attached testimony 2006.3.9.11A.

Chairman Thoreson: What version of GenTax are you running now; is it 7 or 6?

Corey Fong: We are running version 6. So the upgrade would go to version 8.

Chairman Thoreson: That's the most current version?

Corey Fong: That's correct. The most current version of GenTax is 8.

Chairman Thoreson: Is 6 still being serviced by the company that provides the service?

Corey Fong: Currently they are servicing version 6. There's a significant difference between version 7 and 8. We believe it's very important to get us up to that version 8.

Chairman Thoreson: What is that GenTax does? What is it that you use the functionality out of it that helps you do your job?

Corey Fong: GenTax is a software that we've integrated. Fast Enterprises was the company that provided the software and did the integration. In 2005 you approved \$14 million appropriation in the form of a loan; that we were able to access in order to put in place that system. We did 4 roll outs for our major tax types; that included sales tax, income tax, special tax, and corporate income tax, that happened between 2005 and 2007 when we completed the project. It allows us to get off the mainframe and into a more

nimble framework. In 2009 we came back because we had not done oil and gas taxes; so we asked the legislature last session to give us funding, and that was that \$1.5 million that was in our current operating expenses as a one time funding expenditure. It went live in December of 2010 and it's working very well. That was the most recent project and most all of our taxes are within the GenTax arena.

Chairman Thoreson: Would you have any estimate on what you would think GenTax has been able capture in revenue that you weren't able to get before?

Corey Fong: We do and we'll provide that to the committee. We have seen a revenue lift to our department of about \$15 million.

Representative Klein: Is GenTax also responsible for your efficiency as you show on the front page?

Corey Fong: Partly.

Representative Klein: If you had to give me a rough percentage of what portion that accounts for, GenTax, would you say 50%?

Corey Fong: I wouldn't say 50%; I would have to do some calculating.

Representative Klein: You've been doing a tremendous job. I'm trying to figure out how you got there and what we should probably do to some of the other agencies to get them there.

Corey Fong: Process improvements, which started long before GenTax was in place, reductions in FTE's, doing more computerization within the department; all of that is contributing towards this decline. GenTax has given us more tools, capabilities, more data that we can use to do a better job of collecting the existing revenue that's out there.

Representative Klein: Does that also give you the ability to collect taxes that may have been missed in the past with this system?

Corey Fong: Yes. One of the things that we're going to try to convince the committee is the fact that not only is it giving us more tools; but, those tools then serve up data that would be helpful to have more compliance officers to be able to chase some of that revenue.

Representative Klein: I came across a bill that we just passed to collect taxes from these employees that are temporary in the state. Are you aware of it and are you on top of that?

Corey Fong: We are always working towards compliance; that is something that we're working on currently. To say that we're on top of it implies that we're at 100%; I would say probably not.

Representative Klein: I just happened to come across the bill that was sponsored by the chairman of finance and tax in both the house and senate; and it addresses some of these

temporary employees that come into the state and no withholding is done. I don't know if you're aware of it or not.

Corey Fong: You're talking about the mobile workforce bill. That was just heard in the house finance and tax committee and was on the floor today. It's getting at that issue where you have a lot of mobile employees coming in and out of the state. That legislation will set a bright line test as far as how much time they need to spend in the state before they will be subject to withholding and income taxes.

Testimony continued.

Chairman Thoreson: If this is appropriated, how soon would you expect the version 8 to be up and running?

Corey Fong: I think relatively soon. I spoke with representatives of Fast Enterprises today; they would have to install it and that would take some time. I would assume it would be the middle of this next biennium.

Chairman Thoreson: Before the next tax season you'd have it.

Corey Fong: About a year.

Chairman Thoreson: What type of additional training for your staff will be required to go from one version to the next? Is it pretty much functional that if you know version 6, you can use 8?

Corey Fong: Yes. There will need to be some changes that we'll have to get used to.

Chairman Thoreson: It's the same product it's just a newer version of the additional functionality.

Corey Fong: Yes.

Testimony continued

Representative Dahl: I'm looking at the green sheet. There's the one time funding for GenTax; that's the \$1.9 million in increased funding and support that comes with it. Looking a little further down, item 6 talks about inflationary increases for travel and information technology charges. Can you help distinguish what those additional IT charges are for?

Glenda Anderson: Specifically those rate increases are the ITD rate increases that we have to build in whatever they charge for the services that we do. \$20,000.00 of that is for travel; and that's dealing with out of state lodging, meals, etc.

Testimony continued

Chairman Thoreson: What about replacement of the rest of your IT equipment; your laptops, other pc's, etc. Where you with that right now?

Corey Fong: We have a rotation cycle that we have established for many years and I believe that is also included in our operating expenses. So that's not in addition, that is already worked into our operating line.

Chairman Thoreson: How often do you replace your computers; is it 3 years, 4 years?

Jay Snustad, Operations Director, North Dakota Department of the Tax Commissioner: We have a cycle of 4 years for desk tops and 3 years for lap tops. And it just happened that everything is happening now in this biennium.

Chairman Thoreson: So you're working on that right now.

Jay Snustad: Right.

Representative Klein: So right now that you're off the mainframe, you have all your information on the desktops and laptops?

Jay Snustad: We have the desktops and the desktops talk to the GenTax system. The GenTax has all their data stored at ITD.

Chairman Thoreson: Do you do backup off site for that informational also? Do you have redundant systems for all your records in place?

Jay Snustad: We utilize ITD's backup for their data and then the data moves over to the Mandan data center. At that location it goes from the discs on to tape; then it goes from tape into a vault in downtown Mandan.

Testimony continued.

Chairman Thoreson: How often do they perform those audits; is it a regular basis?

Corey Fong: It's every 3 years; it's called our IRS Safeguard Audit.

Chairman Thoreson: When was the last time you had one of those?

Corey Fong: Last year.

Chairman Thoreson: Did they report back the findings they have on those to you?

Corey Fong: Yes.

Chairman Thoreson: Did you receive those yet from the IRS?

Corey Fong: I believe we have; we're still waiting for the final

Testimony continued.

Chairman Thoreson: So you'll be in front of the full committee tomorrow?

Corey Fong: We'll be in front of the full committee tomorrow to explain those increases.

Representative Brandenburg: Where's the extra usage coming from on this home tax credit? It seems like this number is a little bit more than we anticipated. Are you finding other people coming forward or what happened that this is more than we thought?

Corey Fong: During the last legislative session you did anticipate about \$5 million increase in the program. Increasing the maximum qualifying income level from \$17,500.00 up to \$26,000.00; so that was one of the enhancements that was made. You also increased the maximum true and full value that could be subject to the exemption from \$75,000.00 to \$100,000.00. The asset test from \$50,000.00 to \$75,000.00; intending to bring more people into the program. In other words, they could have up to \$75,000.00 excluding the first \$100,000.00 of unencumbered value of their home and qualify for the program. Those have been the increases that have caused the program to cost more money. The fiscal note on that legislation last session was about \$5 million. What didn't happen is you didn't appropriate those dollars; so it didn't make it into anyone's budget. That's why you're dealing with the deficiency appropriation in SB2023; and that's why we're asking for the additional dollars to fund the program at the level you designated during the last session.

Testimony continued.

Representative Dahl: I wanted to get really quick clarification on the GenTax system if we fund this 8.0 system, how long do you expect that to be the most current system. How many years out?

Corey Fong: I spoke to Fast Enterprises today and they're working on version 9. Version 9 has a good chance of being available soon. Our discussions today led me to believe that version 9 is ready, we may be able to go from version 6 to 9.

Representative Dahl: If you go from version 6 to version 9, would that cost the same amount of money; or would we be looking at an increased cost?

Corey Fong: I believe based on the discussions we've had with Fast Enterprises today that we would be dealing with the same amount of money. We've been working with them for quite sometime for this bundle package of onsite support, maintenance, and upgrade. I believe based on the discussions that we'll be dealing with the same dollar amount.

Representative Dahl: Is it possible that maybe it makes sense to hold off? Do you expect that version 9 could be available during this biennium?

Corey Fong: Yes. Version 8 and 9 there isn't a lot of difference; but, there's a significant difference between version 6 and version 8.

Chairman Thoreson: I understand what Representative Dahl is saying and I would hope that if version 9 is far enough along in the process that if we're talking several months rather than a year or so; that we would look to wait to do that.

Corey Fong: We will certainly be looking into that.

Chairman Thoreson: How many other states are using the GenTax product?

Corey Fong: I would say they are up to 16 states.

Chairman Thoreson: Do you know what versions those states are running are they on 6 or are they on the more current version?

Corey Fong: I don't know. I think most of the new states are all being integrated at version 8.

Chairman Thoreson: Do they do upgrades and enhancements for us that they also share with other states?

Corey Fong: I'm not aware of any enhancements they made for us that they share with other states. But, that would be possible.

Testimony continued.

Representative Klein: Is that the area in Ward county that they asked the county commissioners about land values and not having been updated; farmland and so on?

Corey Fong: I am familiar with the issue; it's not related to this. I think what was going in Ward county is Ag values were going up significantly. Part of that had to do with it's based on the productivity formula which takes into account the cap rate, production, and input costs. Production has been great. There were really good years of production in Ward county and that's what those values were based on. It's not related to this request. This request is they have the model on a very old platform and they'd like to upgrade it. They've gone through the funding requests through North Dakota State University, the SBER and they haven't been able to rise to that priority level.

Representative Klein: As you're probably aware there was quite a bit of discussion when they were trying to set the tax rate in Ward county and some of the rural county commissioners objected to the tax rate of land values; and the fact that it hadn't been updated. In a way it does kind of relate to it.

Corey Fong: I don't think that the platform that is housing the North Dakota State University Ag Evaluation model has anything necessarily to do with that. But it is a very complicated issue that's derived from the productivity formula that is conducted by North Dakota State University. This issue is a purely technology one; they've it on an old technology and they'd like to move it to a new one.

Testimony continued.

Chairman Thoreson: That taxation with the 3 Affiliated Tribes; how does that distribution occur? Do you give it directly to the tribal government or who gets the revenue from that?

Corey Fong: It goes to the tribal government.

Chairman Thoreson: Then they determine use for those dollars?

Corey Fong: That's right; without any strings attached to it or any parameters.

Representative Dahl: What is the status of that agreement? There was some discussion about the tribes perhaps wanting to revise those terms.

Corey Fong: I think there would be some interest on their part in renegotiating. Right now it automatically renews itself; but, I believe the tribe would like to have those discussions.

Testimony continued.

Myles Vosberg, Director of Tax Administration, North Dakota Office of State Tax Commissioner: See attached testimony 2006.3.9.11A.

Chairman Thoreson: Are you saying that you used to have people that did this type of work previously and they were taken out of the department?

Myles Vosberg: At one time we had what we called a field inspector that did a number of things; collections, delinquencies, investigation and follow up, etc., we haven't been doing that for the last 10 years.

Chairman Thoreson: Does that job title still exist within the department?

Myles Vosberg: It does not.

Chairman Thoreson: When it comes to these compliance officers; these would be officer 2 positions. How many different levels are there within that classification?

Myles Vosberg: I believe there are only 2.

Representative Klein: So you don't have anyone going out to the field from this area?

Myles Vosberg: We don't have people totally dedicated to that. We do pull our sales tax auditors that are traveling the state and have them do some follow up and do some checking, observations, etc. We do much less of it.

Representative Kempenich: You have 2 open FTE positions with what you reported in January. Is that project manager something you're talking about reclassifying?

Corey Fong: We currently have as of March 1 have 3 vacancies; one that's being currently advertised in our IT section, a corporation auditor that we plan to fill before spring, and then this position which is in our IT area that we plan to reclassify.

Chairman Thoreson: Would you be able to provide the committee a breakdown of your positions?

Corey Fong: Yes we can.

Representative Dahl: Where do you expect the majority of this under reported revenue? Where do you expect that you would find that?

Myles Vosberg: Some of them would be in the oil fields; but, it's not limited to that. With the economic growth we've had in the state, it's really all over the state.

Testimony continued.

Chairman Thoreson: Do you have any way right now of cross checking, for example, the secretary of state where businesses are registered to see if they're doing the proper filing with the tax department also?

Myles Vosberg: We do. One of the way that is every year when the contractors renew their licenses, they give us the copies of all their applications; which lists the major jobs that they have.

Representative Kempenich: We were talking about it's basically welders, etc coming out of the oil patch. We're trying to get some type of identification.

