

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2006

2007 SENATE APPROPRIATIONS

SB 2006

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2006

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 1-16-07

Recorder Job Number: 1215

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB2006 regarding the State Tax Department on 2:00 pm on January 16, 2007.

Cory Fong, State Tax Commissioner presented written testimony(1) giving an oral overview of the agency, summary of major goals and objectives and major accomplishments. He also gave an explanation of variance.

Senator Krauter asked if there was any contract labor in the Tax Department.

Cory Fong stated they do not have contract labor in his office. The request of money will allow the Tax Department to contract with FAST Enterprises for on-site support during the next biennium. The on-site support will ensure that the State's new integrated tax system is managed well and will allow the Tax Department staff to learn more about configuration changes required to support legislative law changes. Comment was made concerning the E files increase in filing income tax returns. This office continues to hold customer service as a top priority. Our mission statement and guiding principles emphasize this philosophy and stress the importance of providing prompt, accurate and courteous customer service through fair and effective administration of tax laws. One of the guiding principles in the Office of State Tax Commissioner's Mission Statement states, "We recognize employees are our biggest

asset." It is important the Tax Department has the ability to provide competitive salaries, including the ability to offer salary increases to employees.

Discussion followed regarding a subcommittee and was agreed none was required on this bill.

Chairman Holmberg closed the hearing on SB2006

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2006

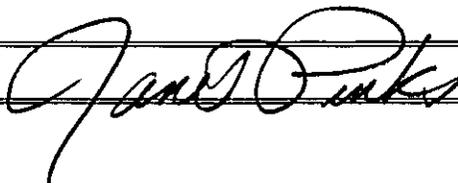
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 01/25/07

Recorder Job Number: 1865

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2006 with review of the bill.

Senator Krebsbach moved a DO PASS on SB 2006, Senator Lindaas seconded. There was no discussion. A roll call vote was taken resulting in 12 yeas, 0 no, 2 absent. Senator Wardner will carry the bill.

The hearing closed on SB 2006.

FISCAL NOTE
Requested by Legislative Council
01/02/2007

Bill/Resolution No.: SB 2006

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$12,780)			
Expenditures						
Appropriations			\$12,780			

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2006 is the appropriation for the Office of Tax Commissioner.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

In addition to the general appropriation for the Office of Tax Commissioner, Section 6 changes the statutory salary for the tax commissioner, which will reduce state general fund revenues, and increase appropriations by the amount shown above.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The appropriation for the Office of Tax Commissioner was included in the executive budget.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/15/2007

Date: 1/25
 Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2006

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Krebsbach Seconded By Lindaas

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann			Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 9 12 No 0

Absent 8 2

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE (410)
January 25, 2007 3:05 p.m.

Module No: SR-17-1265
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2006: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS
(12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2006 was placed on the
Eleventh order on the calendar.

2007 HOUSE APPROPRIATIONS

SB 2004

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2006

House Appropriations Committee

Government Operations Division

Check here for Conference Committee

Hearing Date: 2/27/07

Recorder Job Number: 4021

Committee Clerk Signature

Kanya Voegele

Minutes:

Chairman Carlson opened the hearing on Senate Bill 2006.

Cory Fong, State Tax Commissioner, spoke in support of the bill. See testimony
2006.02.27.07. A.

Mr. Fong introduced staff present.

Chairman Carlson: Do you have figures comparing the budgets?

Cory Fong: I can get that for you.

Cory Fong continued with testimony.

Chairman Carlson: Refresh my memory on the repayment schedule?

Cory Fong: The repayment schedule began in the next biennium. Kathy will talk about the project in her testimony.

Chairman Carlson: How was it funded?

Cory Fong: You authorized us to borrow it.

Chairman Carlson: Is that calculated in the budget, the payments needed for this biennium?

Cory Fong: Yes.

Chairman Carlson: Where are we getting the \$5.2million to pay this back?

Cory Fong: The General Fund.

Mr. Fong continued with testimony.

Representative Thoreson: Are you planning to continue working with the Free File Alliance?

Cory Fong: Yes at this time we are planning to continue.

Vice Chairman Carlisle: Is there any turn back?

Cory Fong: About \$350,000

Vice Chairman Carlisle: What is their figure for the equity pool?

Sandy Paulson: \$205,595.

Chairman Carlson: Do you have a strategic plan?

Cory Fong: We do, it is always evolving and changing. We are in the process of restructuring the department.

Chairman Carlson requested a summary of goals and benchmarks for the department.

Discussion occurred regarding the Integrated Tax System.

Mr. Fong continued his testimony on page three.

Chairman Carlson: Is the onsite support going to be an ongoing cost?

Cory Fong: I don't see the number being that large in the future.

Chairman Carlson: Anticipated costs for maintenance fees?

Cory Fong: About \$350,080

Mr. Fong continued testimony.

Chairman Carlson: This does not reflected with other bills that are floating?

Cory Fong: No.

Don Wolf: There is an additional cost which is reflected but there is not an appropriation.

Chairman Carlson: The payment is a 6 year Loan?

Cory Fong: The last payment will be made in 2012.

Chairman Carlson: This is funding this and the next biennium?

Cory Fong: Correct.

Kathy Forsch, Director of Operations, spoke in support of the bill.

Representative Kempenich: Would this be an ongoing cost?

Kathy Forsch: We don't anticipate this to be an ongoing cost. This will mostly be for training of the staff on the new system. Once the staff is trained we should not need these funds.

Representative Skarphol: You have a \$1.3mil increase for software. Is that for the new tax program?

Representative Skarphol: Will the maintenance cost be relatively the same in the future?

Kathy Forsch: Yes

Representative Skarphol requested a summary of IT costs.

Representative Skarphol: I am assuming as you roll the projects out the implementation costs will end.

Kathy Forsch: That is correct.

Representative Kempenich: You make sure the component works before you bring out another one correct?

Kathy Forsch: We have a rollout every six months.

Representative Skarphol: Do you have a chart reflecting your progress with the various modules?

Kathy Forsch: What we said we are going to do is dead on to what we have done.

Chairman Carlson: Do you expect the amount \$ under budget on this project will hold?

Kathy Forsch: We expect to be about \$2.8 million under budget.

Representative Kroeber: Who is the loan through?

Kathy Forsch: Bank of America.

Representative Kroeber: Why all of a sudden are we collecting more corporate taxes?

Kathy Forsch: That is a question for the tax department also.

Cory Fong: Integrated tax system may be the reason.

Marcy Dickerson spoke in support of the bill.

Representative Skarphol: I am looking at #7 on the green sheet. Do we have to pick up the tab for that in General Fund Dollars?

Cory Fong: we will continue to do the work but will pay for it out of our budget.

Hearing was closed.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2006

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 3/14/07

Recorder Job Number: 5017

Committee Clerk Signature *Kanya Vaejeh*

Minutes:

Chairman Carlson opened discussion on Senate Bill 2006.

Representative Kempenich handed out amendment 78030.0101.

A motion was made by Representative Kempenich, seconded by Representative Skarphol to adopt amendment 78030.0101. Motion carried by voice vote.

Representative Kempenich explained the amendment.

Vice Chairman Carlisle reviewed the green sheet and discussed turn back and equity.

Representative Kempenich: Does the Homestead Tax Credit need to be appropriated into your budget?

Cory Fong: The current \$4.5million is in our budget and from what I understand that is tied to the bill.

A motion was made by Representative Kempenich, seconded by Representative Skarphol for a DO PASS AS AMENDED recommendation to the full committee. The committee vote was 8 Yeas, 0 Nays and 0 Absent and Not Voting. The bill will be carried by Representative Kempenich.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2006

House Appropriations Committee

Check here for Conference Committee

Hearing Date: March 14, 2007

Recorder Job Number: 5094

Committee Clerk Signature

Melba N. Sand

Minutes:

Chm. Svedjan opened the hearing on SB 2006.

Rep. Kempenich distributed amendment .0101 (Attachment A).

