

2015 SENATE APPROPRIATIONS

SB 2006

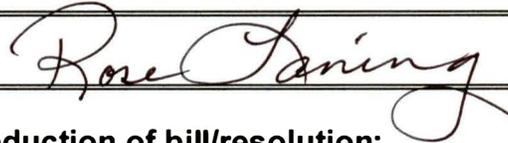
2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
1/9/2015
Job # 21795

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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

Minutes:

Attachment #1

Legislative Council - Adam Mathiak
OMB - Becky Deichert

Chairman Holmberg called the committee to order on SB 2006. All committee members were present. The sub-committee will be Senators Wanzek, Krebsbach and O'Connell.

Ryan Rauschenberger, ND Tax Commissioner: introduced staff.

Joe Morrisette - Dpty. Tax Commissioner; Myles Vosberg, Dir. Of Tax Administration; Glenda Anderson - CFO; Doneen Gaffner - Fiscal Management; Linda Leadbetter - Division Director for Property Taxes.

Speaking from handout - see attachment

(10:50) **Senator Carlisle:** On the Homestead Tax Credit - the maximum limit is \$500,000, correct? And income limits include Social Security benefits, right?

Ryan Rauschenberger: That is correct. Current social security is included in the definition of income under the current program. That was passed during the 2013 session. The income limit went up to \$42,000 from \$26,000. The asset test was raised \$500,000 and social security remained income that counts against that threshold.

Speaking from page 5 of handout -

Chairman Holmberg: You have an increase of 4 FTEs in this budget, but if you go back 8-10 years, I believe you had a lot more employees than the 134 you have now. I can't remember the number, but it seems we reduced your agency by a lot over the years.

Ryan Rauschenberger: We had 156 employees in 1995 and that was reduced to 134. Through technological advances, we've reduced them.

Senator Heckaman: Why are you looking for temporary employees rather than full-time?

Ryan Rauschenberger: We rely heavily on temporary employees for a couple different areas. Individual impact processing is very seasonal. We have a number of temporary employees that come in. Some of them have come in for a number of years. I hand out a lot of service awards where we have temporary employees that have retired; CPAs or bookkeepers that will come in and work with us during the filing season. Canadian refunds is what we use many temporary employees for. The filings page shows the number of returns that have drastically increased. That line item is actually the increase that will bring on additional employees, but increase the average wage from \$12 to \$13.

Senator Heckaman: Do the temporaries come in per month - a few days? Or is it once a year or once every six months?

Ryan Rauschenberger: It's very seasonal. It really depends on the backlog we would have in paying refunds. After the shopping season, the amount of Canadian refunds is far greater after holidays. We'll have temporary employees come in for a month at a time.

Continuing -

Chairman Holmberg said he forgot to congratulate Ryan on the tenure of his job.

Senator Kilzer: You mentioned that you'd have to rent some space if you got any more employees. Are you renting space now or are all your employees in one localized area in the capitol?

Ryan Rauschenberger: We have 7th, 8th and 16th floor within the capitol building. We also have employees that handle processing for the income tax filing season down at the state office building in the basement. We do not have rental space in Bismarck. We have offices in Grand Forks, Fargo, Minot, Williston and Dickinson where we do rent space. The rental space requested is for Bismarck.

Chairman Holmberg asked if anyone else wanted to testify. Being none, he closed the hearing on SB 2006.

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
2/3/2015
Job # 23136

Subcommittee
 Conference Committee

Committee Clerk Signature

Eva Lubett for Alice DeZee

Explanation or reason for introduction of bill/resolution:

A Subcommittee hearing for the office of the Tax commissioner

Minutes:

Attachment # 1 - green sheet

Chairman Wanzek called the subcommittee to order on Tuesday, February 03, 2015 at 3:00 pm in the Senate Conference Room in regards to SB 2006. All subcommittee members were present: Senator Wanzek, Senator Krebsbach and Senator Heckaman. Brady Larson, Legislative Council and Nick Creamer, OMB, were also present.

Ryan Rauschenberger, State Tax Commissioner: Summarized the green sheet, Attachment #1 and explained the main points on the budget. He started with page 5.

Senator Heckaman: On those 3 increases that you have right there, are they fixed already or are they out in bills? (5:25-5:33)

Ryan Rauschenberger: That is out in SB 2113; all three are in the same bill. He continued going over the budget. Disabled veterans credit page 6.

Chairman Wanzek: In the budget the veterans' tax credit, there are no changes?

Ryan Rauschenberger: He stated that currently on the veteran's credit it is only on structures and improvement to the land. It does not apply to the land. We do believe it would fit within the current appropriation. An additional appropriation would not be necessary. He continues with the optional requests on page 7 of the budget. (7:32- 12:30)

Chairman Wanzek: Does the 407,859 dollars include the 58?

Ryan Rauschenberger: It does. We did cover the Homestead tax credit expansion the thirty million that was included in the Governor's budget is in there, it had been submitted at a higher level but it was included in the Governor's budget in line with Senator Klein's bill which the Governor had proposed based on the parameters of those three bullet points I mentioned earlier. (12:35-13:23)

Chairman Wanzek: Does Senator Klein's bill still include the original numbers or is it in line with the budget now?

Ryan Rauschenberger: It would be in line with the Governor's recommendation at the thirty million.

Chairman Wanzek: So they are not in discrepancy?