Myles Vosberg: We find some of these people just by doing their sales tax audits and reviewing their records and vendors. We are checking to see if the vendors are registered.

Testimony continued.

Representative Kempenich: How does Montana do their tax collecting?

Myles Vosberg: Even though a lot of those property taxes are levied at the county level. They still have state individuals that are overseeing and running those programs; so it's still on a state level.

Corey Fong continued with his testimony.

Chairman Thoreson: On the 2 FTE, were these requested during the initial budget preparation for your department?

Corey Fong: We made the request to the governor and it didn't make it into the recommendation. We made the request to the senate and they didn't see fit.

Chairman Thoreson: What was their discussion in the senate?

Corey Fong: There wasn't much of a discussion. We had a very positive discussion but in the end they chose not to go that route.

Chairman Thoreson: We did have a discussion about this prior to this hearing.

Representative Kempenich: When we get these transient types there really isn't anybody out there doing anything. It is an issue, I think. What's an SQL server?

Corey Fong: It's Sequel server and no we did not. We asked for it in the governor's budget; but, it was not funded. We wanted to make sure to advocate for the existing GenTax upgrades, onsite support, maintenance; we also decided that we really wanted to go for the additional 2 FTE's. The remainder that we asked for, we decided to let go.

Representative Kempenich: Can you send us a spend down of what you have left in your budget?

Corey Fong: We would be happy to do that.

Representative Brandenburg: What's the number going into this next biennium for the property tax?

Corey Fong: I'd be glad to bring that back to the committee as far as more information. I believe it's \$341 million in the current biennium; going forward it would be the same for 2013-2015.

Representative Glassheim: We probably settled on how to get property tax relief back. Have you played with any other ways of doing it which might still provide significant relief; but, cost somewhat less?

Corey Fong: That discussion was had a lot during the interim tax committee. We're on record supporting this plan vs. the other plan which was an income tax credit. We have given this a lot of thought and I think we prefer the current program; but, there's an escalator and at what point is that going to be a problem.

Chairman Thoreson: Looking at the green sheet and there was an issue about the revenue deposit requirements with the telecommunications carriers fund. Any follow up on that or anything done in regards to that audit?

Corey Fong: Yes, we did follow up and it was corrected right away.

Chairman Thoreson: Closed the hearing.

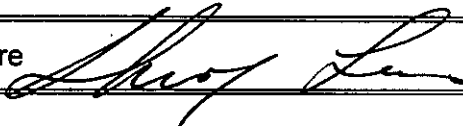
2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division
Medora Room, State Capitol

SB2006
March 18, 2011
Recorder Job# 15670

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the state tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veterans credit; to provide for a transfer; to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the tax commissioner's salary; and to provide an exemption.

Minutes:

Chairman Thoreson: Opened the discussion on SB2006. It was noted that all members were present.

Glenda Anderson, Director Fiscal Management, Office of North Dakota Tax Commissioner: See attached testimony 3.18.11A.

Chairman Thoreson: What accounts for that \$44,000.00 reduction?

Glenda Anderson: That is going to be the difference in what we're requesting for IT equipment. We had mentioned in our hearing that we were not going to be asking for laptops or pc's the next biennium. That's incorrect; there are laptops in it. That will be in the 2nd year of the next biennium. The pc's are all going to be purchased this biennium.

Chairman Thoreson: How many laptops are estimating you'll need to do?

Glenda Anderson: I believe we'll need to do 20.

Representative Kempenich: What's your turnaround time on laptops?

Glenda Anderson: We've been using a schedule that ITD has established as well. The desktops are 4 years and laptops are 3 years.

Chairman Thoreson: When you're replacing the equipment, are you also replacing software or is it just being transferred from the current piece of equipment over to the new laptop? Or will it be bundled in as a package with the purchase of the machine?

Glenda Anderson: We are trying to bundle it in. We are currently on version 7 and we would be going to Windows 10 with the new pc's.

Testimony continued.

Representative Kempenich: Do you lease or buy those?

Glenda Anderson: For the high volume scanners, we have been purchasing them. We do go through the analysis of a lease purchase agreement and we have determined that it is better to purchase those. But we do continue to go through that lease purchase analysis every time we look at it.

Representative Kempenich: I suppose you still need to pay the maintenance even if you lease them don't you?

Glenda Anderson: Yes.

Testimony continued.

Representative Kempenich: The oil and gas that's on the gross production tax report isn't it?

Glenda Anderson: The \$1.5 million for oil and gas project was to move it into GenTax. That was the major tax type that we had not included yet.

Representative Kempenich: Running forward you don't expect that?

Glenda Anderson: Yes.

Testimony continued.

Representative Brandenburg: The question I have is on the homestead tax credit. When we started this we were looking at \$3 million or \$4 million for this and it's almost \$9 million. Is this going to be \$15 or \$20 million pretty soon?

Corey Fong, Tax Commissioner, Office of North Dakota State Tax Commissioner: I think the reason why it's growing is because in the last legislative session you expanded the benefits of the program. You raised the maximum qualifying income, the acid test, the maximum taxable value that could be exempt. The growth in the program has to do with legislative decisions. I don't think it's going to continue to expand unless the legislature goes in and enhances the levels that would reach more tax payers.

Representative Brandenburg: So what's happening is because we made changes last session; it's picked up and expanded.

Representative Klein: Don't you think part of it also is that as this information is getting out the people are talking to each other to build up the program?

Corey Fong: That was one of the accomplishments we tried that was in our testimony for the budget. That we tried some new tools to reach out to those populations and let them know that they might be eligible for the credit. It's a combination of expanding the benefits, the program, bringing more people in; but, also trying to reach those people through new ways. If it's a program that the state is offering, we want them to take advantage of it.

Representative Kempenich: Is there any correlation with human services on homestead tax credit?

Corey Fong: We have not done that analysis and I'm not sure if human services has done that. But certainly, that is one of the arguments for the tax credit; to try and keep seniors and persons on fixed incomes in their homes.

Representative Kempenich: That \$940,000.00 is that tied into that GenTax upgrade?

Corey Fong: That is the bundled service we have negotiated with Fast Enterprises for onsite support piece of the maintenance and the upgrade. All of those pieces together are what we're asking for on this budget which will save us \$160,000.00.

Representative Kempenich: If we have some budget constraints and we don't upgrade for a biennium, is this something that you can do later on?

Corey Fong: We could do that but it's going to cost us more. That's the downside of waiting to go from version 6 to version 10.

Representative Kempenich: I'm sure they're already developing 8 or 9. It is a fairly expense expenditure for the upgrade; is it going to be around \$1 million for each upgrade?

Corey Fong: I have no way of knowing that. We did some research on going from version 6 to 9 and the company is telling us that depending on when version 9 is going to come out, they may hold off on our upgrade until it makes sense to go from 6 to 9. If it doesn't make sense to do that and version 9 still comes out in the upcoming biennium, they'll move us to 8 and then to 9 and it will still cost us what we're asking for.

Representative Kempenich: I heard that the speed of technology change is down to 13 months. The speed of change is increasing and that's the reason why when you talk change about programs that it's going to be on the budget.

Corey Fong: I don't know how quickly they're going to be spinning off version 10. They're working on version 9 and we will probably get there in the upcoming biennium.

Representative Klein: As the legislature is looking at changing the tax structure on the oil, how does that affect your operation? Do you have to upgrade at that time?

Corey Fong: The new system allows us to be very nimble so that when the legislature makes changes; whether it's individual income tax or gross production tax, etc, we can make those changes. It doesn't require a whole lot of difficult programming.

Representative Klein: So basically your people can make this adjustment without going through either contractor or ITD?

Corey Fong: We have this onsite support piece which means we're going to have assistance from the vendor. It's a combination of vendor support plus our staff making those changes.

Chairman Thoreson: Just looking at the vacant FTE positions and wondering if you have anything available at this time?

Representative Kempenich: What was the increase in the motor fuels federal grant?

Glenda Anderson: The motor fuels federal grant was a grant dealing in the motor fuels area on the tax evasion part of it; making sure the truckers were reporting everything correctly and there was a piece in there that the tax department had made available to us to attend some training on it. It depends on whether the federal highway administration is going to continue it or not; we left it in case that they do.

Representative Kempenich: Does that wind up in your office? You keep track of fuel use from different states and then file a quarterly report or is that DOT that does that?

Glenda Anderson: I'm not positive, I know we're involved in it to some extent. I'm not familiar as far as the report itself.

Corey Fong: See attached testimony 2006.3.18.11B.

Representative Kempenich: Did you promote one of your people within for the technology manager?

Corey Fong: Yes.

Representative Kempenich: If we don't change anything for the next biennium, do you still need to keep those positions?

Corey Fong: Yes. Those program analysts positions that you see under information services are critical to our mission. They work in harmony with the onsite support that we have for our team that also is with our staff.

Representative Kempenich: Is that specific to a manager or project?

Corey Fong: That's the position that has been open since July 1, 2010. It's the project manager for the information services group. That position is now vacant.

(inaudible)

Glenda Anderson: The project manager position was reporting directly to the operations division director. That position was a kind of coordinator for all the major changes.

Representative Kempenich: It sounds like it might be a little complicated to hire somebody and for them to know what you just explained. What kind of reclassification were thinking of doing?

Glenda Anderson: The position that had been there had been an employee that worked in our sales tax group and then went through the entire GenTax project as one of the subject matter experts.

Corey Fong: This position was a position that we decided that given the GenTax project scope and that person's role as a subject matter expert, we moved them from sales tax into operations to be quality control. We are holding that in hope of getting the onsite support funded and then we'll use that for our discovery area.

Representative Kroeber: So basically you don't need our support in making those movements internally. You can do that just through HR, correct?

Corey Fong: That's correct.

Testimony continued.

Chairman Thoreson: Are you expecting or anticipating any retirements coming up in the next couple of years?

Corey Fong: I do anticipate some retirements; they're hard to say at this point where they will be. We always have retirements that we don't anticipate. I suspect that we will have some key retirements.

Representative Kempenich: Going back to that corporate auditor. Is that an auditor 1 or 2 that you'd start out on at that?

Corey Fong: We've had some pretty good finds. Some of them have come from the private sector, accounting firms, right out of college, etc. We would be bringing them at an auditor 2.

Representative Kempenich: What's the pay range?

Corey Fong: \$3,100.00 would be the start off for an auditor 1.

Representative Kempenich: I think we have 7 auditor openings across state government. That's something we have to work on also as auditor positions are very competitive area even in state government.

Corey Fong: It is difficult and we're competing with other agencies and private sector.

Representative Kroeber: On your compliance people that you were looking for?

(recording glitch)

Corey Fong: In the interim because this was an area we wanted to pursue last legislative session was expanding out discovery function. We decided instead to develop it internally with existing staff. We've been monitoring this very closely; so the figures we presented to you, the 4.5 existing FTE's that we've been using for discovery function and compliance functions that have resulted in that \$5.9 million we believe that's a fairly accurate estimate of what they have been able to collect and bring in as a result of their discovery efforts.

Chairman Thoreson: We've made a request for anything you have on your spend down.

Corey Fong: Referenced testimony 2006.3.18.11A.

Chairman Thoreson: Is there any questions from the committee?

Representative Dahl: From these numbers here what do you project that you might turn back at the end of the biennium?

Corey Fong: Referenced testimony 2006.3.9.11A.

Representative Klein: I believe that you've learned from your previous boss and we can expect a turnback of significant money on your budget.

Corey Fong: I know that Al has been pretty good at that and the previous tax commissioner was pretty good also. We think we've been pretty efficient and done a pretty good job of managing.

Glenda Anderson: See attached testimony 2006.3.18.11A.

Chairman Thoreson: The one I'm looking at is line #24 the IT contractual services. It shows about \$513,000.00 variance there.

Glenda Anderson: The largest portion of that line is the onsite support. We're paying a monthly amount; it's a month delay type thing. What we show here is January paid and it's actually through December; so, I have 6 months left to pay of that and that \$512,000.00 will just cover that.

Chairman Thoreson: So at the end of 6 months that will be pretty much wiped out.

Glenda Anderson: Yes.

Testimony continued.

Representative Kempenich: When you send people out is that mostly your auditors? What does the bulk of your travel line consist of?

Corey Fong: The bulk of our expenses would be in our corporate auditors and sales tax auditors who actually go out into the field and audit.

Representative Kempenich: Do they use state fleet for the vehicles in state?