Rep. Kempenich: Why don't we all look at the green sheet. Basically we didn't do anything to the budget from when it came over to the Senate. This is one budget from last biennium that we spent \$14 million to put in an integrated tax processing system. I'm glad to say that we were up there the other day and the enterprises walked us through the system. It is up and operational for what they have in place so far. They have one more rollout in the systems. It is on time and actually under budget. If you go down the green sheet that the amendment addresses, there is \$5.3 million that is money that is appropriated for the first payment on this system. Part of the savings is kind of rolled together with 2, 3, and 4. There is like \$2.5 million that was under budget on the 14. Part of that is going into the payment of the first payment on this for the first biennium. Then on number 3, the 1.1 is for support training. Basically what they are going to try to do with that, which is money that has been appropriated already, they are going to train their people to do the upgrades themselves. They are doing this so they don't have to call back over the life of this system. They have people that know how to upgrade the system as there are upgrades that come forward in future years. This is probably going to be money well spent at this time on that. The maintenance contract is \$550,000. The rest if

equipment purchases, scanners, and so on. There is \$120,000 on federal contract for 2012. There is five years left on that. The other \$380,000 is for technology which is one of the big expenditures on their budget. Like all budgets we have had, there are salaries for the commissioner. We have to change that. They are anticipating about \$350,000 of turn back. They have got about a \$205,000 equity pool. The main change in this budget is salary adjustments with the 4 and 4. That is pretty much the budget. This is one agency that has been dropping FTE's. There is just not a lot to talk about in this budget this biennium as far as where things are headed.

Chm. Svedjan: So the amendment just clarifies the one time spending?

Rep. Kempenich: Well it's phase 1 of phase 3 on one time spending

Rep. Kempenich motioned to adopt amendment .0101. Rep. Carlson seconded the motion.

Chm. Svedjan: Is there discussion?

Rep. Nelson: On item 2 on the green sheets with the yearly payment, that would be paid over 3 biennium's?

Chm. Svedjan: Correct.

Rep. Ekstrom: They are still rolling it out. They haven't gotten all of the system in place. It was sold to us last biennium that this was going to increase the collections and the efficiency would be improved. That is one thing that they are going to hold their feet to the fire with that. That is one of the statements made when they sold us those two years ago. After we saw it the other day I think they probably will. We should start seeing some results on how this is changing.

Rep. Nelson: Will the payments drop off in subsequent bienniums? It appears that the \$5 million will?

Rep. Kempenich: Yes it is basically five. It will be this payment amount for another two years. They did go out and get Bank America. They have went outside the Bank of ND and got a 3% rate on this.

Rep. Ekstrom: There are two property tax bills out there right now. It is spending authority for the tax department to administer those two?

Rep. Kempenich: We talked about that and it was from our understanding that the language is in those bills for if those bills pass. One thing is the homestead tax credit is run through their office too and they will have to have an adjustment in that if it passes. The language is one thing. We discussed that.

Rep. Klein: Item 4 on the green shit where we went from general funds to unexpended loan funds, where did that come from?

Rep. Kempenich: It is all part of that. The system came in at like \$11.5 million. They had \$2.5 million of unexpended funds. The \$1.1 and \$550,000 was stuck into the first payment. That is basically where those funds came from.

Rep. Gulleason: You referred to \$205,000 in equity? That is additional equity put in there?

Rep. Kempenich: That is out of that \$10 million.

Rep. Gulleason: Was that the committee's recommendation to leave that in the budget?

Rep. Kempenich: We didn't put it in the budget I just brought that up. There is money that got put into the budget with the 4 and 4. This is out of that pool so it is already moved through.

Rep. Gulleason: Is it their share of the \$10 million or is it additional equity money?

Rep. Kempenich: Their share. We didn't put any extra money into this budget outside of what is in play right now.

Rep. Gulleason: Do they have additional equity money put in?

Rep. Kempenich: No. Outside the 4 and 4 there was no equity money put in there.

Rep. Carlson: I think it's important that we keep track of that. Every budget has an equity pool. An example of the Attorney General's office included \$654,000 of equity dollars included in the executive budget in addition to the \$350,000 that was in the equity pool. That is starting to amount to some fairly significant dollars that we have to keep track of.

Rep. Ekstrom: They have 9 open vacancies in their section. One of them is military which doesn't concern me. A couple of them have been open for quite some time. One has been open for 37 months.

Rep. Kempenich: They didn't talk about that. I think a couple of those positions are where they are having some trouble filling them and that is part of the equity business. They are trying to reduce that because a couple of them are fiscal people. They have had some trouble filling those positions. We didn't get into the length of time they have been open and stuff. It was mentioned and we did ask them about that.

Rep. Carlisle: There are three scenarios. We have had a couple of budgets where you've had scenario one with the OMB budget, scenario 2 with equity and governors, and scenario 3 where the Senate has added equity. We are trying to track those and there is some where the total is 3 separate scenarios.

Rep. Monson: I guess I still have a question about the \$14 million loan. I understand that there was some money left over. They went ahead and borrowed the money anyway to make payments?

Rep. Kempenich: They came in last biennium with this number. They put some of the money towards that. They didn't use it. It came in time and under budget. What they did was use some of this money to carry forward and do a support training for their staff and for ITE staff

that works with the tax department. When these upgrades take place they will save money. It is an expense right now but it is coming out of funds that are already borrowed. We are going to have our people that know how to upgrade the system without someone sending someone here to upgrade it.

Chm. Svedjan: The funds were borrowed for the system?

Rep. Kempenich: Yes.

Chm. Svedjan: There was some excess money that they devoted into those areas?

Rep. Kempenich: Yes and that is 3 % interest. They did use some of it to prepay it. They borrowed it out because it is set up on a six year note. That is what is going on. Instead of taking that back to the loan, they use that money to further the system. It is all tied into the system. We either spend this money through general fund money or do it, or we use this borrowed money to do it. It's a general fund. You are going to spend general fund money.

Rep. Monson: I just don't know why we would borrow money at 3% if you've got a lot? I know we are trying to balance the budget but it seems like a lot more money from the Bank of America even if it is 3%.

Rep. Kempenich: I don't know what the contract said either. I don't know if they are tied at that rate or if they are tied into something where payment becomes an issue. We didn't ask them that.

Rep. Carlson: Just a little clarification on that. They are still rolling out some of the packages. This is not complete so there is still money to be spent with this. They borrowed all the money with the 3%. It was set aside and they are paying as they go. They still anticipate having some of this extra money that shows up on the items. It's not done but in fact I don't know which one is going to be the next to roll out. They still have some work and money to spend on that project.

Rep. Wald: On the bottom of page 2 it talks about the salary of the tax commissioner. Is the authority to raise all of the elected officials in another bill or where does it come from?

Rep. Kempenich: That is right here. That is the whole thing. We need to do that because it is in statute of what those salaries are. It runs down through those sections of the code. That is what we have to do. Each budget has got to be changed if we are going to do this. Each one is in a different section of code.

The motion to adopt amendment .0101 carried by a voice vote and the amendment was adopted.

Rep. Kempenich motioned for a Do Pass as Amended. Rep. Klein seconded the motion.

The motion carried by a roll call vote of 21 ayes, 0 nays and 3 absent and not voting.

Rep. Kempenich was designated to carry the bill.

March 7, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 3, after line 2, insert:

"SECTION 7. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-FIRST LEGISLATIVE ASSEMBLY. The total general fund appropriation line item in section 3 of this Act includes \$5,356,702 for the one-time funding items identified in this section. This amount is not a part of the agency's base budget to be used in preparing the 2009-11 executive budget. The state tax commissioner shall report to the appropriations committees of the sixty-first legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2007, and ending June 30, 2009.

Principal and interest costs for the integrated tax processing system \$5,356,702"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

The House added a section identifying one-time funding included in the budget and providing for a report to the 61st Legislative Assembly on the agency's use of the one-time funding.

Date: 3/14/07
 Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2006

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 78030.0101

Action Taken Adopt Amendment 0101

Motion Made By Kempenich Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Vote - carries

Date: 3/14/07
 Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2006

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 78030.0101

Action Taken Do Pass as Amended by 0101

Motion Made By Kempenich Seconded By Klein

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleon	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 21 No 0

Absent 3

Floor Assignment Kempenich

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

REPORT OF STANDING COMMITTEE

SB 2006: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (21 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). SB 2006 was placed on the Sixth order on the calendar.

Page 1, line 4, remove "and"

Page 1, line 5, after "Code" insert "; and to provide for a report to the legislative assembly"

Page 3, after line 2, insert:

"SECTION 7. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-FIRST LEGISLATIVE ASSEMBLY. The total general fund appropriation line item in section 3 of this Act includes \$5,356,702 for the one-time funding items identified in this section. This amount is not a part of the agency's base budget to be used in preparing the 2009-11 executive budget. The state tax commissioner shall report to the appropriations committees of the sixty-first legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2007, and ending June 30, 2009.