Ryan Rauschenberger: I don't believe so I don't believe there have been amendments to that.

Chairman Wanzek: We will find out for sure. We will have to be aware of before we push this budget out. We would want them to be in sync, if the bill should pass at a different rate. Can we pass two different versions?

V. Chairman Krebsbach: They would be melded together. I have some questions about on the homestead. What are you looking for in total for the biennium in the homestead tax credit?

Ryan Rauschenberger: It would be the \$30M; the current is \$20M. The expansion contained in Senator Klein's bill would be at the \$30M level which the Governor included.

V. Chairman Krebsbach: Asked about the eight million dollars.

Joe Morrisette, Deputy Tax Commissioner: The current is \$20M and are estimate to continue the program with no change would be \$22M so the additional \$8M would be to fund the proposal in Senator Klein's bill and in the Governor's budget.

Chairman Wanzek: The increase in general funds, when I add up just the homestead tax expansion and the continuation of the homestead tax credit plan and the veteran's tax credit it leaves 3.8M general fund increase for the new FTE's and for the compensation package but does not include the additional requests that were made.

Senator Heckaman: Back on page 8, on the equity and compression of two hundred and fifty four thousand that was not included in the executive budget. Is it not in any of the budget requests?

Nick Creamer: I don't believe it was included in any budget requests.

Joe Morrisette: The governor budget did include \$214,000. It was a different methodology for addressing equity and compression issues. (19:40-21:00)

Senator Heckaman: So for the total pay raises there would be the base payroll and performance and then the market equity and you are requesting two hundred and fifty four?

Joe Morrisette: Those numbers sound correct.

Chairman Wanzek: The 254 is not included in the green sheet.

Joe Morrisette: We had twenty six positons that turned over in the first eighteen months of the biennium. (21:45-22:22)

Senator Heckaman: When I go back to the first page on the bottom, number 2 on green sheet, is that a combination of something?

Chairman Wanzek: That would be the cost to continue to keep things where they are at today.

Joe Morrisette: To keep people at that level where they are now for two more years would cost more than it did in the current biennium.

Chairman Wanzek: As I was going over this, we got the sheet of vacancies, as of Jan 1, the tax department has 8 vacancies. Is there a standard vacancy that's acceptable?

Joe Morrisette: With 26 positions that turned over in 18 months there is sometimes a delay. There is only one HR person that does the hiring. Sometimes there's lags between the time a positon becomes vacant and when it is filled. (24:00-25:00)

Chairman Wanzek: One vacancy has been filled so far and there is recruiting going on for some of the others? (25:00-25:47)

Joe Morrisette: One is pending reclassification and we did hire one programmer had one leave. We are advertising for two programmers and a collector.

Chairman Wanzek: The number of months they are vacant isn't for a long time.

Joe Morrisette: It is never our intent to hold a position vacant longer than we have to.

Chairman Wanzek: The longest one in here is 5 months.

V. Chairman Krebsbach: The market adjustments and equity adjustments that you are looking for the total of four hundred and sixty eight thousand. The governor put in two hundred and fourteen or is the difference between the two fifty four and the two fourteen?

Joe Morrisette: I'd say it would be the difference we had asked for the 254.

V. Chairman Krebsbach: You are looking for about \$40,000 more.

Ryan Rauschenberger: The 254 we do have a different methodology for it.

V. Chairman Krebsbach: I am concerned about the total dollars. You were asking for a total of 254 and were granted 214.

Chairman Wanzek: On the green sheet, some other major legislation. We passed the surge funding and a couple of other bills will not be forwarded. As I understand if our forecast is

way down, even if our revenues come in less than the Governor's budget proposes as long as they are 20% ahead of our forecast it could be triggered and sent out. (28:55-30:42)

Senator Heckaman: On those additional 3 FTE, if you are not able to fill them now, do you fill them with temporary employees? How many temporaries do you have during any given biennium?

Myles Vosberg, Director of the Tax Administration Division: The number of temporary employees we have some are on and off during the year, we pick up ½ dozen during the income tax filing season. (31:24-33:09)

Senator Heckaman: You don't feel you can fill in with the temp?

Myles Vosberg: Most of the work isn't suited well with temporary employee.

Joe Morrissette: To get the work done, we do incur some overtime costs and it is a drain on the employees, which contributes to the turn over that we've seen. (33:36-34:11)

Senator Heckaman: Are they allowed to choose whether they get comp time or extra pay?

Glenda Anderson, Tax Director of Fiscal Management: The question on overtime pay, they are given a choice. The fair labor standard act does allow us for certain circumstances to identify that it would be for either this or that but up to this point we have been given them a choice.

Senator Heckaman: If we are paying out a lot overtime it's better for us to look at getting you more staff and that would be an important number for us to look at.

Chairman Wanzek: Are employees salaried and how does that work for overtime if you are salaried?

Glenda Anderson: If they are salaried they get time and a half overtime or time and a half comp time if it is in excess of forty hours.

Chairman Wanzek: What percentage of our tax returns gets audited?

Myles Vosberg: I don't know the percentage. We do about 450 sales tax audits per year. (36:10-37:15)

Chairman Wanzek: Are you aware if someone is going through a federal audit?

Myles Vosberg: Yes. We do depend on the fed for information.

Chairman Wanzek: 450 out of roughly 40,000 for sales tax is there any standard out there that they feel is an appropriate number to make sure you are efficient in the compliance area?