Corey Fong: In state.

Representative Dahl: Basically we can expect about \$400,000.00 in the salary line; but probably nothing in the operating expenses. On the salary line you indicated it's a little higher because you had some vacant FTE's. Is that correct?

Corey Fong: Our variance is due to those vacancies. We don't roll those dollars up.

Representative Dahl: I know there's some departments or agencies that will use that money to roll up into benefits or other people's salaries.

Recording glitch.

Representative Kempenich: I think I would like to put on a study of where we're at with our tax credits.

Chairman Thoreson: I think that's something maybe we should look at.

Representative Kroeber: For quite some time throughout the years we did a lot of tax credit; but, we put them all on a long form.

Corey Fong: That's certainly something that's going on. We have all these credits, getting more credits, expanded credits and whether or not looking at reducing some of those credits. We thought it would be a worthwhile endeavor how you do that.

Representative Brandenburg: It would be nice if we could sort out which tax credits are working, which are generating more revenue, etc.

Chairman Thoreson: I did have a copy of the minutes from our previous meeting and Representative Brandenburg had asked a question about the property tax and you had said it's \$341 million and that you would be glad to bring back information to the committee.

Corey Fong: You're correct. That discussion was had and we can bring more.

Chairman Thoreson: Closed the hearing.

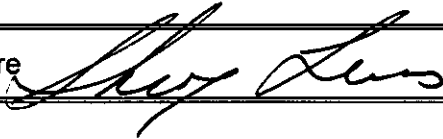
2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division
Medora Room, State Capitol

SB2006
March 25, 2011
Recorder Job# 16006

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the office of the state tax commissioner and for payment of state reimbursement under the homestead tax credit and disabled veterans credit; to provide for a transfer; to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the tax commissioner's salary; and to provide an exemption.

Minutes:

Representative Klein: Made a motion to pass the amendment

Representative Kempenich: Seconded the motion

Representative Klein: Explained attached amendment 2006.3.25.11A.

Chairman Thoreson: The \$500,000.00 is what they'd have to bring in during a 9 month period. Do you think there's a way of quantifying that so we can make sure that that's where those monies came from; from that one additional position?

Corey Fong, Tax Commissioner, North Dakota Tax Department: We met this morning and we believe there will be methods used internally to measure. If there is an intention for this compliance staff person to be out in the field, that they may serve up work that ends up getting worked back at the office. We would source that revenue and that lift to that person because they are serving it up. We have to have some flexibility as we go forward measuring this that this maybe revenue that might be worked by others; but, it might be generated because of the work of this person.

Chairman Thoreson: It's the trust but verify mode. I trust that you can find a way to do that; but, with this we will need some kind of verification to know that those dollars are being generated by the additional staff person.

Representative Klein: That was a question that I discussed this with other involved people. I've discussed it with the tax commissioner and he assures me he can measure it; so that he can attribute it to this individual.

Corey Fong: During the testimony we talked about the 4.5 employees working in compliance efforts now in our department bringing \$5.9 million. Based on the work that we did in looking at those numbers we believe that 2 additional compliance staff; which we are asking for, would bring in \$2.6 million. There are 2 questions I have about the amendment, if I may ask those?

Chairman Thoreson: Yes, you can go ahead.

Corey Fong: If we are able to secure the funding for the FTE from the emergency commission that that position becomes a part of our FTE's beyond the biennium.

Representative Klein: In my discussions I asked that the amendment be drawn up and that it would be an additional permanent position. Is that how that's interpreted?

Becky Keller, North Dakota Legislative Council: Because we don't put any language in restricting the length of this position, I believe it becomes a full time and included in there.

Representative Kempenich: What will show up next session will be an addition to the budget.

Becky Keller: We had included the dollar amounts in the budget now. We've added them to their appropriation and we've also added the FTE. Because this is from the general fund and we do have the FTE line; so we're including it all above.

Representative Klein: Part of my logic is he's got to get the person on board and get him trained. That's why I lengthened that period a little bit to give him some time to learn how to do the job.

Representative Glassheim: With 9 months of full-time work is that reasonable.

Corey Fong: We grappled with this question and I think that Representative Klein is accurate. You need to give some time for this person to get the training. This person is going to be working across tax types.

Chairman Thoreson: I'm comfortable with this number. There was some discussion that it should be \$1 million or \$2 million; but, in the time period that would be not be realistic.

Representative Klein: We have changed the original amendment after discussing with various people and we've changed the number and the length of time. It's a compromise; some people wanted the number high, some wanted the time shorter.

Representative Dahl: With this amendment do you think that this adequately insures that this person will be finding new money that wouldn't have been collected anyway? Can you give us some assurances on that?

Corey Fong: As we brought forth in our testimony and in our working session that we had last Friday, yes, I think our goal here and what we're finding with the tools, new activity out west. This person is going to be going after new dollars and those dollars are going to

come in a variety of ways. There's reference to audits. We think these are more projects. This person is going to be a compliance officer not an auditor.

Chairman Thoreson: What is your definition of a project?

Corey Fong: Since they're going to be working across different tax types we're going to be seeing some trends and I would say that's a project. Some of the cross checking efforts that we're doing right now where we have someone saying they have property payroll and making sales in the state and they don't have a sales tax permit or registration; that would be a project. That's why I think project is more accurate than audits.

Representative Klein: Those are the only changes then?

Corey Fong: Yes, that's correct. The intent and the language is crafted so that this becomes a permanent FTE going forward.

Representative Klein: We can make those corrections on the final amendment.

Representative Glassheim: The last lines that the time period beginning on the date the position is filled. If you mean that it's going to take 2 or 3 months to train, then 9 months will only give you 6 months of active activity. Wouldn't you really mean beginning during a 12 month period?

Representative Klein: I originally had it that way and received a lot of feedback saying that's too long. So, this is a compromise that I finally worked out.

Representative Glassheim: Made a motion to further amend the amendment changing 9 months to 12 months.

Representative Dahl: I think the commissioner said that the results; the \$500,000.00 may not be the entire work product of that one individual and they may go out and refer some of those issues to different people in the tax department to help find that money.

Representative Glassheim: My only point would be that they're not going to know what to go and look for until they're trained and if we agree it's about 2 or 3 months to train, I don't think they're going to be out in the field during the first 3 months. Is there some probationary period of 3 months or something?

Corey Fong: No.

Representative Klein: We basically discussed that and we felt that in 6 weeks to 2 months the person should be able to do some work. I originally had it at 12 months and was told to change it.

Representative Kroeber: Seconded the motion.

Representative Glassheim: I wonder if it wouldn't be better to say the 9 month period beginning on the date the new compliance auditor is trained?

Corey Fong: We would prefer 12 months but we also understand that there are other dynamics here. We're just happy that we're moving in this direction.

A voice vote was called to further amend the amendment and failed.

A voice vote was called on the original amendment and passed.

Representative Kempenich: I have an amendment that I would like to propose and it's about the tax credits and the effectiveness of tax credits; those that are working and those that are not working. Session after session we have tax credits and we never seem to take any off and I think we should look into what our policy is on tax credits.

Chairman Thoreson: Did you wish to go ahead and move that amendment?

Representative Kempenich: Made a motion to move the amendment.

Chairman Thoreson: This would be for the tax department to study this, not a legislative interim committee?

Representative Kempenich: No, I wanted as a legislative committee.

Chairman Thoreson: This would be a motion to place a study in this budget; but, it would be a legislative management study in conjunction with the tax department to study the various and many tax credits that we offer in the state of ND? And to study their effectiveness and their usage?

Representative Kempenich: Yes.

Representative Klein: Seconded the motion.

Representative Glassheim: Is this a shall consider or a must?

Representative Kempenich: A must.

Corey Fong: I just want to let you know that we do have some language that we've worked up; that we can share with all of you. We've considered including this as part of our agency request.

Chairman Thoreson: How quickly can you get that language?

Corey Fong: Relatively soon.

Chairman Thoreson: Is the language similar to what we just discussed here?

Corey Fong: Yes and it could adapted to take into account what Representative Kempenich's is looking at.

A voice vote was made on the proposed amendment and the motion carried.

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

Representative Kempenich: Seconded the motion.

A roll call vote was taken and passed for a "Do Pass as Amended." 7 Yea's 0 Nay's 0 Absent.

Chairman Thoreson: Closed the discussion.

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Committee Roughrider Room, State Capitol

SB 2006
3/29/11
16099, 16103

☐ Conference Committee

Committee Clerk Signature

Meredith Trachoff

Explanation or reason for introduction of bill/resolution:

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

Minutes:

You may make reference to "attached testimony."

Chairman Delzer: We'll continue to the tax commissioner.

Representative Klein: I propose amendment .02004. I would like to refer you to some information that was provided, see attachment 1. The amendment converts one of his existing vacant positions to a tax collector and provides that if, within a certain time period, this additional tax collection would be over \$500,000, the emergency commission would then grant him another full time tax collector position. What has happened since the new computerized system, he has been able to cross-reference various taxes and check on a number of contractors, who do a lot of work but we are convinced we're not getting a lot of the tax that should be collected. With that, I would move the amendment.

Representative Thoreson: Second.

Chairman Delzer: What you're talking about is adding one FTE plus allowing a second if they meet the conditions?

Representative Klein: We're converting a vacant position he has. This first position already exists, we're just converting it to a tax collector position.

Chairman Delzer: What is it now?

Representative Thoreson: I believe it was the open program analyst position.

Representative Kroeber: I have it down as a project manager I position before.

Representative Klein: That is correct, thank you.

Chairman Delzer: Is that the same level classification?

Representative Klein: Actually, this project manager, salary-wise, was a higher position.

Chairman Delzer: Are you removing any salary because of this?

Vice Chairman Kempenich: It wasn't the project manager position, it was the analyst, and it was about the same level. They weren't adding or taking away any money.

Roxanne Woeste, Legislative Council: I can have an analyst check on that.

Chairman Delzer: The rest of the amendment is strictly for that one person?

Representative Klein: There is also a legislative study on income tax credits. We've got so many credits on the books, many of which are not being used; we'd like to have them reviewed and find out which we can drop.

Chairman Delzer: Comments on the motion to amend with .02004? I see you've got a -\$26,000 on the salaries and wages here. Further discussion? Voice vote carries.

Representative Klein: I move Do Pass as Amended.

Representative Thoreson: Second.

Chairman Delzer: I see it is a significant increase in operating. What is driving that?

Representative Klein: A lot of that is additional transportation costs. They do a lot of field work, and they said that was a major portion of it.

Vice Chairman Kempenich: There was \$1 million for Gen Tax maintenance and upgrades.

Representative Klein: Went through the green sheet.

Chairman Delzer: Did the section have any discussion about computer replacements? What kind of dollar figure are we using this year?

Representative Klein: They are replacing their laptops every three years, towers every four.

Representative Thoreson: As far as a per unit cost, I don't know that they've given us a specific dollar amount. Some agencies use different types of laptops for office versus field work, so there may not be a specific number.

Chairman Delzer: I know in the past there always has been, and we've found some room there in the past.

Representative Klein: Continued on the green sheet. There's an exemption where they provided some money from the tax commissioner's area into a study for the software conversion for the ag land values to NDSU.

Chairman Delzer: That's the \$50,000? Have we done that in the past?

Representative Klein: No we have not, but there's a lot of discussion on land values and it has not been updated for many years.

Chairman Delzer: I thought with the land values formula, the university had to do this all the time.

Representative Klein: The way I understand it, they were way behind so they needed to upgrade or update that system.

Chairman Delzer: So what's the \$50,000 going to be used for, just updating, or manpower?

Representative Klein: Updating the whole study.

Representative Skarphol: On that item, if it refers to a 2009-11 appropriation, is it a carry forward to cover the cost? How much more carryover do they have? I'm looking at the Senate amendment, .01001, section 5. Is there more that should be turnback?

Representative Klein: As I understand it, just the \$50,000, and everything else was turnback.

Chairman Delzer: I myself do not like that issue. I don't know that I plan to do anything about it, but I don't like carrying forward that \$50,000. We have a Do Pass as Amended motion. We'll call the roll. Motion carries 16-4-1 and Representative Klein will carry the bill.

Second recording 16103

Chairman Delzer: Has the Senate taken action yet on Representative Kasper's homestead tax credit bill? Was there any discussion of that bill in committee when you dealt with this budget?