Principal and interest costs for the integrated tax processing system \$5,356,702"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

The House added a section identifying one-time funding included in the budget and providing for a report to the 61st Legislative Assembly on the agency's use of the one-time funding.

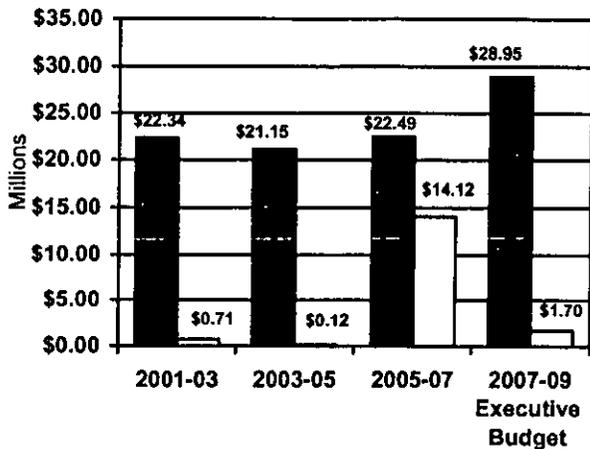
2007 TESTIMONY

SB 2006

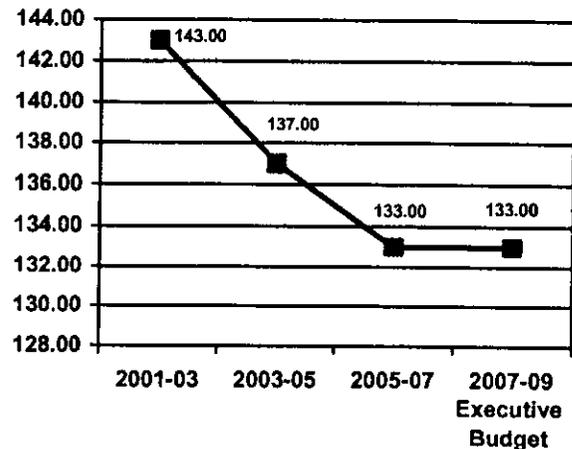
Department 127 - State Tax Commissioner
 Senate Bill No. 2006

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	133.00	\$28,948,998	\$1,700,000	\$30,648,998
2005-07 Legislative Appropriations	133.00	22,485,152	14,120,000	36,605,152
Increase (Decrease)	0.00	\$6,463,846	(\$12,420,000)	(\$5,956,154)

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Executive Budget Highlights

	General Fund	Other Funds (\$14,000,000)	Total (\$14,000,000)
1. Removes one-time funding for integrated tax processing system. (The Tax Department entered into an agreement with the Bank of America to finance, over a six-year period, the purchase of the integrated tax processing software from FAST Enterprises.)			
2. Adds funding for principal (\$4,083,705) and interest (\$1,272,997) costs for the integrated tax processing system. Payments for six years beginning July 2007 (executive budget identified as one-time funding).	\$5,356,702		\$5,356,702
3. Adds funding from unexpended funds relating to the \$14 million loan for the integrated tax processing system for onsite and postproduction system support		\$1,150,000	\$1,150,000
4. Changes funding for the annual maintenance agreement for the integrated tax processing system from the general fund to unexpended loan funds	(\$550,000)	\$550,000	\$0
5. Provides funding for information technology equipment over \$5,000 to purchase scanners	\$18,000		\$18,000
6. Provides \$4.5 million from the general fund for the homestead tax credit, the same as the 2005-07 biennium			\$0
7. Decreases funding for information technology contractual services due to elimination of the Federal Highway Administration program that has been providing grant money to states to enhance motor fuels tax projects		(\$120,000)	(\$120,000)
8. Adds funding for anticipated growth in information technology data storage needs and telephone service rates	\$380,485		\$380,485

Other Sections in Bill

Section 4 of Senate Bill No. 2006 provides for a transfer of \$1,274,056 to the general fund, out of motor vehicle fuel taxes collected, which is the amount received by the Tax Commissioner's office for expenses incurred in the collection of the motor vehicle fuels and special fuels taxes and administration of these taxes.

Section 5 of Senate Bill No. 2006 provides for the Tax Department to carry over unexpended 2005-07 biennium funding for the integrated tax system to the 2007-09 biennium.

Section 6 of Senate Bill No. 2006 provides for the statutory changes as necessary to increase the Tax Commissioner's salary as follows:

Annual salary as authorized by the 2005 Legislative Assembly:

July 1, 2005	\$76,774
July 1, 2006	\$79,845

Proposed annual salary recommendation in the 2007-09 executive budget:

July 1, 2007	\$83,039
July 1, 2008	\$86,360

The executive recommendation provides funding for elected officials' salary increases equal to 4 percent of salaries, effective July 1, 2007, and 4 percent, effective July 1, 2008.

Homestead tax credit - The provisions of the homestead tax credit, as amended pursuant to Senate Bill No. 2157 (2005), include the following:

- A homeowner or renter may not have income exceeding \$14,500 per year to be eligible for the program;
- A graduated reduction in the taxable value and resulting taxes of a person's homestead, to a maximum of \$3,038 (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to \$67,500 reduction in the value of the house; and
- For eligible renters making \$14,500 or less per year, the program provides a direct payment of the amount by which 20 percent of the total rent (representing the property tax portion) exceeds 4 percent of the applicant's annual income, not to exceed \$240.

Integrated tax processing system - Pursuant to Section 6 of 2005 House Bill No. 1006, the Tax Commissioner may purchase, finance the purchase, or lease equipment, software, and services to establish an integrated tax processing system for use by the Tax Commissioner's office. The principal amount of any financing agreement entered into by the Tax Commissioner may not exceed \$14,000,000. The repayment of any financing agreement entered into by the Tax Commissioner is to begin during the 2007-09 biennium and repayment amounts, including principal and interest, are to be incorporated in the Tax Commissioner's biennial budget requests to the Legislative Assembly.

Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

Senate Bill No. 2015 - Section 16 of Senate Bill No. 2015, the appropriation bill for the Office of Management and Budget, provides a standing and continuing appropriation to the **State Treasurer** of up to \$116,700,000 from the permanent oil tax trust fund for providing property tax relief payments to counties in accordance with a plan for the distribution of the payments as enacted by the Legislative Assembly.

Senate Bill No. 2032 - This bill provides a general fund appropriation of \$74,054,859 to the **Tax Commissioner** for the purpose of providing property tax relief payments to school districts. The bill requires a reduction of school district property tax authority to reflect the property tax relief allocation for each school district.

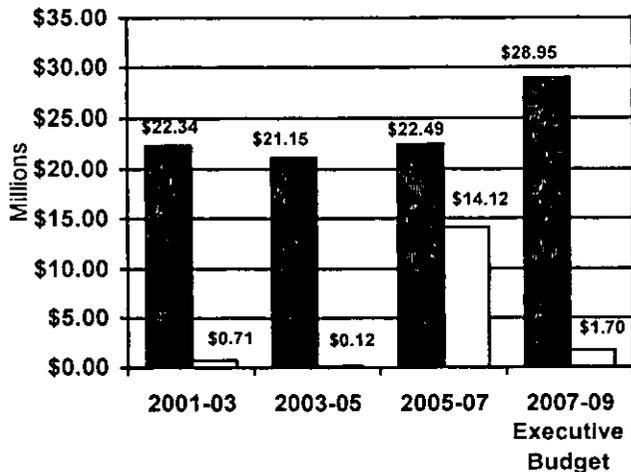
House Bill No. 1051 - This bill provides for a general fund appropriation of \$116,720,911 to the **State Treasurer** for providing state-paid property tax relief credits. The credit is equal to 10 percent of property taxes levied against residential property, or 5 percent of property taxes levied against commercial or agricultural property. The Tax Department is to determine the total amount of credits for each county from the abstract of the tax list filed by the county auditor, as audited and corrected by the Tax Department. The Tax Department is to certify to the State Treasurer payments to each county.

House Bill No. 1269 - This bill increases the maximum income level for a homeowner or renter to qualify for the homestead tax credit from \$14,500 to \$18,125.