Myles Vosberg: It depends on who you are doing an audit on. We do have some goals we try to shoot for depending on their level of experience.

V. Chairman Krebsbach: Under operations on overtime you give, do you take it out operations?

Myles Vosberg: For overtime, it comes out of our payroll line.

Chairman Wanzek: That's why I asked the question if it is common to have a minimum number of vacancies because if you didn't have vacancies you wouldn't have enough money to meet the salary needs.

Myles Vosberg: Yes that is correct and related to hiring. It is hard sometimes because of the quantity and quality of applicants you get sometimes. (39:30-40:29)

Chairman Wanzek: You are always going to have six to eight folks coming and going.

Myles Vosberg: It would be nice if we didn't have. We are always trying to fill our positions. We have ones that will be retiring and we have shifted some around. (40:56-41:32)

Chairman Wanzek: The only thing I know, having carried you're the budget the last two years and I have seen the decline in the FTE's I know with our revenue picture the FTE's are probably going to be under heavier scrutiny but it appears from your testimony that it continues to grow as far as the number of returns and the amount of the funds you are handling has been increasing but if we're faced with a situation based on the revenue, is there a prioritization?

Ryan Rauschenberger: When we put our optional packages together, we prioritized and set up four in the three. Those were two separate optional packages within the four. We can have some discussion about that and if that is the desire of the committee we can rank those for you. (42:37-43:10)

Chairman Wanzek: I will say up front, compared to the other budgets, I think you have some good evidence from your work load, when I look at your vacancies, they aren't vacant for long, but we might be faced with difficult decisions.

Ryan Rauschenberger: In your handout it shows the volume of new filers compared to 2010. (44:03-45:42)

Senator Heckaman: The temporaries, I find it amazing that you can hire temp at that wage. Can't we increase that somehow?

Ryan Rauschenberger: We are very fortunate we've had some temporary employees come back, a lot of them are retired and a lot of them come back because they enjoy the work, they do difficult work in the filing season and sooner or later they will be fully retired, it will be more difficult to get temps to fill those positions. (46:16-47:15)

Senator Heckaman: I commend you for being able to fill those positions at that wage right now considering what is out there for the general public.

Chairman Wanzek: Another question about the 3 additional FTE's, is that an all or none, what if you hire one more would you have to find office space?

Ryan Rauschenberger: I don't believe that would be the case if there were one more again we don't have more room. We have the two most densely populated floors at the capitol. We do have some space at the state office building. (48:25-49:35)

Senator Heckaman: Do you have staff out of the building?

Ryan Rauschenberger: Only temporary employees would be out of the office.

Chairman Wanzek: If we allow one FTE they wouldn't be sitting by themselves somewhere?

Ryan Rauschenberger: We do have field offices in Fargo, Grand Forks, Dickinson, Williston, and Minot. All new employees would be Bismarck employees.

Chairman Wanzek: The increase in postage fees is it due to volume or postage increase?

Glenda Anderson: It is a combination of volume and potential increase. We built in 1% increase in case the rates go up.

V. Chairman Krebsbach: Do you have any permanent temporizes and if so are you paying benefits to them?

Ryan Rauschenberger: We have two full time temps.

Glenda Anderson: We have one temporary employee in our property tax section that is receiving health insurance benefits and one in sales tax that we are offering health insurance to.

V. Chairman Krebsbach: There has been a change in the benefits in the health insurance for the credit that the state employees receive on retirement and some of the agencies are experiencing early retirement because of that, is that the case with the tax department?

Glenda Anderson: Yes that has happened.

Chairman Wanzek: It was a change in the amount they receive as a credit against their health insurance.

Glenda Anderson: If they retired by April 15 they could stay on the PERs plan, a lot of them are retiring by the 30th.

Chairman Wanzek: I assume we will meet one more time. Meeting adjourned.

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2006
2/13/2015
Job # 23828

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

This is a subcommittee hearing on the budget of the State Tax Commissioner.

Minutes:

Memorandum - Attachment 1

Legislative Council - Chris Kadrmas
OMB - Becky Keller

Senator Wanzek: Called the committee to order on SB 2007. Senator Krebsbach and Senator Heckaman were also present.

Ryan Rauschenberger, State Tax Commissioner: Said he will let Joe Morrissette cover the memo. Memorandum Attached Attachment (1).

Joe Morrissette, Deputy State Tax Commissioner: Said that they laid this out in order of some of the questions that had come up. He went over the memorandum. (:50-2:31)

Senator Wanzek: Historically we have always done it that way?

Joe Morrissette: It has been a similar amount for years it goes up as salaries go up.

Senator Wanzek: It is withdrawn and put in general fund and it is to cover your salaries and expenses, does the \$2M come to you?

Joe Morrissette: No it goes right to the general fund.

Senator Heckaman: Does this show up on your budget?

Joe Morrissette: No it flows into the general fund it is part of the big pot and then our appropriation is from the general fund.

Senator Krebsbach: Is there a percentage of the tax that's transferred to general fund?

Joe Morrisette: Calculated by our budget and anticipated expenditures in that division for the biennium.

Senator Wanzek: It's identified as costs that are incurred as a result of collecting highway taxes.

Senator Heckaman: Somewhere in that budget, it should be listed as pass through or wash through or something. It seems to me to have it listed as an income and then an expense, right back out again so there is a documentation of that.