Representative Brandenburg: We did have discussion about the homestead tax credit. When we first implemented the program, it was a \$5 million cost. Last session we increased eligibility, and now the cost is higher. I have concerns about how high the cost will go.

Vice Chairman Kempenich: I think this will be a broader discussion if this passes.

Chairman Delzer: We'll take a five minute recess.

2006.3.28.11A

11.8141.02003
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Representative Klein
March 16, 2011

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 4, after the semicolon insert "to provide a contingent appropriation;"

Page 1, replace lines 16 and 17 with:

"Salaries and wages	\$16,910,525	\$1,887,185	\$18,797,710
Operating expenses	5,345,814	2,052,217	7,398,031"

Page 1, replace line 21 with:

"Total all funds	\$31,278,339	\$7,970,110	\$39,248,449"
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Page 1, replace lines 23 and 24 with:

"Total general fund	\$31,182,339	\$8,056,110	\$39,238,449
Full-time equivalent positions	133.00	1.00	134.00"

Page 3, after line 3, insert:

"SECTION 6. CONTINGENT FUNDING - EMERGENCY COMMISSION

APPROVAL. The funds appropriated in the salaries and wages line item in section 1 of this Act include \$112,883 from the general fund and the funds appropriated in the operating expenses line item in section 1 of this Act include \$29,440 from the general fund which may be used by the tax department to hire one full-time equivalent position also included in section 1 of this Act, upon emergency commission approval, for the purpose of performing additional compliance audits. The emergency commission may approve the use of these funds and the additional full-time equivalent position only if the tax department certifies that compliance audits conducted by the new compliance auditor authorized by the 2011 legislative assembly have resulted in the collection of at least \$500,000, during the nine-month period beginning on the date the new compliance auditor position is filled."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2006 - State Tax Commissioner - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$18,711,656	\$18,711,656	\$86,054	\$18,797,710
Operating expenses	7,339,151	7,339,151	58,880	7,398,031
Capital assets	16,000	16,000		16,000
Homestead tax credit	8,792,788	8,792,788		8,792,788
Disabled veteran credit	4,243,920	4,243,920		4,243,920
Total all funds	\$39,103,515	\$39,103,515	\$144,934	\$39,248,449
Less estimated income	10,000	10,000	0	10,000
General fund	\$39,093,515	\$39,093,515	\$144,934	\$39,238,449
FTE	133.00	133.00	1.00	134.00

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

	Adds Funding to Reclassify FTE Position ¹	Adds Contingent Funding and FTE Position ²	Total House Changes
Salaries and wages	(\$26,829)	\$112,883	\$86,054
Operating expenses	29,440	29,440	58,880
Capital assets			
Homestead tax credit			
Disabled veteran credit			
Total all funds	\$2,611	\$142,323	\$144,934
Less estimated income	0	0	0
General fund	\$2,611	\$142,323	\$144,934
FTE	0.00	1.00	1.00

¹ This amendment authorizes the Tax Department to reclassify 1 vacant FTE project manager position to 1 new compliance officer II position and provides operating expenses for the compliance officer II position.

² A contingent appropriation from the general fund is added for the Tax Department to hire 1 additional FTE compliance officer position based on additional tax revenues collected. A section is added providing the criteria for accessing the contingent funding, including receiving approval from the Emergency Commission.

Date: 3.25.11
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2006

House Appropriations Government Operations Division Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 11.8141.02003

Action Taken Do Pass as amended

Motion Made By Representative Klein Seconded By Representative Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	✓		Representative Glassheim	✓	
Vice Chairman Klein	✓		Representative Kroeber	✓	
Representative Brandenburg	✓				
Representative Dahl	✓				
Representative Kempenich	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Rep Klein

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

March 25, 2011

VK
3/29/11
1062

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 4, after the semicolon insert "to provide for a legislative management study; to provide a contingent appropriation;"

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Page 3, after line 3, insert:

"SECTION 6. LEGISLATIVE MANAGEMENT STUDY - INCOME TAX CREDITS. During the 2011-12 interim, the legislative management shall consider studying the state's income tax credits. The study must involve the state tax commissioner and include an inventory of all of the state's income tax credits, a review of the nature of each credit, an indication of the targeted class of recipients of each credit, an analysis of possible barriers to using the credits, an analysis of possible gaps and overlaps in the state's income tax credits, the relationship of state income tax credits to federal tax policy, and a review of the effectiveness of each credit. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-third legislative assembly.

SECTION 7. CONTINGENT FUNDING - EMERGENCY COMMISSION APPROVAL. The funds appropriated in the salaries and wages line item in section 1 of this Act include \$112,883 from the general fund and the funds appropriated in the operating expenses line item in section 1 of this Act include \$29,440 from the general fund which may be used by the tax department to hire one full-time equivalent position also included in section 1 of this Act, upon emergency commission approval, for the purpose of performing additional compliance projects. The emergency commission may approve the use of these funds and the additional full-time equivalent position only if the tax department certifies that compliance projects conducted by the new compliance officer authorized by the 2011 legislative assembly have resulted in the collection of at least \$500,000, during the nine-month period beginning on the date the new compliance officer position is filled."

Renumber accordingly

2072

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2006 - State Tax Commissioner - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$18,711,656	\$18,711,656	\$86,054	\$18,797,710
Operating expenses	7,339,151	7,339,151	58,880	7,398,031
Capital assets	16,000	16,000		16,000
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Disabled veteran credit	4,243,920	4,243,920		4,243,920
Total all funds	\$39,103,515	\$39,103,515	\$144,934	\$39,248,449
Less estimated income	10,000	10,000	0	10,000
General fund	\$39,093,515	\$39,093,515	\$144,934	\$39,238,449
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Department No. 127 - State Tax Commissioner - Detail of House Changes

	Adds Funding to Reclassify FTE Position ¹	Adds Contingent Funding and FTE Position ²	Total House Changes
Salaries and wages	(\$26,829)	\$112,883	\$86,054
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Capital assets			
Homestead tax credit			
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Total all funds	\$2,611	\$142,323	\$144,934
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¹ This amendment authorizes the Tax Department to reclassify 1 vacant FTE project manager position to 1 new compliance officer II position and provides operating expenses for the compliance officer II position.

² A contingent appropriation from the general fund is added for the Tax Department to hire 1 additional FTE compliance officer position based on additional tax revenues collected. A section is added providing the criteria for accessing the contingent funding, including receiving approval from the Emergency Commission.

This amendment adds a section to provide for a Legislative Management study of income tax credits.

Date: 3/29
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2004

House Appropriations Committee

Legislative Council Amendment Number 0 2004

Action Taken: ☐ Do Pass ☐ Do Not Pass ☐ Amended ☒ Adopt Amendment
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Klein Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Deizer			Representative Nelson		
Vice Chairman Kempenich			Representative Wieland		
Representative Pollert					
Representative Skarphol					
Representative Thoreson			Representative Glassheim		
Representative Bellew			Representative Kaldor		
Representative Brandenburg			Representative Kroeber		
Representative Dahl			Representative Metcalf		
Representative Dosch			Representative Williams		
Representative Hawken					
Representative Klein					
Representative Kreidt					
Representative Martinson					
Representative Monson					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

voice vote carries

Date: 3/29
Roll Call Vote #: 2

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2006

House Appropriations Committee

Legislative Council Amendment Number 02004

Action Taken: ☒ Do Pass ☐ Do Not Pass ☒ Amended ☐ Adopt Amendment
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Klein Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X	Representative Nelson	X	
Vice Chairman Kempenich	X		Representative Wieland		X
Representative Poliert		X			
Representative Skarphol	X				
Representative Thoreson	X		Representative Glassheim	X	
Representative Bellew		X	Representative Kaldor	X	
Representative Brandenburg	X		Representative Kroeber	X	
Representative Dahl	X		Representative Metcalf	X	
Representative Dosch	X		Representative Williams	X	
Representative Hawken	X				
Representative Klein	X				
Representative Kreidt	X				
Representative Martinson	X				
Representative Monson					

Total (Yes) 16 No 4

Absent 1

Floor Assignment Rep. Klein

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

REPORT OF STANDING COMMITTEE

SB 2006, as engrossed: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (16 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2006 was placed on the Sixth order on the calendar.

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Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2006 - State Tax Commissioner - House Action

	Executive Budget	Senate Version	House Changes	House Version
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Capital assets	16,000	16,000		16,000
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Department No. 127 - State Tax Commissioner - Detail of House Changes

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This amendment adds a section to provide for a Legislative Management study of income tax credits.

2011 TESTIMONY

SB 2006



STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER

Cory Fong, Commissioner

BUDGET PRESENTATION

SENATE APPROPRIATIONS COMMITTEE
SENATOR RAY HOLMBERG, CHAIRMAN

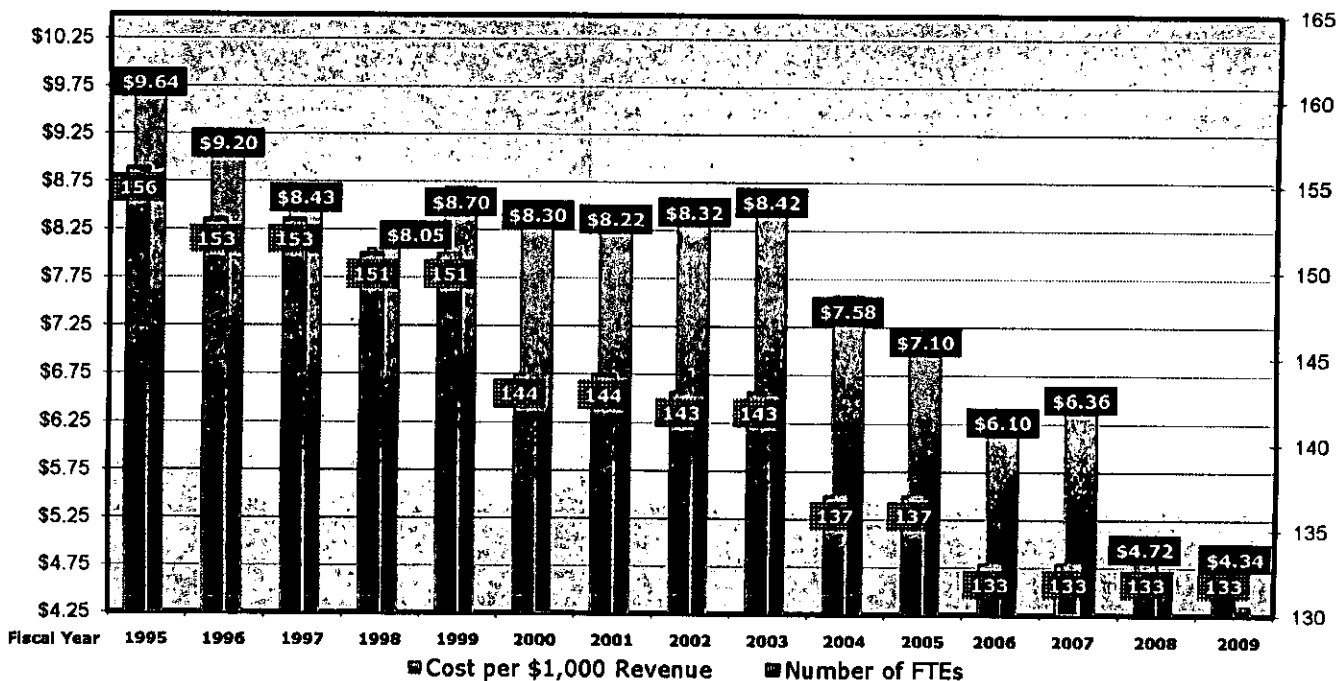
Senate Bill 2006
January 7, 2011

Agency overview

The Office of State Tax Commissioner's mission is to fairly and effectively administer the tax laws of North Dakota. In addition, the Department's vision statement and guiding principles emphasize customer service as a top priority and stress the importance of providing prompt, accurate, and courteous service while promoting compliance with the tax laws of North Dakota.

For the 2009-11 biennium, the Tax Department is anticipated to collect nearly 92 percent of all general fund dollars (excluding transfers). Since 1995, the Department has improved its productivity by nearly 70% because of actions resulting from business process measurement and process improvement. The cost to collect \$1,000 in revenue for FY 2009 was \$4.34 compared to \$9.64 in 1995. This equates to a numeric reduction of \$5.30 when comparing dollar amounts. Adjusting for inflation, the 1995 cost would be \$13.63 today, for a drop of \$9.29 in real terms. This level of productivity will be difficult to maintain without adequate funding to cover the rate increases and usage increases that are necessary to fulfill our mission.