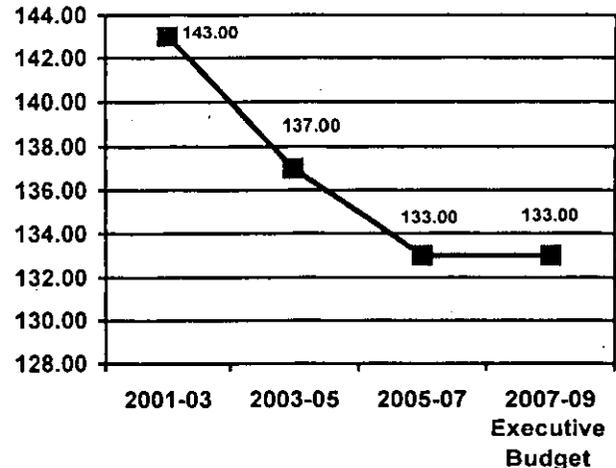
Department 127 - State Tax Commissioner
Senate Bill No. 2006

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	133.00	\$28,948,998	\$1,700,000	\$30,648,998
2005-07 Legislative Appropriations	133.00	22,485,152	14,120,000	36,605,152
Increase (Decrease)	0.00	\$6,463,846	(\$12,420,000)	(\$5,956,154)

Agency Funding



FTE Positions



■ General Fund □ Other Funds

First House Action

The Senate did not change the executive budget recommendation for the Tax Commissioner.

Executive Budget Highlights

	General Fund	Other Funds (\$14,000,000)	Total (\$14,000,000)
1. Removes one-time funding for integrated tax processing system. (The Tax Department entered into an agreement with the Bank of America to finance, over a six-year period, the purchase of the integrated tax processing software from FAST Enterprises.)			
2. Adds funding for principal (\$4,083,705) and interest (\$1,272,997) costs for the integrated tax processing system. Payments for six years beginning July 2007 (executive budget identified as one-time funding).	\$5,356,702		\$5,356,702
3. Adds funding from unexpended funds relating to the \$14 million loan for the integrated tax processing system for onsite and postproduction system support		\$1,150,000	\$1,150,000
4. Changes funding for the annual maintenance agreement for the integrated tax processing system from the general fund to unexpended loan funds	(\$550,000)	\$550,000	\$0
5. Provides funding for information technology equipment over \$5,000 to purchase scanners	\$18,000		\$18,000
6. Provides \$4.5 million from the general fund for the homestead tax credit, the same as the 2005-07 biennium			\$0
7. Decreases funding for information technology contractual services due to elimination of the Federal Highway Administration program that has been providing grant money to states to enhance motor fuels tax projects		(\$120,000)	(\$120,000)
8. Adds funding for anticipated growth in information technology data storage needs and telephone service rates	\$380,485		\$380,485

Other Sections in Bill

Section 4 of Senate Bill No. 2006 provides for a transfer of \$1,274,056 to the general fund, out of motor vehicle fuel taxes collected, which is the amount received by the Tax Commissioner's office for expenses incurred in the collection of the motor vehicle fuels and special fuels taxes and administration of these taxes.

Section 5 of Senate Bill No. 2006 provides for the Tax Department to carry over unexpended 2005-07 biennium funding for integrated tax system to the 2007-09 biennium.

Section 6 of Senate Bill No. 2006 provides for the statutory changes as necessary to increase the Tax Commissioner's salary as follows:

Annual salary as authorized by the 2005 Legislative Assembly:

July 1, 2005	\$76,774
July 1, 2006	\$79,845

Proposed annual salary recommendation in the 2007-09 executive budget:

July 1, 2007	\$83,039
July 1, 2008	\$86,360

The executive recommendation provides funding for elected officials' salary increases equal to 4 percent of salaries, effective July 1, 2007, and 4 percent, effective July 1, 2008.

Homestead tax credit - The provisions of the homestead tax credit, as amended pursuant to Senate Bill No. 2157 (2005), include the following:

- A homeowner or renter may not have income exceeding \$14,500 per year to be eligible for the program;
- A graduated reduction in the taxable value and resulting taxes of a person's homestead, to a maximum of \$3,038 (4.5 percent of taxable value) based on the applicant's income level;
- The maximum benefits are limited to \$67,500 reduction in the value of the house; and
- For eligible renters making \$14,500 or less per year, the program provides a direct payment of the amount by which 20 percent of the total rent (representing the property tax portion) exceeds 4 percent of the applicant's annual income, not to exceed \$240.

Integrated tax processing system - Pursuant to Section 6 of 2005 House Bill No. 1006, the Tax Commissioner may purchase, finance the purchase, or lease equipment, software, and services to establish an integrated tax processing system for use by the Tax Commissioner's office. The principal amount of any financing agreement entered into by the Tax Commissioner may not exceed \$14,000,000. The repayment of any financing agreement entered into by the Tax Commissioner is to begin during the 2007 biennium and repayment amounts, including principal and interest, are to be incorporated in the Tax Commissioner's biennial budget requests to the Legislative Assembly.

Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

Engrossed Senate Bill No. 2032 - This bill provides a general fund appropriation of \$100,177,634 to the Tax Commissioner for the purpose of providing property tax relief payments to school districts. The bill requires a reduction of school district property tax authority to reflect the property tax relief allocation for each school district.

Engrossed Senate Bill No. 2324 - This bill changes the eligibility requirements for the homestead property tax credit.

Senate Bill No. 2380 - This bill provides sales and use tax amendments necessary for compliance with the streamlined sales and use tax agreement.

Engrossed House Bill No. 1051 - This bill removes the "marriage penalty" and updates the individual income tax brackets to the inflation-indexed level for tax year 2007, changes the eligibility requirements for the homestead property tax credit, and provides funding from the permanent oil tax trust fund for property tax relief payments to counties.



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

BUDGET PRESENTATION
SENATE APPROPRIATIONS COMMITTEE
Senate Bill 2006
January 16, 2007

Agency Overview

The Office of State Tax Commissioner is the primary revenue-collecting agency for the State of North Dakota, administering 35 different tax types and collecting over \$2.5 billion a biennium.

Summary of Major Goals and Objectives

The Tax Department uses sound business practices in our daily operations in order to be accountable to the Legislature and taxpayers. The attached chart indicates the Department has improved its productivity by nearly 57 percent since 1992 with fewer employees, due to increased efficiencies and implementing changes and improvements in business applications.

Major Accomplishments

Integrated Tax System (GenTax)

The 2005 legislature authorized the Office of State Tax Commissioner to establish an integrated tax system during the 2005-2007 biennium. The legislation authorized the Tax Department to borrow an amount not to exceed \$14.0 million for the new system. Through December 31, 2006, the Tax Department has spent \$6,988,098 of that authorized amount. And, as of December 31, 2006 the project was under budget by \$2,063,706 including interest. The repayment schedule will begin July 2007 in the amount of \$2,678,351 per year.

- January 2006, the department converted Sales and Use taxes, local option taxes, City Lodging, and City Restaurant & Lodging taxes to the new system (GenTax). Converting these tax types first provided the Department an opportunity to incorporate changes resulting from Streamlined Sales tax legislation (SB 2050, SB 2095, and SB 2096) directly into the new system.
- On June 5, 2006, Withholding, Motor Fuels & Estate tax types were converted to GenTax.
- On January 8, 2007, the department converted Individual Income tax to the new system.
- Corporate Income tax will be converted to GenTax in June 2007.

The Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase compliance, improve over-all performance, and expand taxpayer services. Some of the benefits already experienced with the rollouts include:

- Automation in processing returns, including issuing refunds.
- Simplified waiver and penalty assessment.
- Increased speed and efficiency in entering information.
- Improved access to all taxpayer records for a specific taxpayer and more information is available for accounts due to elimination of tax "silos."
- Increased ability to track information, including information about refunds for statistical purposes.
- Increased efficiency in applying credits from one period to another or from one tax type to another.
- More efficient use of time in reconciling quarterly sales tax collections and certification process.

E-File Services

During 2006 over 50% (166,733) of the individual income tax returns were filed electronically. This represents 13% growth compared to the number of e-file returns received during 2005 (see attached chart). The Tax Department continues to promote electronic filing for individual income tax returns and anticipates the growth to continue. The Tax Department has partnered with private industry and the IRS in the Free File Alliance. This partnership offers free e-file opportunities to about 70% of North Dakota taxpayers with no cost to the Tax Department.

Streamlined Sales & Use tax

The Streamlined Sales and Use Tax Agreement took effect October 1, 2005. This represents a nationwide effort to develop a system that simplifies sales and use tax collection and administration by retailers and states. North Dakota joined 12 other states to implement the streamlined agreement, with additional states joining at a later date.

The Streamlined Sales Tax Project (SSTP) is designed to reduce the number of sales tax rates, bring uniformity to definitions of taxable items, reduce the paperwork burden on retailers, and incorporate new technology to modernize many administrative functions. In doing so, North Dakota also provides a simplified sales and use tax system that offers electronic registration, electronic filing and payment options.