Joe Morrisette: It's a small portion of our salaries line and small portion of operating lines.

Senator Wanzek: That whole appropriation doesn't have a lot to do with you guys other than we are funding your costs of taking care of those needs regardless of whether we transfer the money or not. This \$2M doesn't transfer over to you. It's being expended on those needs.

Joe Morrisette: That is exactly correct it is just having the motor vehicle and the tax fund pay their share.

Senator Wanzek: We as legislators decided to leave it in the highway distribution fund. (6:20-6:42)

Senator Krebsbach: If it was not transferred from there back to the general fund the general fund would be picking up greater amount each biennium.

Senator Wanzek: They're collecting the taxes for the highway distribution fund.

Senator Krebsbach: Is there any other agency that collects from the motor vehicle or motor taxes or gas taxes?

Chris Kadrmas, Legislative Council: He talked about the motor vehicle excise tax that flows into the highway distribution tax from which all the funds take money from. It all gets pooled together. (7:58-8:33)

Senator Wanzek: I'm not proposing to change that but I am just saying you will get your funding wherever your funding is it is.

Senator Krebsbach: I'm comfortable with this manner that it covers the costs of the administration.

Senator Wanzek: There is \$8M for the expansion of the homestead tax credit and \$2M for the continuation of the homestead tax credit. He continues going over the numbers. Are some of the reasons for the FTEs is to make some of these temporaries permanent? (9:14-10:51)

Joe Morrisette: There's money in there for the temps and to keep up with market. The property tax specialist where there is a temp filling that position. (10:52-11:38)

Senator Wanzek: If we fill that position would the temp position go away?

Joe Morrisette: That would go away and that person would be converted to a permanent FTE position. The research analyst has a lot of work and we stole someone from another division and she is working part-time in both positions.

Senator Wanzek: Would that property tax specialist be ranked in priority as number one?

Joe Morrisette: We ranked these in priority for you on the last page of the memo.

Senator Heckaman: Is there any opportunity if we allow 2 or 3 and one of the positions could do half time in three and half time in four?

Myles Vosberg, Director of Tax Administration Division of the Office of State Tax Commissioner: Those two positions are different sections and they work more with different tax types.

Senator Wanzek: All are funded through the general fund dollars?

Joe Morrisette: All our general funds.

Senator Krebsbach: They'd be giving up 4 but they requested 7.

Senator Wanzek: Do you see any other issues besides these 4 FTEs?

Senator Heckaman: I'd consider adding back in there the market equity and those additions after hearing the market forecast.

Joe Morrisette: We prioritized the four but we certainly prioritize the other three.

Senator Heckaman: We've not approved the whole governor's slate in the other budget bills.

Senator Wanzek: If we come back and revenue picture changes there are some of these budgets that as Senators' we prioritize and might be FTEs put back in. (18:12-19:46)

Senator Heckaman: What will be the policy on part time temporaries for health insurance?

Becky Keller, OMB: Starting January 1, we have to pay insurance for those who work more than 30 hours.

Senator Wanzek: We will pretty much be leaving the budget alone. (20:55-21:32)

Senator Heckaman: I'll support the whole bill but I won't support the amendment.

Senator Wanzek: We were asked to look at all the FTEs. I do feel this budget has been cutting FTEs over the years.

Senator Krebsbach: I agree, looking at governor's recommendation of FTEs. I'd rather like to leave all four there and add but in view of the circumstances I hope we can review this carefully in the next go round. I firmly believe that the numbers are totally justified.

Senator Wanzek: We are trying to balance budget.

Chris Kadrmas: Went over the amendment changes. (23:18-24:20)

Joe Morrissette: We maybe should take a minute to talk about what has been going on this tax filing season. (24:56-25:25)

Ryan Rauschenberger: There has been an increase account of fraud being detected across the states and because of that we have taken more security measures. That may require issuing more checks rather than direct deposits. (25:26-26:14)

Senator Wanzek: Is the fraudulent part where the fraudulent party claims to be the taxpayer and files for fraudulent refund?

Ryan Rauschenberger: That's correct. (26:26-26:54)

Senator Heckaman: Do you feel the temporary postage costs are a sufficient increase?

Joe Morrissette: That was not one of the factors we considered when we put the budget together.

Ryan Rauschenberger: We would be experiencing a lot of that expense right now. Hopefully we won't see that going forward.

Chris Kadrmas: He wanted to verify that he didn't mention the continuation of salary adjustments.

Senator Heckaman: Do you go to emergency commission to ask for additional funding?

Ryan Rauschenberger: We've been able to absorb it into the budget.

Joe Morrissette: We expected to have a hundred thousand of unspent money in our operating line.

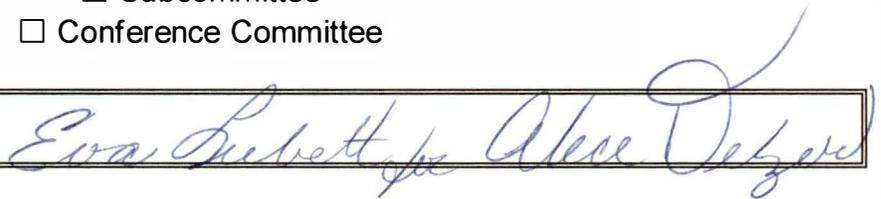
2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
2/16/2015
Job # 23922

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for the Tax Commissioner (Discussion only)

Minutes:

Testimony # 1 & 2

Chairman Holmberg: Opened the discussion on SB 2006. All committee members were present. Chris Kadrmas, Legislative Council and Nick Creamer, OMB

Senator Wanzek: If Brady wants to fill us in and I also have the tax department has a response that we might want to share with the rest of the committee as well.