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



Budget overview

Line Item/ \$ Object Description	Appropriation 2009 - 2011	Estimated Expenses 2009 - 2011	Variance	Governor's Recommended 2011 - 2013	Inc/(Decr) Recommended over 09-11 Appn	
Salaries & Wages	17,380,525	16,980,525	400,000	18,711,656	1,331,131	1
Operating Expenses	8,094,388	8,094,388	0	7,329,151	(765,237)	2
Capital Assets	58,000	58,000	0	16,000	(42,000)	3
Homestead Tax Credit (General Fund)	5,964,000	7,305,000	(1,341,000)	8,792,788	2,828,788	4
Disabled Veterans Credit (General Fund)	3,000,000	3,461,000	(461,000)	4,243,920	1,243,920	4
Integrated Tax System	10,230,247	10,230,247	0	0	(10,230,247)	5
Motor Fuels Federal Grant	10,000	10,000	0	10,000	0	
Total	\$44,737,160	\$46,139,160		\$39,103,515	(\$5,633,645)	
#FTE	133			133		
TOTAL GENERAL FUND	44,516,586	45,918,586		39,093,515	(5,423,071)	
TOTAL SPECIAL FUND	210,574	210,574			(210,574)	
TOTAL FEDERAL FUND	10,000	10,000		10,000	0	
TOTAL FOR DEPARTMENT	\$44,737,160	\$46,139,160		\$39,103,515	(\$5,633,645)	
% of Change					-12.6%	

¹ The projected under-run in Salaries is due to savings from vacancies which peaked at 7 during the current biennium. As of 12/31/2010 we have two vacancies and one is being actively recruited.

The increase in the Salary line includes the cost to continue the 2009-11 biennium salary expenses and the proposed salary compensation package recommended by the Governor.

² The majority of the decrease in the Operating Expenses line is due to the removal of one-time appropriations of \$2,734,000 for on-site support and the Oil & Gas integration project and requesting only \$940,000 for on-site support and \$1,000,000 for a one-time GenTax software upgrade for 2011-13 biennium.

³ The decrease in capital assets is the result of requesting only one replacement high volume scanner for the 2011-13 biennium.

⁴ It is anticipated that refunds for Homestead Tax Credit and Disabled Veterans Credit programs will exceed the appropriations. Deficiency appropriations have been requested in Senate Bill 2023.

The increases for these programs reflect the amounts needed to fully fund these programs based on current program eligibility requirements.

⁵ \$10,230,247 was appropriated for the payoff of the integrated tax system loan. Final payment was made in July 2009.

Agency Accomplishments

The Office of State Tax Commissioner's top priority continues to be focused on providing taxpayers with excellent customer service. During the 2009-11 biennium, the Department pursued various customer service-related activities.

- **Oil & Gas Implementation into GenTax.** The Tax Department successfully implemented the conversion of oil and gas tax database and processing system into GenTax. The conversion into GenTax will ensure an efficient and robust tax administration system for oil and gas taxes.
- **Expanded E-File Services.** In January 2010 the Tax Department partnered with the IRS to offer Corporation, Partnership, and S-Corporation filers a web-based e-file system known as Modernized E-File (MeF). By June 2010, nearly 20 percent of those returns were filed using the MeF option. In 2010 the number of e-filed individual income tax returns increased by nearly 10 percent compared to 2009.
- **Discovery Achievements.** GenTax integration has created opportunities for increasing the efficiencies for performing Discovery functions. Additional staff time dedicated to Discovery has resulted in collections of \$5.3 million for income tax and sales tax.
- **Oil & Gas Taxation Agreement with the Three Affiliated Tribes.** The Tax Department administers the oil and gas production and extraction taxes within the Fort Berthold Indian Reservation to ensure those taxes due under State laws and the agreement are properly collected and distributed.
- **Additional Customer Service Initiatives.** New initiatives include:
 - Incorporated social media outreach through Facebook and RSS feeds,
 - Marketed the Homestead Credit and Renters Refund through direct mail,
 - Conducted a variety of seminars, workshops and CPA forums across the state, and
 - Created an online interactive tool to help individual taxpayers identify the best e-file solution for their needs.

Future Critical Issues & Needs

In order to improve the Department's efficiency and effectiveness of achieving our mission and purpose, the Tax Department is requesting that consideration be given to the following future critical issues and needs.

- The growing energy development in North Dakota has resulted in a significant workload increase across the taxes administered by the Department. As the state's energy industry continues to grow, the Department's compliance activities in the oil and gas, sales and use, corporate and individual income, and property taxes areas will require a corresponding increase. This increased activity in the energy industry and related service industries will impact a number of taxpayers and result in a greater need for compliance efforts by the Tax Department.

GenTax offers the Tax Department increased capabilities to identify businesses and individuals that may not have reported all required taxes. Using automated comparisons of return data (such as comparing sales tax returns to income tax returns) the Tax Department is able to identify taxpayers who filed one type of return but not the other. Currently automated comparisons are being used for cross-checking corporation income tax, individual income tax, and sales tax.

The Tax Department is requesting it be provided with the funding to increase staffing to support the increase in compliance and discovery work resulting from the state's growing energy industry.

- To ensure full and on-going compliance with North Dakota's tax laws, the Tax Department is requesting two additional Compliance Officer II positions.

Office of State Tax Commissioner

2 Compliance Officer II Positions Requested *Not Included in the Governor's Recommended Budget*

	General	Special	Total
Salaries			
Gross Wages	158,400		158,400
Fringe Benefits	67,366		67,366
Total Salaries	\$255,766		\$255,766
Operating Expenses			
Travel	48,880		48,880
Office Equipment & Furniture	12,000		12,000
Total Operating Expenses	\$60,880		\$60,880
Total	\$288,646	\$0	\$288,646

It is important that the Tax Department be provided with the funding to increase staffing to support the increase in compliance and discovery work.

The growing energy development in North Dakota has resulted in a significant workload increase across the taxes administered by the Department. As the state's energy industry continues to grow, the Department's compliance activities in the oil and gas, sales and use, corporate and individual income, and property taxes areas will require a corresponding increase. This increased activity in the energy industry and related service industries will impact a number of taxpayers and result in a greater need for compliance efforts by the Tax Department.

Job responsibilities of the 2 Compliance Officers will be:

- Participate in developing compliance projects to identify individuals/businesses that have failed to comply with tax registration requirements, failed to file tax returns, and/or failed to comply with other tax reporting requirements.
- Investigate individuals/businesses identified by new compliance projects as not complying with North Dakota Tax laws.
- Investigate complaints of violations of North Dakota tax laws received from sources outside the Department.
- Contact noncompliant individuals/businesses by phone, correspondence, and/or personal visit to explain tax reporting requirements and to establish procedures and timeline for them to comply.
- Assist in locating suspected tax law violators and/or those with delinquent tax accounts.

information requested



OFFICE OF STATE TAX COMMISSIONER
STATE OF NORTH DAKOTA

Cory Fong
TAX COMMISSIONER

January 12, 2011

The Honorable Ralph Kilzer
State Senator
Senate Appropriations Committee
State Capitol Building
600 E Boulevard Avenue
Bismarck, ND 58505

Re: Sales Tax Collections Generated From the Streamlined Sales Tax Project

Dear Senator Kilzer: *Ralph*

During last week's hearing for the Tax Commissioner's budget, Senate Bill 2006, you inquired about the sales tax collections generated from our participation in the Streamlined Sales Tax project. We now have updated information to present to you that includes collections through December 31, 2010.

North Dakota became a member state of the Streamlined Sales and Use Tax Agreement on October 1, 2005. Under the agreement provisions, member states developed a one-step on-line registration system that allows retailers to register to collect sales tax in all the member states. Our collection statistics represent the tax collected by companies that have registered through the centralized registration system.

Through December 31, 2010, North Dakota has received \$15.9 million in sales tax collected by companies that registered through the centralized registration system. Of this total, \$4.6 million is from volunteer companies that had no obligation to collect state or local sales tax for North Dakota.

If you have additional questions regarding the collections or our participation in the Streamlined Sales Tax project, please contact me.

Sincerely,


Cory Fong
Tax Commissioner



OFFICE OF STATE TAX COMMISSIONER
STATE OF NORTH DAKOTA

Cory Fong
TAX COMMISSIONER

MEMO

DATE: February 16, 2011

TO: Senator Terry Wanzek, Senate Appropriations Committee

FR: Cory Fong, Tax Commissioner

RE: **Revenue Lift/Return on Investment (ROI) of 2 Additional FTEs – \$2.6 million/ROI of 9.19**

During our discussion yesterday I committed to getting back to you with a figure for what the department estimates the revenue lift and ROI might be if the Tax Department was authorized 2 additional FTEs for compliance and discovery work, at a biennial cost of \$288,646. We believe the revenue lift associated with 2 additional FTEs, dedicated full time to compliance and discovery work, would be approximately \$2.6 million for the upcoming 2011-13 Biennium. This translates to a ROI of 9.19 (\$2.6 million/\$288,646).

We arrived at these figures based on collection activities performed by 4.5 existing FTEs for the first 18 months of the current biennium from nexus investigations/new & enhanced discovery work. These collections have totaled \$5.3 million so far.

While I believe these figures provide a solid baseline figure for the revenue lift and ROI that may result from 2 additional FTEs, dedicated full time to compliance and discovery work, I also think it is a very conservative estimate.

If you have additional questions or wish to visit further about these 2 FTEs, please don't hesitate to contact me directly. I can be reached at 328.2771.

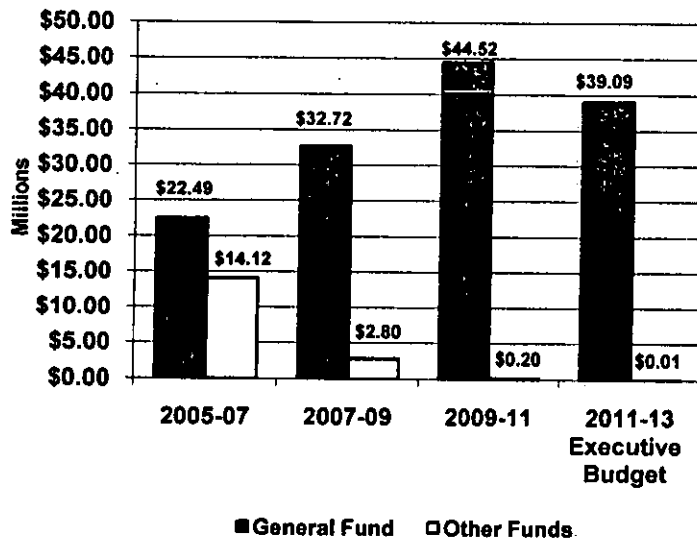
Best wishes.

**Department 127 - Tax Commissioner
Senate Bill No. 2006**

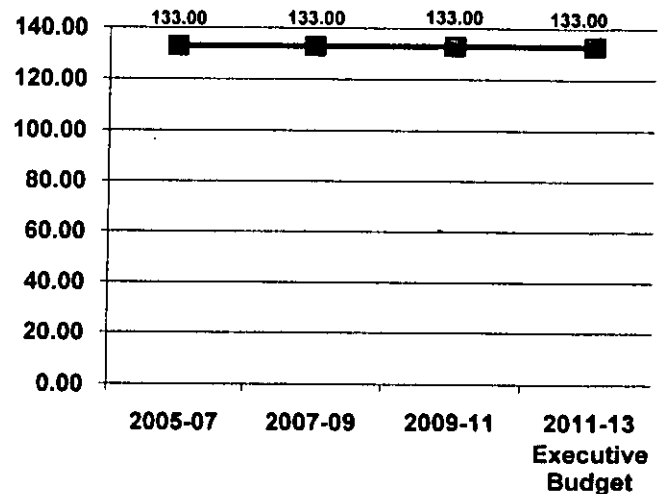
	FTE Positions	General Fund	Other Funds	Total
2011-13 Executive Budget	133.00	\$39,093,515	\$10,000	\$39,103,515
2009-11 Legislative Appropriations	133.00	44,516,586	196,000	44,712,586 ¹
Increase (Decrease)	0.00	(\$5,423,071)	(\$186,000)	(\$5,609,071)

¹The 2009-11 appropriation amounts include \$470,000 from the general fund for the agency's share of the \$16 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for executive branch employees.