Conversion to NAICS

The Tax Department recently implemented the North American Industry Classification System (NAICS) in place of the U.S. Standard Industrial Classification (SIC) system for use in developing statistics about North Dakota business activity. Because the SIC system was last updated in 1987, the new industry classification system provides more complete and useful information regarding new technologies and new industry segments that are more relevant to today's economy.

Department Reorganization

As part of the Tax Department's mission to fairly and effectively administer the tax laws of North Dakota, the Tax Department has continued in its reorganization effort for certain tax types. The goal, as noted in the past, is to define a department that is more efficient and effective, ensures fulfillment of the department's Mission Statement, places major emphasis on good customer service, and improves utilization of space. The work on the integrated tax system project has confirmed the need for a reorganized Tax Department. By realigning key processes, functions and organizational units the department will be structured more effectively and improve the delivery of services to our customers.

Customer Service Initiatives

The Office of State Tax Commissioner's top priority continues to be focused on providing taxpayers with excellent customer service. During the 2005-07 biennium, each division within the Tax Department continued to provide taxpayer assistance and pursued various customer service-related projects by:

- Providing nearly 50 presentations regarding North Dakota's taxes.
- Working with other state agencies and the IRS to assist taxpayers in understanding and reporting taxes, and educating about incentives.
- Implementing changes for tax laws and local taxes.
- Developing new programming and electronic filing for taxpayers to use when reporting taxes.
- Updating manuals, forms, tax return processing, and programs.

Agency Future Critical Issues

The North Dakota Office of State Tax Commissioner collected over 82 percent of all general fund dollars in fiscal year 2006 (excluding general fund taxes collected by DOT). The Office of State Tax Commissioner continues to hold customer service as a top priority. Our mission statement and guiding principles emphasize this philosophy and stress the importance of providing prompt, accurate, and courteous customer service through fair and effective administration of tax laws.

1. One of the guiding principles in the Office of State Tax Commissioner's Mission Statement states, "We recognize employees are our biggest asset." The ability to retain highly qualified employees, including the recruitment and selection of qualified employees, is vital to the successful administration of the state's tax laws. It is important the Tax Department has the ability to provide competitive salaries, including the ability to offer salary increases to employees. It is also important to have the flexibility to reassign duties among staff that may result in reclassifications and pay adjustments to position the department to take full advantage of the opportunities presented from the implementation of an integrated tax system.
2. As the public becomes increasingly more accustomed to electronic services, they request and expect additional electronic options for all tax types from the Tax Department. The Tax Department has implemented successful e-filing opportunities for several of the primary tax types: Individual Income Tax, Income Tax Withholding, Sales and Use Taxes,

and Motor Fuel Taxes. In addition, the federal government is expanding electronic filing opportunities to other taxes, such as Corporate Income Taxes. This will provide additional opportunities to the state to advance its own electronic filing capabilities. It will be important to continue funding the development of new, customer-focused automated applications to replace outdated applications.

3. The request of \$1.15 million will allow the Tax Department to contract with FAST Enterprises for on-site support during the next biennium. The on-site support will ensure that the State's new integrated tax system is managed well and will allow the Tax Department staff to learn more about configuration changes required to support legislative law changes. The on-site vendor support will engage in a variety of support activities, including:

- Resolving defects in North Dakota-specific configurations and modules (defects not covered by maintenance).
- Assisting with changing system configuration, such as the implementation of legislatively mandated rate changes, line item changes, compliance changes, etc.
- Enhancing the utilization of GenTax by improving related business processes, identifying opportunities for additional efficiencies, expanding the analysis of data, etc.
- Assisting with changing or developing new interfaces to other systems (e.g. online filing, imaging, etc.).
- Coordinating with FAST Enterprises Solution Centers on problem resolution and upgrade requests.
- Coordinating with other FAST Enterprises customers for best practices recommendations.
- Providing upgrade analysis, service pack analysis, and installation.
- Providing performance tuning.
- Providing database maintenance, analysis and review.
- Providing supplemental training.

This on-site support is a critical component to the successful use of the system. During the implementation process, State personnel have gained a certain amount of knowledge regarding the operation and maintenance of the system. However, staff will not be ready to handle all support activities on their own at the conclusion of the final rollout. The on-site vendor resources will work directly with State personnel to provide the training needed so that the State may successfully assume all support functions for ongoing operations, maintenance, and enhancements to the GenTax system. This training will enhance the integrated approach to tax processing, administration and compliance and will eliminate the need for future on-site support.

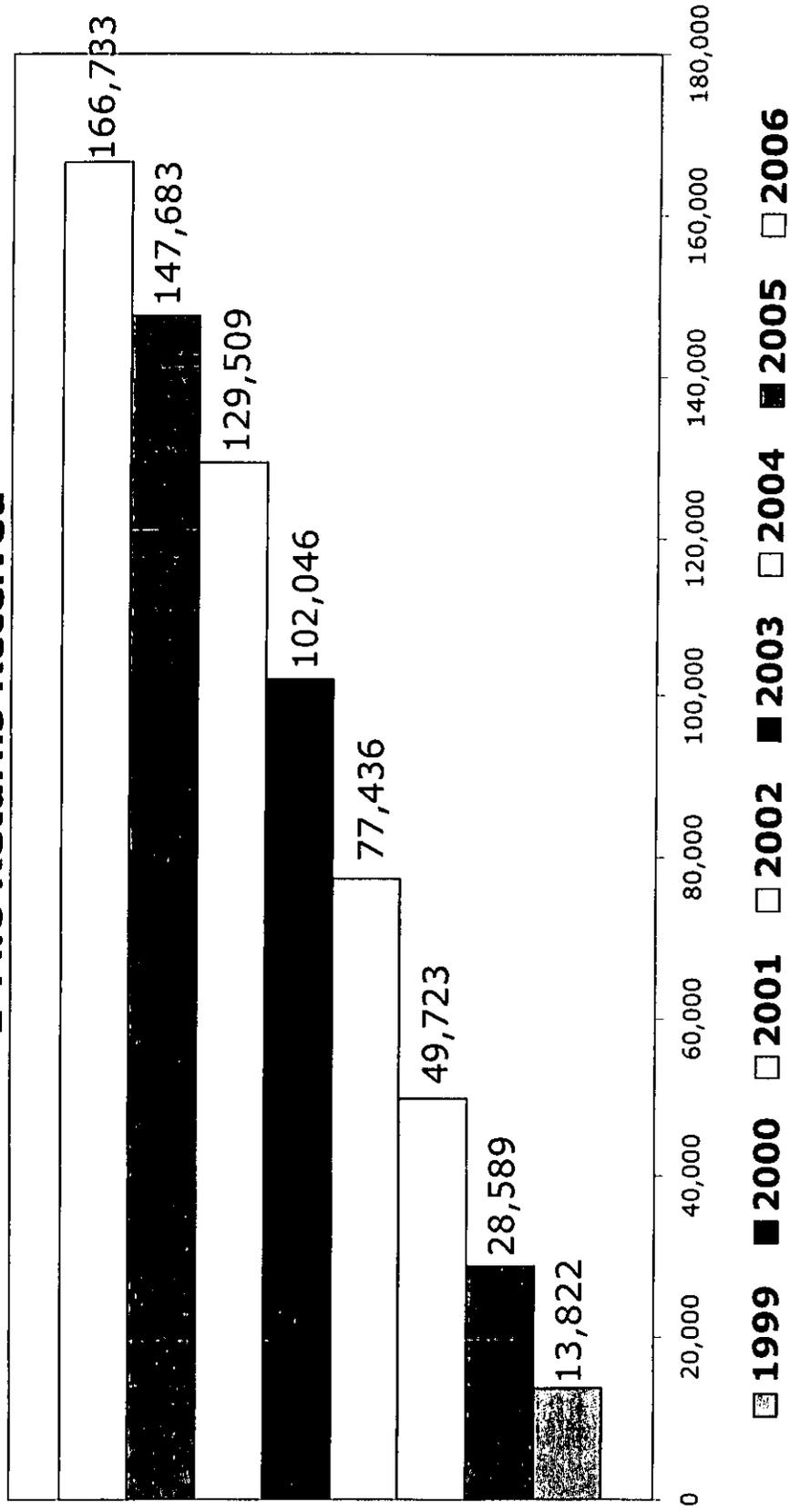
Budget Overview

DESCRIPTION	2005-2007 Appropriation	Adjustments	Total of Adjustments by Line Item	2007-09 Executive Recommendation
Salaries & Wages	13,466,823	221,895	1,276,659	14,743,482
		1,054,764		
Operating Expenses	4,613,329	348,085	1,417,485	6,030,814
		32,400		
		1,150,000		
		(113,000)		
Capital Assets	25,000	(7,000)	(7,000)	18,000
Grants (Homestead)	4,500,000	0	0	4,500,000
Integrated Tax System	14,000,000	(8,643,298)	(8,643,298)	5,356,702
Total	\$36,605,152	(\$5,956,154)	(\$5,956,154)	\$30,648,998
General Fund	22,485,152	6,463,846	6,463,846	28,948,998
Federal Funds	120,000	(120,000)	(120,000)	0
Special Funds	14,000,000	(12,300,000)	(12,300,000)	1,700,000
Total	\$36,605,152	(\$5,956,154)	(\$5,956,154)	\$30,648,998
FTE	133			133