Brady Larson, Legislative Council: He is here today to address a question he was asked by the subcommittee for the tax department budget regarding cost of continued salaries. He referred to the green sheet, Attachment # 1. (:45-3:07)

Senator Gary Lee: Where would those dollars come from if they are not budgeted?

Brady Larson: The funding would either come from vacant positions or other extra money in the salary and wages line item but for most agencies the money would come from vacancies. If one position was vacant there would be extra money there that could be given to other employees for increases in salaries.

Senator Wanzek: If there are no more questions of Brady, I did receive a memorandum from the tax department. The subcommittee has recommended amendments.

V. Chairman Bowman: We passed the 3 and 3 but the way it sounds to me is they can use roll up dollars or turn back dollars and use it for salaries so we are not giving them a 3 and a 3 it just depends in what department they have extra money laying around on to what they are going to pay.

Senator Wanzek: I am not sure. They are probably not legally doing anything wrong but it did raise a question. I want to give them an opportunity to explain that. Essentially the money came from open positions that they had and they used it to try and retain these employees.

Chairman Holmberg: When you looked at that did you come away with the impression that because they had that open up positions that they could give employees larger raises then otherwise would have occurred and built that into their base budget so that we pay for those additional raises. If you do something that you are not supposed to because you have a lot of money to turn back doesn't make it right.

Joe Morrissette, Deputy Tax Commissioner: I will summarize the memo and what it says. Testimony Attached # 2. (7:48-10:34)

Senator Robinson: Wouldn't we have similar situations in other agencies?

Joe Morrissette: I am sure it is out there in other budgets. As an analyst in OMB I saw it in many agencies in other biennium. In some cases depending on the circumstance some of those changes may be offsetting where you might hire someone at a lower level depending on the mix of changes that take place during the biennium and in some cases they are not. In the current biennium they were reclassified to a higher pay grade that were already existing employees, including other cases there might be a promotion retiring or vacating. I hope that offers some explanations. (10:59-12:26)

Chairman Holmberg: OMB will be giving us this list of employees and pay raises. We will close the discussion on SB 2006.

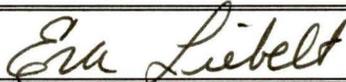
2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
2/19/2015
Job # 24147

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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

Minutes:

Amendment 15.8139.01003

Legislative Council - Chris Kadrmas
OMB - Becky Keller

Senator Wanzek: These amendments are still not correct. We could still possibly do it today.

Chairman Holmberg: Do we know what the glitch is and can we handle it while we talk?

Chris Kadrmas, Legislative Council: What it is referring to is an item that is part of the cost to continue for salaries of \$332,929. That is from general fund dollars and it is not currently in the amendment but the committee would like to have it in the amendment. It increases their salary line. (:30-1:03)

Chairman Holmberg: We'll have it in our hands before it goes upstairs.

Senator Robinson: We did have two pools of money and one is being removed?

Senator Wanzek: I can hand out the latest amendment that has everything in it but this correction. 15.8139.01003 this is the third try at the amendment. This does include the three FTEs that the committee approved. The changes are the performance salary increases, market equity drops off and health insurance stays the same. It removes one FTE but leaves three. He continues going over the amendment. (3:00-7:38)

Senator Carlisle: Over the last 10-12 years the tax department reduced their employees and now they need more. Of all the agencies they have a lot fewer people. It's kind of a fairness issue.

Chairman Holmberg: Perhaps as we go forward like into the next cycle perhaps OMB could help us out at looking at what these concerns are and give explicit directions to the agencies.

Senator Wanzek: That is what drew the attention to this I was confused by why there were there two costs to continue lines.

Chairman Holmberg: We're not going to resolve it today, but hopefully down the road we won't have that question again.

Senator Wanzek: He continues going over the amendment. (9:46-10:36)

Chairman Holmberg: The agency did the prioritizing of the FTEs and they were part of discussion.

Senator Wanzek: Yes, they had asked for 7, but we cut one and didn't offer the additional FTEs.

Senator Wanzek: Moved amendment .01003 as refined.

Senator Heckaman: Seconded the motion.

Voice vote carried.

Senator Carlisle: Where is that going to reflect?

Senator Wanzek: It will show on another line of continuing line of salary adjustments 2013-15.

Senator Wanzek: Moved Do Pass as Amended.

Senator Heckaman: Seconded the motion.