Agency Funding



FTE Positions



Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2011-13 Executive Budget	\$38,093,515	\$1,000,000	\$39,093,515
2009-11 Legislative Appropriations	31,652,339	12,864,247	44,516,586
Increase (Decrease)	\$6,441,176	(\$11,864,247)	(\$5,423,071)

First House Action

Attached is a summary of first house changes.

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

	General Fund	Other Funds	Total
1. Increases funding for the homestead tax credit to provide a total of \$8,792,788 for the 2011-13 biennium	\$2,828,788		\$2,828,788
2. Increases funding for the disabled veteran property tax credit to provide a total of \$4,243,920	\$1,243,920		\$1,243,920
3. Adds one-time funding to upgrade GenTax to version 8.0	\$1,000,000		\$1,000,000
4. Adds funding for continued onsite support for GenTax	\$940,000		\$940,000
5. Adds funding for increased operating costs due to increased postage rates	\$42,000		\$42,000
6. Adds funding for anticipated inflationary increases in travel and information technology charges	\$97,337		\$97,337
7. Removes one-time funding for the oil and gas tax integration project (\$1,500,000), onsite support for GenTax (\$1,134,000), and the loan payment for GenTax (\$10,230,247)	(\$12,864,247)	(\$124,574)	(\$12,988,821)

Other Sections in Bill

Transfer from motor vehicle fuel tax collections - Section 3 provides for a transfer of \$1,485,000 from motor vehicle fuel tax collections to the general fund relating to costs incurred by the Tax Department to collect motor vehicle fuel and special fuels taxes.

Exemption - Grant to North Dakota State University - The Senate added a section to allow the Tax Commissioner to continue up to \$50,000 from the commissioner's 2009-11 general fund appropriation which the commissioner may provide as a grant to North Dakota State University for software conversion relating to the determination of agricultural land values.

Salary of Tax Commissioner - Section 3 provides the statutory changes necessary to increase the Tax Commissioner's salary as follows:

Annual salary authorized by the 2009 Legislative Assembly:

July 1, 2009	\$90,678
July 1, 2010	\$95,212

Proposed annual salary recommended in the 2011-13 executive budget:

July 1, 2011	\$98,068
July 1, 2012	\$101,010

The executive budget includes funding for elected officials' salary increases equal to 3 percent of salaries effective July 1, 2011, and 3 percent effective July 1, 2012.

Continuing Appropriations

No continuing appropriations for this agency.

Significant Audit Findings

The operational audit of the Tax Commissioner's office conducted by the State Auditor's office during the 2009-10 interim included a significant audit finding relating to noncompliance with tax revenue deposit requirements relating to the telecommunications carriers fund.

Major Related Legislation

House Bill No. 1046 - Potash taxation - Establishes a 4 percent tax on extraction of potash and potash byproducts. The bill provides that the tax is in lieu of property taxes on a potash processing plant, mining facility, or satellite facility. The bill provides that 20 percent of tax revenues is to be allocated to the producing county, and 80 percent is to be dedicated to state income tax reduction.

House Bill No. 1047 - Property tax relief - Provides property tax relief by appropriating \$341 million from the general fund for the 2011-13 biennium for allocation to school districts to reduce school district property taxes. The bill provides a school district levy reduction of up to 75 mills, restrictions on school district property tax levies, and replacement of the revenue to school districts through mill levy reduction grants. The bill also provides for transfers of \$295 million from the property tax relief sustainability fund to the general fund, of \$46,790,000 from the permanent oil tax trust fund to the general fund, and of \$341,790,000 from the permanent oil tax trust fund to the property tax relief sustainability fund.

House Bill No. 1057 - Angel fund investment tax credit - Amends the angel fund investment tax credit to allow for transferability of the tax credit and to allow passthrough entities to claim the credit. The bill requires the Tax Commissioner to report to the Legislative Management, and the bill is applicable only to the first four taxable years beginning after December 31, 2010.

Senate Bill No. 2055 - Manufacturing income tax credits - Creates two new manufacturing income tax credits. The income tax credit for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes is available to primary sector businesses and is equal to 20 percent of the expenses of the purchase. The income tax credit for qualified expenditures necessary for implementing lean manufacturing is available to primary sector businesses and is equal to 20 percent of the expenses. Each tax credit program is limited to \$2 million per taxable year.

ATTACH:1

STATEMENT OF PURPOSE OF AMENDMENT:**Senate Bill No. 2006 - Funding Summary**

	Executive Budget	Senate Changes	Senate Version
State Tax Commissioner			
Salaries and wages	\$18,711,656		\$18,711,656
Operating expenses	7,339,151		7,339,151
Capital assets	16,000		16,000
Homestead tax credit	8,792,788		8,792,788
Disabled veteran credit	<u>4,243,920</u>	<u></u>	<u>4,243,920</u>
 Total all funds	 \$39,103,515	 \$0	 \$39,103,515
Less estimated income	<u>10,000</u>	<u>0</u>	<u>10,000</u>
General fund	\$39,093,515	\$0	\$39,093,515
 FTE	 133.00	 0.00	 133.00
 Bill Total			
Total all funds	\$39,103,515	\$0	\$39,103,515
Less estimated income	<u>10,000</u>	<u>0</u>	<u>10,000</u>
General fund	\$39,093,515	\$0	\$39,093,515
 FTE	 133.00	 0.00	 133.00

Senate Bill No. 2006 - State Tax Commissioner - Senate Action

This amendment allows the Tax Commissioner to continue up to \$50,000 from the commissioner's 2009-11 general fund appropriation which the commissioner may provide as a grant to North Dakota State University for the purpose of converting the software of the core model used for preparation of agricultural land values as required under Section 57-02-27.2 during the 2011-13 biennium. This provision will result in a \$50,000 reduction to estimated 2009-11 biennium general fund turnback.



2006.3.9.11A

STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
Cory Fong, Commissioner

BUDGET PRESENTATION

**HOUSE APPROPRIATIONS COMMITTEE
GOVERNMENT OPERATIONS DIVISION
REPRESENTATIVE BLAIR THORESON, CHAIRMAN**

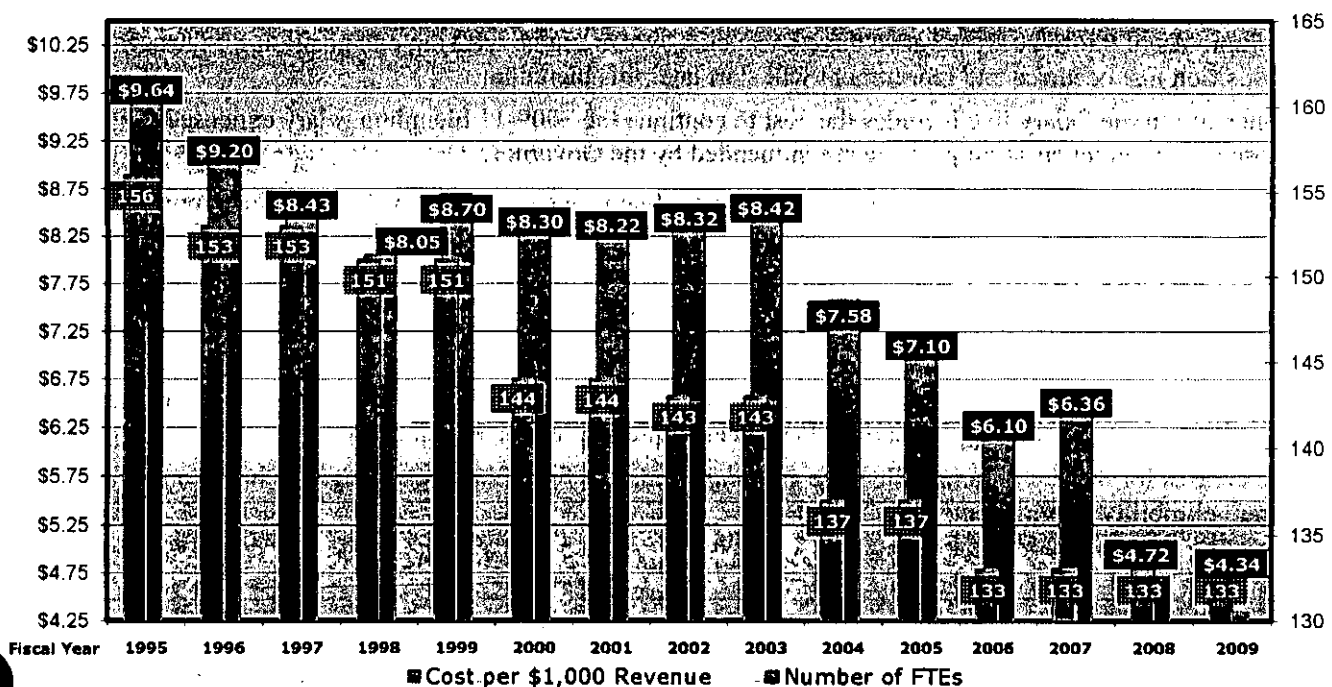
**Senate Bill 2006
March 9, 2011**

Agency overview

The Office of State Tax Commissioner's mission is to fairly and effectively administer the tax laws of North Dakota. In addition, the Department's vision statement and guiding principles emphasize customer service as a top priority and stress the importance of providing prompt, accurate, and courteous service while promoting compliance with the tax laws of North Dakota.

For the 2009-11 biennium, the Tax Department is anticipated to collect nearly 92 percent of all general fund dollars (excluding transfers). Since 1995, the Department has improved its productivity by nearly 70% because of actions resulting from business process measurement and process improvement. The cost to collect \$1,000 in revenue for FY 2009 was \$4.34 compared to \$9.64 in 1995. This equates to a numeric reduction of \$5.30 when comparing dollar amounts. Adjusting for inflation, the 1995 cost would be \$13.63 today, for a drop of \$9.29 in real terms. This level of productivity will be difficult to maintain without adequate funding to cover the rate increases and usage increases that are necessary to fulfill our mission.

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



Budget overview

Line Item/ \$ Object Description	Approp. 2009 - 2011	Estimated Expenses 2009 - 2011	Variance	Governor's Recom. 2011 - 2013	Inc/(Decr) Recom. over 09-11 Appn		
Salaries & Wages	\$17,380,525	\$16,980,525	\$400,000	\$18,711,656	\$1,331,131	7.7%	1
Operating Expenses	8,094,388	8,094,388	0	7,329,151	(765,237)	(9.5%)	2
Capital Assets	58,000	58,000	0	16,000	(42,000)	(72.4%)	3
Subtotal	\$25,532,913	\$25,132,913	\$400,000*	\$26,056,807	\$523,894	2%	
Special Program Lines:							
Homestead Tax Credit	\$5,964,000	\$7,313,000	(\$1,349,000)	\$8,792,788	\$2,828,788	47.4%	4
Disabled Veterans Credit	3,000,000	3,461,000	(461,000)	4,243,920	1,243,920	41.5%	4
Integrated Tax System	10,230,247	10,230,247	0	0	(10,230,247)	(100%)	5
Motor Fuels Federal Grant	10,000	10,000	0	10,000	0	0%	
Subtotal Special Lines	\$19,204,247	\$21,014,247	(\$1,810,000)	\$13,046,708	(\$6,157,539)		
Grand Total	\$44,737,160	\$46,147,160	(1,410,000)	\$39,103,515	(\$5,633,645)		
# FTE	133	133		133	133		
TOTAL GENERAL FUND	\$44,516,586	\$45,926,586	(\$1,410,000)	\$39,093,515	(\$5,423,071)		
TOTAL SPECIAL FUND	210,574	210,574	0	0	(210,574)		
TOTAL FEDERAL FUND	10,000	10,000	0	10,000	0		
DEPARTMENT TOTAL	\$44,737,160	\$46,147,160	(1,410,000)	\$39,103,515	(\$5,633,645)		
% of Change					(12.6%)		

¹ The projected under-run in Salaries is due to savings from vacancies, which peaked at 7 during the current biennium. As of 03/01/2011, we have three vacancies. We are re-advertising one position for the second time. One position just occurred and recruitment will start later this biennium.

The increase in the Salary line includes the cost to continue the 2009-11 biennium salary expenses and the proposed salary compensation package recommended by the Governor.

² The majority of the decrease in the Operating Expenses line is due to the removal of one-time appropriations of \$2,734,000 for on-site support and the Oil & Gas integration project and requesting only \$940,000 for on-site support and \$1,000,000 for a one-time GenTax software upgrade for 2011-13 biennium.