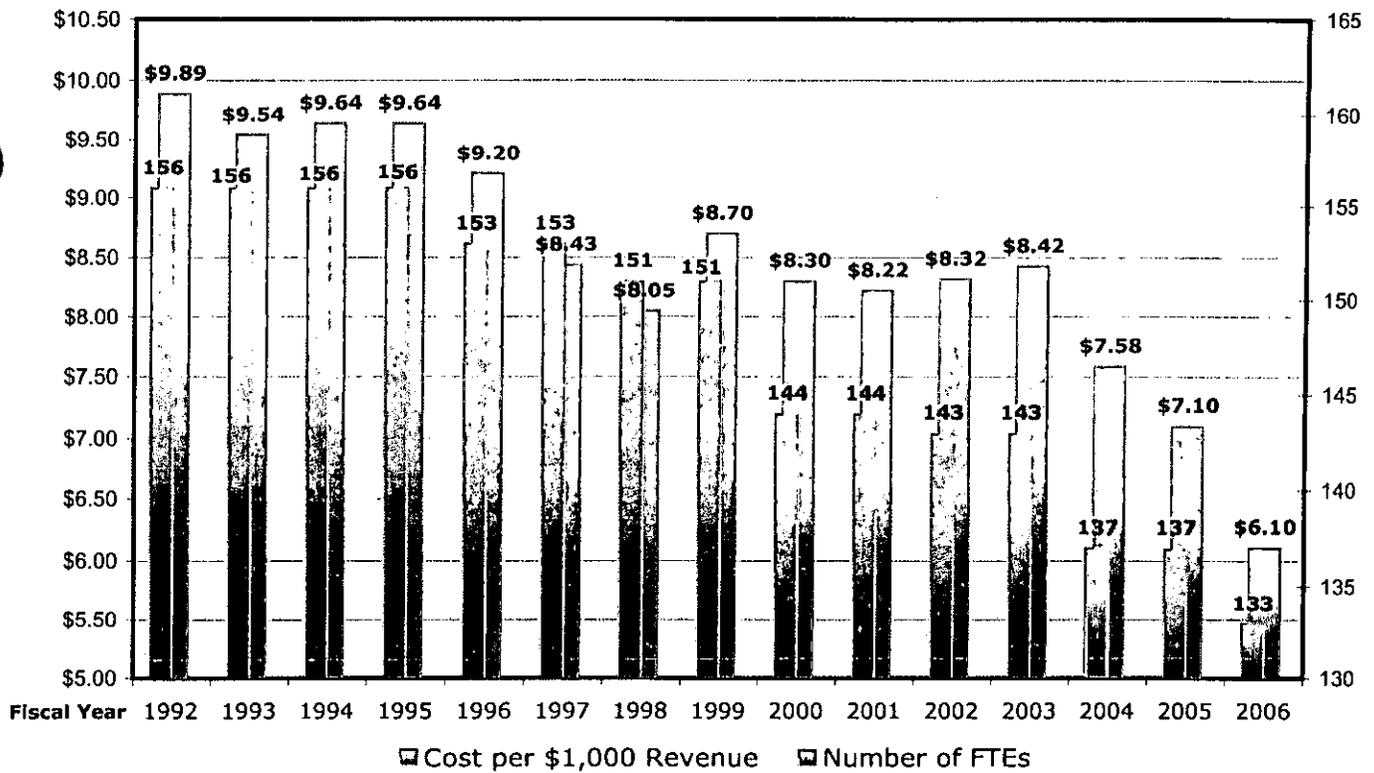
Explanation of Variance

1. Cost to continue 2005-07 payroll expenses included according to OMB guidelines.
2. Compensation adjustment recommended by the Governor - 4% in each of the years of the biennium with full health insurance premiums paid.
3. Adjustment for additional ITD storage costs.
4. Adjustment for additional ITD telephone costs.
5. Adjustment for on-site support for Integrated Tax System. This will be funded from Integrated Tax System project savings.
6. Elimination of Motor Fuels federal grant program (\$120,000).
7. Reduction in Capital Asset needs.
8. The Department was granted authority to expend up to \$14 million during the 2005-07 biennium for an Integrated Tax System project. This reduction represents the end of that authority and the beginning of loan payments for the project. Two payments in the amount of \$2,678,350.61 are due in July of each year of the biennium. The final payment is scheduled for July 2012.
9. Carryover authority of \$1.7 million of unexpended Integrated Tax System project funds is included in the Governor's budget recommendation. This carryover amount will cover \$1.15 million for post production costs and on-site support, and \$550,000 for one year of maintenance agreement fees.

Office of State Tax Commissioner
Individual Income Tax
E-File Returns Received



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



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

In 1992, the Tax Department spent \$9.89 for each \$1,000 collected. Adjusting for inflation, the 1992 cost per \$1,000 would be \$14.28 today¹. Most recently, the actual cost of collecting \$1,000 is \$6.10. This represents a nominal drop of \$3.79 and a drop of \$8.18 in real terms. The Tax Department has improved its productivity by over 57% in the past fifteen years.

¹ The Consumer Price Index indicates inflation totaled 44.4% from July 1991 to June 2006.

Fiscal Year:	1992	1993	1994	1995	1996
Total Revenue collected by Tax Department	\$900,493,959	\$939,048,643	\$900,048,139	\$933,032,619	\$932,708,879
Tax Department Total Expenditures	\$8,903,983	\$8,961,846	\$8,677,224	\$8,993,002	\$8,585,201
Tax Department Cost/\$1,000 Revenue Collected	\$9.89	\$9.54	\$9.64	\$9.64	\$9.20
# of FTEs	156	156	156	156	153

Fiscal Year:	1997	1998	1999	2000	2001
Total Revenue collected by Tax Department	\$991,370,409	\$1,017,868,345	\$1,031,394,606	\$1,035,520,832	\$1,072,176,117
Tax Department Total Expenditures	\$8,361,839	\$8,189,747	\$8,969,526	\$8,594,487	\$8,812,672
Tax Department Cost/\$1,000 Revenue Collected	\$8.43	\$8.05	\$8.70	\$8.30	\$8.22
# of FTEs	153	151	151	144	144

Fiscal Year:	2002	2003	2004	2005	2006
Total Revenue collected by Tax Department	\$1,013,262,422	\$1,047,566,666	\$1,040,298,024	\$1,186,639,566	\$1,364,086,835
Tax Department Total Expenditures	\$8,427,227	\$8,825,117	\$7,884,009	\$8,424,200	\$8,323,008
Tax Department Cost/\$1,000 Revenue Collected	\$8.32	\$8.42	\$7.58	\$7.10	\$6.10
# of FTEs	143	143	137	137	133