Roll Call Vote: Yes-12 No-0 Absent-1

Senator Wanzek will carry the bill on the floor.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$2,852,760	\$22,991,248
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000	0	16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans credit	<u>7,678,000</u>	<u>767,000</u>	<u>8,445,000</u>
Total all funds	\$56,179,140	\$13,505,773	\$69,684,913
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$13,505,773	\$69,559,913
Full-time equivalent positions	134.00	3.00	137.00"

Page 2, line 16, replace "twelve" with "eleven"

Page 2, line 17, replace "five" with "four"

Page 2, line 17, replace "thirty" with "forty-eight"

Page 2, line 17, replace "seventeen" with "fourteen"

Page 2, line 18, replace "thirty-one" with "seven hundred ninety-one"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$20,138,488	\$2,852,760	\$22,991,248
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000		16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans credit	7,678,000	767,000	8,445,000
Accrued leave payments	624,818	(624,818)	
Total all funds	\$56,179,140	\$13,505,773	\$69,684,913
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
General fund	\$56,054,140	\$13,505,773	\$69,559,913
FTE	134.00	3.00	137.00

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

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Salary and Benefit Increases ²	Adds Funding for FTE Positions ³	Increases Funding for Operating Expenses ⁴	Increases Funding to Continue Homestead Tax Credit ⁵	Adds Funding to Expand Homestead Tax Credit ⁶
Salaries and wages	\$941,784	\$1,421,858	\$392,118	\$97,000		
Operating expenses			47,076	463,755		
Capital assets						
Homestead tax credit					2,000,000	8,000,000
Disabled veterans credit						

Accrued leave payments	(624,818)					
Total all funds	\$316,966	\$1,421,858	\$439,194	\$560,755	\$2,000,000	\$8,000,000
Less estimated income	0	0	0	0	0	0
General fund	\$316,966	\$1,421,858	\$439,194	\$560,755	\$2,000,000	\$8,000,000
FTE	0.00	0.00	3.00	0.00	0.00	0.00

	Increase Funding to Continue Disabled Veterans' Tax Credit ⁷	Total Senate Changes
Salaries and wages		\$2,852,760
Operating expenses		510,831
Capital assets		
Homestead tax credit		10,000,000
Disabled veterans credit	767,000	767,000
Accrued leave payments		(624,818)
Total all funds	\$767,000	\$13,505,773
Less estimated income	0	0
General fund	\$767,000	\$13,505,773
FTE	0.00	3.00

¹ Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

² The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$830,316	\$0	\$830,316
Health insurance increase	591,542	0	591,542
Total	\$1,421,858	\$0	\$1,421,858

³ Funding is provided from the general fund for FTE positions as follows:

	FTE Positions	Salaries and Wages	Operating Expenses	Total General Fund
Compliance officer	1.00	\$124,924	\$15,692	\$140,616
Property tax specialist	1.00	133,597	15,692	149,289
Research analyst	1.00	133,597	15,692	149,289
Total	3.00	\$392,118	\$47,076	\$439,194

⁴ Funding is added for Nexus software programs and the Multistate Tax Commission audit programs (\$64,440), GenTax service maintenance contractions (\$200,000), temporary wages (\$97,000), and postage costs (\$199,315).

⁵ This amendment increases funding to continue the homestead tax credit changes made by the 2013 Legislative Assembly to provide a total of \$22 million for the homestead tax credit.

⁶ This amendment adds \$8 million to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million.

⁷ This amendment increases funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly to provide a total of \$8,445,000 for the disabled veterans' tax credit.

Section 4 is amended to reflect a 3 percent annual increase to the Tax Commissioner's salary.

Conf 2
 TV
 2/19/15

PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$3,185,689	\$23,324,177
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000	0	16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans' credit	<u>7,678,000</u>	<u>767,000</u>	<u>8,445,000</u>
Total all funds	\$56,179,140	\$13,838,702	\$70,017,842
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$13,838,702	\$69,892,842
Full-time equivalent positions	134.00	3.00	137.00"

Page 2, line 16, replace "twelve" with "eleven"

Page 2, line 17, replace "five" with "four"

Page 2, line 17, replace "thirty" with "forty-eight"

Page 2, line 17, replace "seventeen" with "fourteen"

Page 2, line 18, replace "thirty-one" with "seven hundred ninety-one"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$20,138,488	\$3,185,689	\$23,324,177
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000		16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans credit	7,678,000	767,000	8,445,000
Accrued leave payments	624,818	(624,818)	
Total all funds	\$56,179,140	\$13,838,702	\$70,017,842
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
General fund	\$56,054,140	\$13,838,702	\$69,892,842
FTE	134.00	3.00	137.00

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

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Salary and Benefit Increases ²	Adds Funding for FTE Positions ³	Adds Funding to Continue 2013-15 Biennium Salary Adjustments ⁴	Increases Funding for Operating Expenses ⁵	Increases Funding to Continue Homestead Tax Credit ⁶
Salaries and wages	\$941,784	\$1,421,858	\$392,118	\$332,929	\$97,000	
Operating expenses			47,076		463,755	
Capital assets						
Homestead tax credit						2,000,000
Disabled veterans credit						

Accrued leave payments	(624,818)					
Total all funds	\$316,966	\$1,421,858	\$439,194	\$332,929	\$560,755	\$2,000,000
Less estimated income	0	0	0	0	0	0
General fund	\$316,966	\$1,421,858	\$439,194	\$332,929	\$560,755	\$2,000,000
FTE	0.00	0.00	3.00	0.00	0.00	0.00

	Adds Funding to Expand Homestead Tax Credit ⁷	Increases Funding to Continue Disabled Veterans' Tax Credit ⁸	Total Senate Changes
Salaries and wages			\$3,185,689
Operating expenses			510,831
Capital assets			
Homestead tax credit	8,000,000		10,000,000
Disabled veterans credit		767,000	767,000
Accrued leave payments			(624,818)
Total all funds	\$8,000,000	\$767,000	\$13,838,702
Less estimated income	0	0	0
General fund	\$8,000,000	\$767,000	\$13,838,702
FTE		0.00	3.00

¹ Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

² The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$830,316	\$0	\$830,316
Health insurance increase	591,542	0	591,542
Total	\$1,421,858	\$0	\$1,421,858

³ Funding is provided from the general fund for FTE positions as follows:

	FTE Positions	Salaries and Wages	Operating Expenses	Total General Fund
Compliance officer	1.00	\$124,924	\$15,692	\$140,616
Property tax specialist	1.00	133,597	15,692	149,289
Research analyst	1.00	133,597	15,692	149,289
Total	3.00	\$392,118	\$47,076	\$439,194

⁴ Funding is added to continue 2013-15 biennium salary adjustments.