³ The decrease in capital assets is the result of requesting only one replacement high volume scanner for the 2011-13 biennium.

⁴ It is anticipated that refunds for Homestead Tax Credit and Disabled Veterans Credit programs will exceed the appropriations. Deficiency appropriations have been requested in Senate Bill 2023.

The increases for these programs reflect the amounts needed to fully fund these programs based on current program eligibility requirements.

⁵ \$10,230,247 was appropriated for the payoff of the integrated tax system loan. Final payment was made in July 2009.

* An amendment was made to SB 2006 to allow carryover authority of up to \$50,000 of the current biennium's appropriation, which may be distributed as a grant to North Dakota State University, Department of Agribusiness and Applied Economics during the 2011-13 biennium. This grant would be for converting the software of the core model used for the preparation of agricultural land valuations as required under N.D.C.C. § 57-02.27.2.

Agency Accomplishments

The Office of State Tax Commissioner's top priority continues to be focused on providing taxpayers with excellent customer service. During the 2009-11 biennium, the Department pursued various customer service-related activities.

- **Oil & Gas Implementation into GenTax.** The Tax Department successfully implemented the conversion of oil and gas tax database and processing system into GenTax. The conversion into GenTax will ensure an efficient and robust tax administration system for oil and gas taxes.
- **Expanded E-File Services.** In January 2010 the Tax Department partnered with the IRS to offer Corporation, Partnership, and S-Corporation filers a web-based e-file system known as Modernized E-File (MeF). By June 2010, nearly 20 percent of those returns were filed using the MeF option. In 2010 the number of e-filed individual income tax returns increased by nearly 10 percent compared to 2009.
- **Discovery Achievements.** GenTax integration has created opportunities for increasing the efficiencies for performing Discovery functions. Additional staff time dedicated to Discovery has resulted in collections of \$5.9 million for income tax and sales tax.
- **Oil & Gas Taxation Agreement with the Three Affiliated Tribes.** The Tax Department administers the oil and gas production and extraction taxes within the Fort Berthold Indian Reservation to ensure those taxes due under State laws and the agreement are properly collected and distributed.
- **Additional Customer Service Initiatives.** New initiatives include:
 - Incorporated social media outreach through Facebook and RSS feeds,
 - Marketed the Homestead Credit and Renters Refund through direct mail,
 - Conducted a variety of seminars, workshops and CPA forums across the state, and
 - Created an online interactive tool to help individual taxpayers identify the best e-file solution for their needs.

Future Critical Issues & Needs

In order to improve the Department's efficiency and effectiveness of achieving our mission and purpose, the Tax Department is requesting that consideration be given to the following future critical issues and needs.

- The growing energy development in North Dakota has resulted in a significant workload increase across the taxes administered by the Department. As the state's energy industry continues to grow, the Department's compliance activities in the oil and gas, sales and use, corporate and individual income, and property taxes areas will require a corresponding increase. This increased activity in the energy industry and related service industries will impact a number of taxpayers and result in a greater need for compliance efforts by the Tax Department.

GenTax offers the Tax Department increased capabilities to identify businesses and individuals that may not have reported all required taxes. Using automated comparisons of return data (such as comparing sales tax returns to income tax returns) the Tax Department is able to identify taxpayers who filed one type of return but not the other. Currently automated comparisons are being used for cross-checking corporation income tax, individual income tax, and sales tax.

The Tax Department is requesting it be provided with the funding to increase staffing to support the increase in compliance and discovery work resulting from the state's growing energy industry.

- To ensure full and on-going compliance with North Dakota's tax laws, the Tax Department is requesting two additional Compliance Officer II positions.

Office of State Tax Commissioner

2 Compliance Officer II Positions Requested Not Included in the Governor's Recommended Budget

	General	Special	Total
Salaries			
Gross Wages	\$158,400		\$158,400
Fringe Benefits	67,366		67,366
Total Salaries	\$225,766		\$225,766
Operating Expenses			
Travel	\$ 46,880		\$ 46,880
Office Equipment & Furniture	12,000		12,000
Total Operating Expenses	\$58,880		\$58,880
Total	\$284,646	\$0	\$284,646

The Tax Department is requesting two additional FTEs for compliance and discovery work, at a biennial cost of \$284,646. The department estimates the revenue lift associated with two additional FTEs would be approximately \$2.62 million for the upcoming 2011-13 Biennium. This translates to a return on investment of 9.2 (\$2.62 million / \$284,646).

The department bases these figures on current collection activities in nexus investigations and new and enhanced discovery performed by 4.5 existing FTEs during the first 20 months of the current biennium. These collections have totaled \$5.9 million so far.

The existing data provides us with a solid baseline figure for estimating the revenue lift and return on investment for the two additional FTEs. This estimate for the additional two FTEs is very conservative.

Job responsibilities of the 2 Compliance Officers will be:

- Participate in developing compliance projects to identify individuals/businesses that have failed to comply with tax registration requirements, failed to file tax returns, and/or failed to comply with other tax reporting requirements.
- Investigate individuals/businesses identified by new compliance projects as not complying with North Dakota tax laws.
- Investigate complaints of violations of North Dakota tax laws received from sources outside the Department.
- Contact noncompliant individuals/businesses by phone, correspondence, and/or personal visit to explain tax reporting requirements and to establish procedures and timelines for them to comply.
- Assist in locating suspected tax law violators and/or those with delinquent tax accounts.

OFFICE OF STATE TAX COMMISSIONER
BUDGET VARIANCE REPORT

DIVISION: SUMMARY
Month: January 2011

ROW	DESCRIPTION	2009-2011			Actual thru 1/31/2011	Variance	% Remain	Adjustment to Budget				2011-13 Recommendation	% Change	Legislative "Green" sheet H-lites
		A	B	C				E	F	G	H			
		TOTAL	BUDGET											
1	SALARIES & WAGES													
2	Gross Wages	\$12,560,945.00	\$9,503,579.13	\$3,057,365.87								\$13,441,994.00		
3	Fringe Benefits	4,823,100.00	3,476,923.14	1,346,176.86								5,269,662.00		
4	TOTAL SALARIES & WAGES	\$17,384,045.00	\$12,980,502.27	\$4,403,542.73	25%			1,331,131.00		\$18,711,656.00	7.6%			
5	OPERATING SERVICES													
6	521 Travel	\$318,721.00	\$192,930.25	\$125,790.75				20,000.00		\$338,721.00	6.3%			20,000 Travel
7	531 IT - Software	1,291,196.00	1,224,769.66	66,426.34				37,804.00		1,329,000.00	2.9%			37,804 Software Maintenance
8	532 Prof Supplies & Materials	103,426.00	35,003.92	68,422.08						103,426.00	0.0%			(44,848) Decrease for IT Equipment
9	534 Equip/Bldg Supplies	0.00	0.00	0.00							0.0%			60,000 ITD DP Rate Increases
10	535 Miscellaneous Supplies	2,500.00	1,038.21	1,461.79							0.0%			20,733 Scanner maintenance
11	536 Office supplies	69,740.00	45,346.36	24,393.64						2,500.00	0.0%			3,648 Telephone
12	541 Postage	841,142.00	600,671.09	240,470.91				42,000.00		883,142.00	5.0%			97,337 #6 on Green Sheet
13	542 Printing	291,796.00	119,561.76	172,234.24						291,796.00	0.0%			42,000 Postage
14	551 IT - Equipment < \$5,000	90,160.00	31,186.98	58,973.02				(44,848.00)		45,312.00	-49.7%			(1,500,000) Remove Oil & Gas Project
15	552 Other Equipment < \$5,000	0.00	0.00	0.00						0.00	0.0%			(1,134,000) Remove on-site support
16	553 Office Machines/Furniture < \$5,000	66,000.00	45,109.62	20,890.38						66,000.00	0.0%			(124,574) Remove on-site support SPECIAL FUNDS
17	571 Insurance	17,115.00	11,787.97	5,327.03						17,115.00	0.0%			(10,230,247) Integrated tax loan
18	581 Lease/Rent - Equipment	63,255.00	45,166.58	18,088.42						63,255.00	0.0%			(12,988,821) #7 on Green Sheet
19	582 Lease/Rent - Building	65,572.00	51,042.75	14,529.25						65,572.00	0.0%			
20	591 Repairs/Service Contracts	110,845.16	48,999.34	61,845.82						110,845.00	0.0%			1,000,000 Gen Tax Version upgrade
21	601 IT - Data Processing	1,056,000.00	788,027.89	267,972.11				60,000.00		1,116,000.00	5.7%			940,000 On-site support
22	602 IT - Communications	188,352.00	134,132.25	54,219.75				3,648.00		192,000.00	1.9%			20,733 Scanner maintenance
23	603 IT - Contractual Services	2,868,841.00	2,355,910.50	512,930.50				(883,841.00)		1,985,000.00	-30.8%			(1,500,000) Remove Oil & Gas Project
24	611 Professional Development	136,585.00	119,164.71	17,420.29						136,585.00	0.0%			(1,134,000) Remove on-site support
25	621 Operating Fees & Services	131,700.00	68,745.76	62,954.24						131,700.00	0.0%			(124,574) Remove on-site support SPECIAL FUNDS
26	623 Professional Services	391,442.00	364,894.00	26,548.00						391,442.00	0.0%			(86,000) Remove remainder of SPECIAL FUNDS
27	TOTAL OPERATING	\$8,104,388.16	\$6,283,489.40	1,820,898.76	22%			(765,237.00)		\$7,339,151.00	-9.4%			(883,841) Net effect to IT - Contractual Services
28	EQUIPMENT	\$58,000.00	\$30,886.00	27,114.00	47%			(42,000.00)		\$16,000.00	-72.4%			
29	TOTAL B4 SPECIAL LINES	\$25,546,433.16	\$19,294,877.67	\$6,251,555.49				\$523,894.00		\$26,066,807.00	2.0%			
30	INTEGRATED TAX SYSTEM LOAN	10,230,247.00	10,230,246.45	0.55	0%			(10,230,247.00)		\$0.00	0.0%			
31	HOMESTEAD TAX CREDIT	5,964,000.00	3,478,726.42	2,485,273.58	42%			2,828,788.00		8,792,788.00	47.4%			2,828,788 Homestead Tax Credit
32	DISABLED VETERANS CREDIT	3,000,000.00	1,635,843.45	1,364,156.55	45%			1,243,920.00		4,243,920.00	41.5%			1,243,920 Disabled Veterans Credit
33	TOTAL ALL LINES	44,740,680.16	34,639,693.99	10,100,986.17				(5,633,645.00)		39,103,515.00	-12.6%			
34	FUNDING SOURCE													
35	001 General Fund	44,520,106.00	34,424,758.39	10,095,347.61	23%			(5,423,071.00)		39,093,515.00				
36	287 Special Funds	210,574.16	210,574.16	0.00	0%			(210,574.00)		0.00				
37	002 Motor Fuels Federal Grant	10,000.00	4,361.44	5,638.56	56%			0.00		10,000.00				
38	TOTAL ALL FUNDS	44,740,680.16	34,639,693.99	10,100,986.17	23%			(5,633,645.00)		\$39,103,515.00	-12.6%			
39	Percent of year-to-date total expenditures to appropriation		77.42%											
40	Percent of time expired		79.17%											