IT BUDGET 2005 -- 2007	Biennium Budget	IT BUDGET 2007 -- 2009	Biennium Budget Including Optional Budget	Difference
ITD - Data Processing (3002)		ITD - Data Processing (3002)	\$1,111,200	(\$618,556.00)
Mainframe Operating	\$1,729,756	Mainframe Operating	\$0	(\$806,658.00)
Connectivity	\$160,000	Connectivity	\$162,000	\$2,000.00
Consolidation Costs	\$3,340	File and Print (Consolidation)	\$23,466	\$20,126.00
Server Hosting (O&G, ZyTax, GP, FIT, eFile, Disk (FS and Data))	\$60,000	Server Hosting (O&G, ZyTax, GP, FIT, eFile, Disk (FS and Data))	\$320,849	\$260,849.00
ConnectND Charges	\$59,250	ConnectND Charges	\$221,899	\$162,649.00
LiquidOffice	\$44,784	LiquidOffice	\$48,552	\$3,768.00
Data Capture / EDMS	\$13,632	Data Capture and EDMS (inc disk)	\$13,626	(\$6.00)
Programming	\$116,092	Programming	\$196,077	\$79,985.00
Microfilm	\$460,000	Microfilm	\$121,000	(\$339,000.00)
	\$6,000		\$3,731	(\$2,269.00)
IT Contractual Services (3008)	\$170,840	IT Contractual Services (3008)	\$1,161,000	\$990,160.00
Software Customization (Binary, Link2Gov, Link2Gov, etc)	\$15,000	Software Customization (Binary, Link2Gov, etc)	\$10,000	(\$5,000.00)
Extended warranties for Fujitsu 4099	\$8,000	Extended warranties for Fujitsu FI-4860C	\$1,000	(\$7,000.00)
Frank Solutions - Service Bureau (IVR)	\$12,240			(\$12,240.00)
Frank Solutions - TeleFile (W/H)	\$15,600			(\$15,600.00)
Motor Fuel Federal Grant	\$120,000	On-site GenTax support	\$1,150,000	\$1,030,000.00
Computer Software Miscellaneous	\$219,237	Computer Software Miscellaneous (3005)	\$1,309,925	\$1,090,688.00
Miscellaneous	\$2,000	FAST GenTax Maintenance	\$1,100,000	\$1,100,000.00
Business Microvar - eEnterprise Software	\$10,000	Miscellaneous	\$2,000	\$0.00
ZyTax Annual Maintenance	\$125,000	Business Microvar - eEnterprise Software	\$10,000	\$0.00
ACL (Sales Tax Audit Random Sampler)	\$1,375	ZyTax Annual Maintenance	\$142,500	\$17,500.00
ISYS (Sales Tax Audit)	\$2,300	ACL (Sales Tax Audit Random Sampler)	\$1,375	\$0.00
Phoenix - Falcon Data Entry Software	\$5,000	ISYS (Sales Tax Audit)	\$1,500	(\$800.00)
Power Archiver / Miscellaneous	\$1,000	Phoenix - Falcon Data Entry Software	\$1,500	(\$3,500.00)
GIS Software (ITD IDB)	\$7,800	ASAP - Symantec Ghost	\$1,000	\$0.00
ASAP - MS Software Assurance	\$27,012	ASAP - Symantec Ghost	\$1,000	\$0.00
Inovis - Trusted Link	\$1,800	ASAP - MS Software Assurance	\$28,600	\$4,200.00
Altova XML Spy	\$250	Bull Services - Sesam Stat	\$1,650	\$650.00
Verify and Scan Station Software	\$35,700	Xceed Software Inc - Xtras.Net	\$2,200	\$400.00
		Intuit - QuickBooks ProAdvisor	\$5,600	\$5,350.00

362wb

TREND Project Timeline Rollout 2.xls

Task	Schedule																										
	Start	Stop	1/2	1/9	1/16	1/23	1/30	2/6	2/13	2/20	2/27	3/6	3/13	3/20	3/27	4/3	4/10	4/17	4/24	5/1	5/8	5/15	5/22	5/29	6/5		
ROLLOUT 2: Withholding, Motor Fuel, Motor Fuel Refunds, and Estate Tax																											
Base Configuration	16-Jan-06	5-Jun-06																									
Scope preliminary configuration	9-Jan-06	13-Jan-06																									
Perform preliminary configuration	16-Jan-06	24-Feb-06																									
Conduct verification sessions	1-Mar-06	3-Mar-06																									
Billing - March 1 - \$295,000																											
Development																											
Build/test letter modules	28-Feb-06	14-Apr-06																									
Build/test report modules	28-Feb-06	14-Apr-06																									
Build/test external interface modules	28-Feb-06	14-Apr-06																									
Build/test other site modules	28-Feb-06	14-Apr-06																									
Define/configure application security	28-Feb-06	14-Apr-06																									
Revise/review configurations	28-Feb-06	14-Apr-06																									
Billing - May 1 - \$442,500																											
Conversion																											
Inventory data stores	16-Jan-06	10-Feb-06																									
Conversion approach	16-Jan-06	10-Feb-06																									
Data purification	6-Feb-06	7-Apr-06																									
Build/test conversion extract modules	6-Feb-06	28-Apr-06																									
Build/test conversion load modules	6-Feb-06	28-Apr-06																									
Run mock conversions	3-Apr-06	12-May-06																									
Testing																											
Test plan	3-Apr-06	7-Apr-06																									
System test	15-Apr-06	19-May-06																									
Converted data test	8-May-06	19-May-06																									
End-to-End test	15-May-06	26-May-06																									
Billing - June 1 - \$221,250																											
Training																											
Training Plan	6-Mar-06	10-Mar-06																									
Localize training material	20-Mar-06	28-Apr-06																									
Localize on-line user documentation	17-Apr-06	28-Apr-06																									
Train trainers	1-May-06	5-May-06																									
Train users	8-May-06	9-Jun-06																									
Rollout																											
Confirm production hardware/software/network plan	6-Mar-06	10-Mar-06																									
Procure/install hardware/software/etc	13-Mar-06	26-May-06																									
Operations manual	22-May-06	26-May-06																									
Train operators	29-May-06	2-Jun-06																									
Cutover checklist	17-Apr-06	21-Apr-06																									
Desk side support plan	8-May-06	12-May-06																									
Help desk plan	8-May-06	12-May-06																									
Production Conversion	2-Jun-06	4-Jun-06																									
Production Go-Live	5-Jun-06	5-Jun-06																									
Billing - July 1 - \$516,250																											

TREND Project Milestones

Milestones and Deliverables

The definition of the milestones used for determining payment, including the specific deliverables associated with those milestones, are as follows:

Base Configuration – for each rollout, this milestone will be considered to occur when the tasks and deliverables specified in the Preparation, Installation, Definition, and Base Configuration phases of the GenTax Implementation Methodology have been completed for that rollout. Additional deliverables that must be substantially completed as part of the milestone include the Project Plan and Implementation Specification artifacts. It is understood that these and other artifacts indicated below may change throughout the life of the project, so substantially complete as used herein means that they must reflect system or project status at the time of the respective milestone.

Development – for each rollout, this milestone will be considered to occur when the tasks and deliverables specified in the Development phase of the GenTax Implementation Methodology have been completed for that rollout. Additional deliverables that must be substantially completed as part of the milestone include the Conversion Approach Document.

Conversion and Testing – for each rollout, this milestone will be considered to occur when the tasks and deliverables specified in the Conversion and Testing phase of the GenTax Implementation Methodology have been completed for that rollout. Additional deliverables that must be substantially completed as part of the milestone include the Test Plan (including system test scenarios) and Test Reports.

Training and Rollout – for each rollout, this milestone will be considered to occur when the tasks and deliverables specified in the Conversion, User Training and Rollout phases of the GenTax Implementation Methodology have been completed for that rollout. Additional deliverables that must be substantially completed as part of the milestone include the Training Plan, User Documentation, Functional Design Documentation, Database Design Documentation, Meta Data Documentation, Interface Control Documentation, Software Development Standards Documentation, and Rollout Plan.

Final Acceptance – this milestone will occur upon completion of the R4 Production Cutover and State's written acknowledgement that all project tasks and deliverables have been completed, and that the Software has been fully implemented, including base functionality, defined tax types and required interfaces. Deliverables include all of those mentioned above plus Installation Procedures, Operations Manual, Disaster Recovery Procedures, User Manual, Training Manual and any others specified in RFP 127.05-002. The Software must also be operating at the levels of system availability, application response time and other performance criteria specified in Section 5 of the RFP, and with an absence of problems or defects of the following types as defined by State:

- Failure or defect that has a mission critical impact
- Failure or defect that is impacting business continuity
- Failure or defect that creates an instance where the entire Software application or a significant component thereof cannot be used
- Failure or defect where an acceptable workaround cannot be provided



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

BUDGET PRESENTATION
HOUSE APPROPRIATIONS COMMITTEE

Senate Bill 2006
February 27, 2007

Agency Overview

The Office of State Tax Commissioner is the primary revenue-collecting agency for the State of North Dakota, administering 35 different tax types and collecting over \$2.5 billion a biennium.