⁵ Funding is added for Nexus software programs and the Multistate Tax Commission audit programs (\$64,440), GenTax service maintenance contractions (\$200,000), temporary wages (\$97,000), and postage costs (\$199,315).

⁶ This amendment increases funding to continue the homestead tax credit changes made by the 2013 Legislative Assembly to provide a total of \$22 million for the homestead tax credit.

⁷ This amendment adds \$8 million to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million.

⁸ This amendment increases funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly to provide a total of \$8,445,000 for the disabled veterans' tax credit.

Section 4 is amended to reflect a 3 percent annual increase to the Tax Commissioner's salary.

Date: 2-19-15
 Roll Call Vote #: 1

**2015 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 2006**

Senate Appropriations Committee

Amendment LC# or Description: (new one) 1004 Subcommittee as amended
New Amendment to be with one change
re: opt to continuation of salaries.
332,929.00

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

Motion Made By Wanzek Seconded By Heckaman

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Heckaman		
Senator Bowman			Senator Mathern		
Senator Krebsbach			Senator O'Connell		
Senator Carlisle			Senator Robinson		
Senator Sorvaag					
Senator G. Lee					
Senator Kilzer					
Senator Erbele					
Senator Wanzek					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Date: 2-19-15
 Roll Call Vote #: 2

**2015 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 2006**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

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

Motion Made By Wanzek Seconded By Heckaman

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Heckaman	✓	
Senator Bowman	✓		Senator Mathern		
Senator Krebsbach	✓		Senator O'Connell	✓	
Senator Carlisle	✓		Senator Robinson	✓	
Senator Sorvaag	✓				
Senator G. Lee	✓				
Senator Kilzer	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 12 No 0

Absent 1

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** (12 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2006 was placed on the Sixth order on the calendar.

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$3,185,689	\$23,324,177
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000	0	16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans' credit	7,678,000	767,000	8,445,000
Total all funds	\$56,179,140	\$13,838,702	\$70,017,842
Less estimated income	125,000	0	125,000
Total general fund	\$56,054,140	\$13,838,702	\$69,892,842
Full-time equivalent positions	134.00	3.00	137.00"

Page 2, line 16, replace "twelve" with "eleven"

Page 2, line 17, replace "five" with "four"

Page 2, line 17, replace "thirty" with "forty-eight"

Page 2, line 17, replace "seventeen" with "fourteen"

Page 2, line 18, replace "thirty-one" with "seven hundred ninety-one"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$20,138,488	\$3,185,689	\$23,324,177
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000		16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans credit	7,678,000	767,000	8,445,000
Accrued leave payments	624,818	(624,818)	
Total all funds	\$56,179,140	\$13,838,702	\$70,017,842
Less estimated income	125,000	0	125,000
General fund	\$56,054,140	\$13,838,702	\$69,892,842
FTE	134.00	3.00	137.00

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

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Salary and Benefit Increases ²	Adds Funding for FTE Positions ³	Adds Funding to Continue 2013-15 Biennium Salary Adjustments ⁴	Increases Funding for Operating Expenses ⁵	Increases Funding to Continue Homestead Tax Credit ⁶
Salaries and wages	\$941,784	\$1,421,858	\$392,118	\$332,929	\$97,000	
Operating expenses			47,076		463,755	
Capital assets						
Homestead tax credit						2,000,000
Disabled veterans credit						
Accrued leave payments	(624,818)					
Total all funds	\$316,966	\$1,421,858	\$439,194	\$332,929	\$560,755	\$2,000,000
Less estimated income	0	0	0	0	0	0
	\$316,966	\$1,421,858	\$439,194	\$332,929	\$560,755	\$2,000,000

General fund						
FTE	0.00	0.00	3.00	0.00	0.00	0.00
	Adds Funding to Expand Homestead Tax Credit ⁷	Increases Funding to Continue Disabled Veterans' Tax Credit ⁸	Total Senate Changes			
Salaries and wages			\$3,185,689			
Operating expenses			510,831			
Capital assets						
Homestead tax credit	8,000,000		10,000,000			
Disabled veterans credit		767,000	767,000			
Accrued leave payments			(624,818)			
Total all funds	\$8,000,000	\$767,000	\$13,838,702			
Less estimated income	0	0	0			
General fund	\$8,000,000	\$767,000	\$13,838,702			
FTE	0.00	0.00	3.00			

¹ Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

² The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$830,316	\$0	\$830,316
Health insurance increase	591,542	0	591,542
Total	\$1,421,858	\$0	\$1,421,858

³ Funding is provided from the general fund for FTE positions as follows:

	FTE Positions	Salaries and Wages	Operating Expenses	Total General Fund
Compliance officer	1.00	\$124,924	\$15,692	\$140,616
Property tax specialist	1.00	133,597	15,692	149,289
Research analyst	1.00	133,597	15,692	149,289
Total	3.00	\$392,118	\$47,076	\$439,194

⁴ Funding is added to continue 2013-15 biennium salary adjustments.