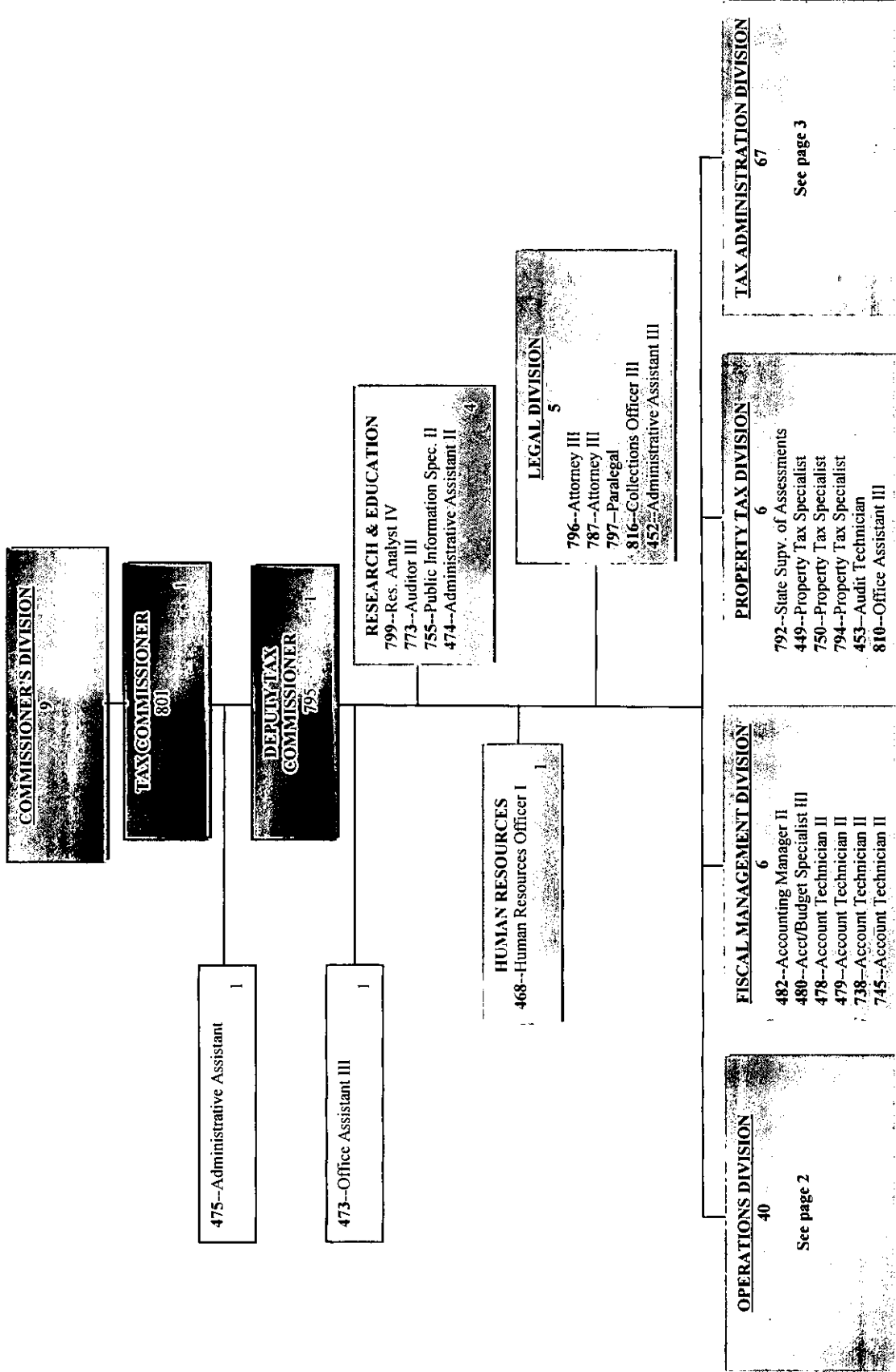
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OFFICE OF STATE TAX COMMISSIONER

Total FTEs 133

3-01-11



OFFICE OF STATE TAX COMMISSIONER

3-01-11

OPERATIONS DIVISION

40

830--Director, Operations
825--Project Manager I *Vacant 7-01-10
471--Purchasing Agent I
466--Administrative Assistant II
*Recruitment was pending because of other staffing issues in the Operations Division

4

INFORMATION MANAGEMENT & PROCESSING

459--Information Mgt. Officer
746--Administrative Officer I
472--Doc. Imaging Spec. II
743--Doc. Imaging Spec. II
444--Office Assistant III
445--Office Assistant III
739--Office Assistant III
741--Office Assistant III
744--Office Assistant III

9

INFORMATION SERVICES

793--Information Tech. Manager
477--Programmer Analyst III
476--Data Processing Coord. III
481--Programmer Analyst II
*Vacant 1-11-11
808--Programmer Analyst II
759--Data Processing Coord. II
791--Data Processing Coord. II

*Currently recruiting

7

TAXPAYER SERVICES

789--Auditor IV
817--Auditor III
454--Auditor I
450--Audit Technician
455--Audit Technician
470--Audit Technician
749--Audit Technician
800--Audit Technician
835--Audit Technician

9

VERIFY/DATA ENTRY

803--Administrative Assistant III
804--Administrative Assistant I
805--Office Assistant III
806--Office Assistant III

4

REGISTRATION

824--Adm. Staff Officer II
467--Compliance Officer I
448--Audit Technician
463--Audit Technician
748--Audit Technician
462--Administrative Assistant II
469--Administrative Assistant I

7

OFFICE OF STATE TAX COMMISSIONER

3-01-11

TAX ADMINISTRATION DIVISION

67

790--Director, Tax Administration
786--Auditor IV
464--Administrative Assistant II

3

SALES & SPECIAL TAX COMPLIANCE

785--Auditor IV
826--Auditor III
465--Compliance Officer II
754--Compliance Officer II
769--Compliance Officer II
758--Compliance Officer I
446--Account Technician II

Requested Positions

Compliance Officer II
Compliance Officer II

7

SALES & SPECIAL TAX AUDIT

771--Auditor IV
740--Auditor III
762--Auditor III
763--Auditor III
764--Auditor III
765--Auditor III
767--Auditor III
768--Auditor III
770--Auditor III
772--Auditor III
775--Auditor III
776--Auditor III
777--Auditor III
778--Auditor III
779--Auditor III
812--Auditor III
813--Auditor III
814--Auditor III
766--Auditor II
461--Auditor II

20

CORPORATE TAX AUDIT

781--Auditor IV
823--Auditor IV
780--Auditor III
783--Auditor III
798--Auditor III
818--Auditor III
*Vacant 1-17-11
821--Auditor III
807--Auditor II
819--Auditor II
820--Auditor II

*Will be recruiting in spring

10

INDIVIDUAL & WITHHOLDING TAXES

815--Auditor IV
753--Auditor III
774--Auditor III
828--Auditor III
451--Auditor II
457--Auditor II
751--Auditor II
760--Auditor I
456--Audit Technician
460--Audit Technician
832--Audit Technician
833--Audit Technician
447--Office Assistant II
834--Office Assistant II

14

MOTOR FUELS, OIL & GAS, & ESTATE TAXES

822--Auditor IV
757--Auditor III
782--Auditor III
811--Compliance Officer I
784--Audit Technician
829--Office Assistant III

6

COLLECTIONS

752--Tax Collections Supv.
483--Collections Officer III
484--Collections Officer III
485--Collections Officer III
486--Collections Officer III
487--Collections Officer III
747--Collections Officer III

7



STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
Cory Fong, Commissioner

BUDGET PRESENTATION

HOUSE APPROPRIATIONS COMMITTEE
GOVERNMENT OPERATIONS DIVISION
REPRESENTATIVE BLAIR THORESON, CHAIRMAN

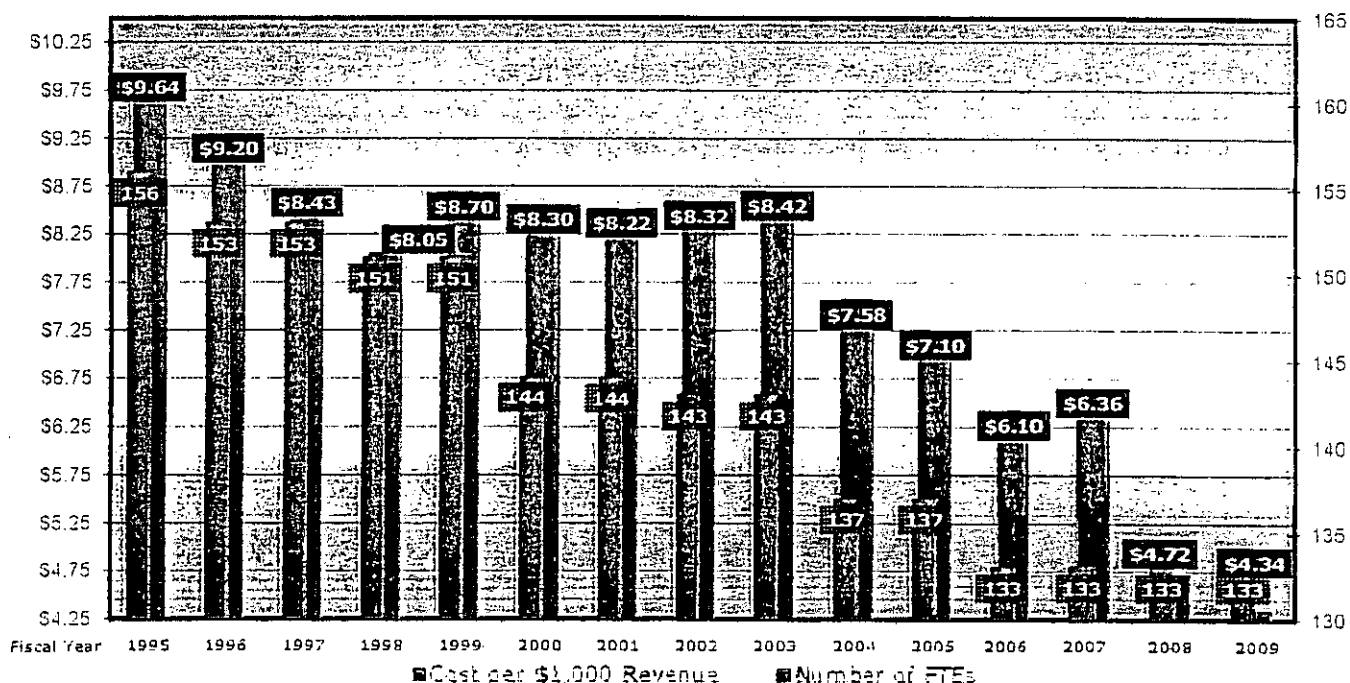
Senate Bill 2006
March 9, 2011

Agency overview

The Office of State Tax Commissioner's mission is to fairly and effectively administer the tax laws of North Dakota. In addition, the Department's vision statement and guiding principles emphasize customer service as a top priority and stress the importance of providing prompt, accurate, and courteous service while promoting compliance with the tax laws of North Dakota.

For the 2009-11 biennium, the Tax Department is anticipated to collect nearly 92 percent of all general fund dollars (excluding transfers). Since 1995, the Department has improved its productivity by nearly 70% because of actions resulting from business process measurement and process improvement. The cost to collect \$1,000 in revenue for FY 2009 was \$4.34 compared to \$9.64 in 1995. This equates to a numeric reduction of \$5.30 when comparing dollar amounts. Adjusting for inflation, the 1995 cost would be \$13.63 today, for a drop of \$9.29 in real terms. This level of productivity will be difficult to maintain without adequate funding to cover the rate increases and usage increases that are necessary to fulfill our mission.

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



Office of State Tax Commissioner

2 Compliance Officer II Positions Requested Not Included in the Governor's Recommended Budget

	General	Special	Total
Salaries			
Gross Wages	\$158,400		\$158,400
Fringe Benefits	67,366		67,366
Total Salaries	\$225,766		\$225,766
Operating Expenses			
Travel	\$ 46,880		\$ 46,880
Office Equipment & Furniture	12,000		12,000
Total Operating Expenses	\$58,880		\$58,880
Total	\$284,646	\$0	\$284,646

The Tax Department is requesting two additional FTEs for compliance and discovery work, at a biennial cost of \$284,646. The department estimates the revenue lift associated with two additional FTEs would be approximately \$2.62 million for the upcoming 2011-13 Biennium. This translates to a return on investment of 9.2 (\$2.62 million / \$284,646).

The department bases these figures on current collection activities in nexus investigations and new and enhanced discovery performed by 4.5 existing FTEs during the first 20 months of the current biennium. These collections have totaled \$5.9 million so far.

The existing data provides us with a solid baseline figure for estimating the revenue lift and return on investment for the two additional FTEs. This estimate for the additional two FTEs is very conservative.

Job responsibilities of the 2 Compliance Officers will be:

- Participate in developing compliance projects to identify individuals/businesses that have failed to comply with tax registration requirements, failed to file tax returns, and/or failed to comply with other tax reporting requirements.
- Investigate individuals/businesses identified by new compliance projects as not complying with North Dakota tax laws.
- Investigate complaints of violations of North Dakota tax laws received from sources outside the Department.
- Contact noncompliant individuals/businesses by phone, correspondence, and/or personal visit to explain tax reporting requirements and to establish procedures and timelines for them to comply.
- Assist in locating suspected tax law violators and/or those with delinquent tax accounts.