Summary of Major Goals and Objectives

The Office of State Tax Commissioner uses sound business practices in our daily operations in order to be accountable to the Legislature and taxpayers. The attached chart indicates the Department has improved its productivity by nearly 57 percent since 1992 with fewer employees, due to increased efficiencies and implementing changes and improvements in business applications.

Major Accomplishments

Integrated Tax System (GenTax)

The 2005 legislature authorized the Office of State Tax Commissioner to establish an integrated tax system during the 2005-2007 biennium. The legislation authorized the Department to borrow an amount not to exceed \$14.0 million for the new system. Through January 31, 2007, the Department has spent \$9,272,765 of that authorized amount. And, as of January 31, 2007 the project was under budget by \$2,529,432 including interest. The repayment schedule will begin July 2007 in the amount of \$2,678,351 per year.

Implementation Schedule:

- **January 2006:** Converted Sales and Use taxes, local option taxes, City Lodging, and City Restaurant & Lodging taxes to the new system (GenTax). *Converting these tax types first provided the Department an opportunity to incorporate changes resulting from Streamlined Sales tax legislation (SB 2050, SB 2095, and SB 2096) directly into the new system.*
- **June 5, 2006:** Converted Withholding, Motor Fuels & Estate tax types.
- **January 8, 2007:** Converted Individual Income tax.
- **June 2007:** Convert Corporate Income tax.

The Integrated Tax System positions the State to continue to reduce the cost of collecting revenue, increase compliance, improve over-all performance, and expand taxpayer services. Some of the benefits already experienced with the rollouts include:

- Automation in processing returns, including issuing refunds.
- Simplified waiver and penalty assessment.

- Increased speed and efficiency in entering information.
- Improved access to all taxpayer records for a specific taxpayer and more information is available for accounts due to elimination of tax "silos."
- Increased ability to track information, including information about refunds for statistical purposes.
- Increased efficiency in applying credits from one period to another or from one tax type to another.
- More efficient use of time in reconciling quarterly sales tax collections and certification process.

E-File Services

During 2006 over 50% (166,733) of the individual income tax returns were filed electronically. This represents 13% growth compared to the number of e-file returns received during 2005 (see attached chart). The Office of State Tax Commissioner continues to promote e-file for individual income tax returns and anticipates the growth to continue. The Department partnered with private industry and the IRS in the Free File Alliance to offer free e-file opportunities to about 70% of North Dakota taxpayers with no cost to the Department.

Streamlined Sales & Use Tax

The Streamlined Sales and Use Tax Agreement took effect October 1, 2005. This represents a nationwide effort to develop a system that simplifies sales and use tax collection and administration by retailers and states. North Dakota joined 12 other states to implement the streamlined agreement, with additional states joining at a later date.

The Streamlined Sales Tax Project (SSTP) is designed to reduce the number of sales tax rates, bring uniformity to definitions of taxable items, reduce the paperwork burden on retailers, and incorporate new technology to modernize many administrative functions. In doing so, North Dakota also provides a simplified sales and use tax system that offers electronic registration, electronic filing and payment options.

Conversion to NAICS

The Office of State Tax Commissioner recently implemented the North American Industry Classification System (NAICS) in place of the U.S. Standard Industrial Classification (SIC) system for use in developing statistics about North Dakota business activity. Because the SIC system was last updated in 1987, the new industry classification system provides more complete and useful information regarding new technologies and new industry segments that are more relevant to today's economy.

Department Reorganization

As part of the Office of State Tax Commissioner's mission to fairly and effectively administer the tax laws of North Dakota, the Department has continued in its reorganization effort for certain tax types. The goal, as noted in the past, is to define a department that is more efficient and effective, ensures fulfillment of the Department's Mission Statement, places major emphasis on good customer service, and improves utilization of space. The work on the integrated tax system project has confirmed the need for a reorganized Department. By realigning key processes, functions and organizational units the Department will be structured more effectively and improve the delivery of services to our customers.

Customer Service Initiatives

The Office of State Tax Commissioner's top priority continues to be focused on providing taxpayers with excellent customer service. During the 2005-07 biennium, the Department continued to provide taxpayer assistance through various customer service-related activities:

- Providing nearly 50 presentations regarding North Dakota's taxes.
- Working with other state agencies and the IRS to assist taxpayers in understanding and reporting taxes, and educating about incentives.
- Implementing changes for tax laws and local taxes.
- Developing new programming and electronic filing for taxpayers to use when reporting taxes.
- Updating manuals, forms, tax return processing, and programs.

Agency Future Critical Issues

The Office of State Tax Commissioner collected over 82 percent of all general fund dollars in fiscal year 2006 (excluding general fund taxes collected by DOT). The Department continues to hold customer service as a top priority. Our mission statement and guiding principles emphasize this philosophy and stress the importance of providing prompt, accurate, and courteous customer service through fair and effective administration of tax laws.

1. One of the guiding principles in the Office of State Tax Commissioner's Mission Statement states, "We recognize employees are our biggest asset." The ability to retain highly qualified employees, including the recruitment and selection of qualified employees, is vital to the successful administration of the state's tax laws. It is important the Department has the ability to provide competitive salaries, including the ability to offer salary increases to employees. It is also important to have the flexibility to reassign duties among staff that may result in reclassifications, vacancies, and resulting pay adjustments to position the department to take full advantage of the opportunities presented from the implementation of an integrated tax system.
2. As the public becomes increasingly more accustomed to electronic services, they request and expect additional electronic options for all tax types from the Department. The Department has implemented successful e-filing opportunities for several of the primary tax types: Individual Income Tax, Income Tax Withholding, Sales and Use Taxes, and Motor Fuel Taxes. In addition, the federal government is expanding electronic filing opportunities to other taxes, such as Corporate Income Taxes. This will provide additional opportunities for the state to advance its own electronic filing capabilities. It will be important to continue funding the development of new, customer-focused automated applications to replace outdated applications.
3. The request of \$1.15 million will allow the Department to contract with FAST Enterprises for on-site support during the next biennium. This on-site support is a critical component to the successful use of the system. During the implementation process, State personnel have gained a certain amount of knowledge regarding the operation and maintenance of the system. However, staff will not be ready to handle all support activities on their own at the conclusion of the final rollout. The on-site vendor resources will work directly with State personnel to provide the training needed so that the State may successfully assume all support functions for ongoing operations, maintenance, and enhancements to the GenTax system. This training will enhance the integrated approach to tax processing, administration and compliance and will eliminate the need for future on-site support.

Budget Overview

DESCRIPTION	2005-2007 Appropriation	Adjustments	Total of Adjustments by Line Item	2007-09 Executive Recommendation
Salaries & Wages	13,466,823	221,895	1,276,659	14,743,482
		1,054,764		
Operating Expenses	4,613,329	348,085	1,417,485	6,030,814
		32,400		
		1,150,000		
		(113,000)		
Capital Assets	25,000	(7,000)	(7,000)	18,000
Grants (Homestead)	4,500,000	0	0	4,500,000
Integrated Tax System	14,000,000	(8,643,298)	(8,643,298)	5,356,702
Total	\$36,605,152	(\$5,956,154)	(\$5,956,154)	\$30,648,998
General Fund	22,485,152	6,463,846	6,463,846	28,948,998
Federal Funds	120,000	(120,000)	(120,000)	0
Special Funds	14,000,000	(12,300,000)	(12,300,000)	1,700,000
Total	\$36,605,152	(\$5,956,154)	(\$5,956,154)	\$30,648,998
FTE	133			133

Explanation of Variance

1. Cost to continue 2005-07 payroll expenses included according to OMB guidelines.
2. Compensation adjustment recommended by the Governor - 4% in each of the years of the biennium with full health insurance premiums paid.
3. Adjustment for additional ITD storage costs.
4. Adjustment for additional ITD telephone costs.
5. Adjustment for on-site support for Integrated Tax System. This will be funded from Integrated Tax System project savings.
6. Elimination of Motor Fuels federal grant program (\$120,000).
7. Reduction in Capital Asset needs.
8. The Department was granted authority to expend up to \$14 million during the 2005-07 biennium for an Integrated Tax System project. This reduction represents the end of that authority and the beginning of loan payments for the project. Two payments in the amount of \$2,678,350.61 are due in July of each year of the biennium. The final payment is scheduled for July 2012.
9. Carryover authority of \$1.7 million of unexpended Integrated Tax System project funds is included in the Governor's budget recommendation. This carryover amount will cover \$1.15 million for post production costs and on-site support, and \$550,000 for one year of maintenance agreement fees.