⁵ Funding is added for Nexus software programs and the Multistate Tax Commission audit programs (\$64,440), GenTax service maintenance contractions (\$200,000), temporary wages (\$97,000), and postage costs (\$199,315).

⁶ This amendment increases funding to continue the homestead tax credit changes made by the 2013 Legislative Assembly to provide a total of \$22 million for the homestead tax credit.

⁷ This amendment adds \$8 million to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million.

⁸ This amendment increases funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly to provide a total of \$8,445,000 for the disabled veterans' tax credit.

Section 4 is amended to reflect a 3 percent annual increase to the Tax Commissioner's salary.

2015 HOUSE APPROPRIATIONS

SB 2006

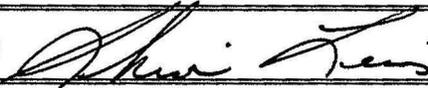
2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

SB2006
3/9/2015
Recording Job# 24525

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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

Minutes:

See attachment A

Chairman Thoreson: Opened the hearing on SB2006.

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

Representative Kempenich: When is the most accurate number? When do you get your numbers compiled?

Ryan Rauschenberger: We received returns in February that are for sales activity in January. It would be a two month delay for the most accurate numbers.

Representative Skarphol: Do you have the completed 2014? Could you share with us the distributions back to the communities?

Ryan Rauschenberger: Are you talking about the fiscal year 2014 distributions?

Representative Skarphol: Calendar year.

Ryan Rauschenberger: We can get that to you.

Representative Skarphol: You can generate that and what each community's contribution has been?

Ryan Rauschenberger: The treasurer's website would probably be the most accurate.

Representative Skarphol: The treasurer should have the figures that are as current as you have?

Ryan Rauschenberger: There is about a month's difference.

Vice Chairman Brandenburg: For the sales and use tax; looking at the projections go back from July to December and bring it to the committee. Also can you do an estimate of projects to June 30?

Ryan Rauschenberger: We'd be happy to get the current projections for the rest of this biennium.

Representative Hogan: I'm interested in the transmission line tax. There's such a significant increase, was that a policy change?

Ryan Rauschenberger: That is the build out of new transmission lines. There's a per mile transmission line tax. Transmission line taxes are exempt for so many years and then they jump up.

Representative Hogan: The other one that's interesting to me is the airline tax. Can you explain what might have happened with the airline tax?

Ryan Rauschenberger: That's generally on a per person boarding. I can look into that.

Chairman Thoreson: We have a music and composition tax? Is it the fees paid to the BMI type of thing? Is that something that we collect?

Ryan Rauschenberger: It's royalties.

Vice Chairman Brandenburg: The reason that the transmission line tax has changed is that sometime in that period it went from 2% of generation and 2% of transmission to 2% percent of property tax payment.

Ryan Rauschenberger: On the RAC side of things there was a major change that had taken effect after 2010 that would have reallocated RAC taxes to be shifted more on to transmission line taxes.

Representative Skarphol: The tobacco tax intrigues me; are we smoking a lot more?

Ryan Rauschenberger: We do have such an increase in people that are represented by individual income tax filings working in the state. There are absolutely smoking more.

Ryan Rauschenberger continued with his presentation.

Representative Kempenich: I see the Canadians are requiring more refunds. I'm surprised that it's still a positive number.

Ryan Rauschenberger: We have seen huge increases in the number of Canadian refunds.

Ryan Rauschenberger continued with his presentation.

Representative Skarphol: We had one of your colleagues in here earlier who had some issues with distributing money to fire districts because he wanted us to transfer the responsibility to some other agency. It has to do with the insurance tax distribution fund. Would that fit in your portfolio of things to do?

Ryan Rauschenberger: If that's the desire of the legislature, I'd be happy to do it.

Ryan Rauschenberger continued with his presentation.

Chairman Thoreson: Do you have vacant positions today?

Ryan Rauschenberger: We have 8 positions. We also have an additional retirement that's not vacant.

Chairman Thoreson: Do you have an organizational chart?

Ryan Rauschenberger: We'll provide that to you.

Representative Boehning: You're looking for four FTE's in the original budget and you got three; why do you need four?

Ryan Rauschenberger: In a lot of our audit work overtime has come in compliance when it's filing season. We do feel when it comes to the increase in fraud; the one additional FTE we requested would work specifically on fraud prevention.

Representative Boehning: Are most of your employees on salary or are they hourly employees?

Ryan Rauschenberger: They are salaried except for our temporary employees.

Representative Boehning: Why are we paying overtime to salaried employees?

Ryan Rauschenberger: They are nonexempt from being paid overtime. We do overtime for over 40 hours for salaried employees.

Glenda Anderson, Fiscal Management Director, Office of the State Tax Commissioner: There is a difference between exempt and nonexempt. Your salaried employees that are nonexempt; if they work over 40 hours their labor standard act requires that we pay overtime.

Representative Boehning: What's the difference between exempt and nonexempt?

Glenda Anderson: There are requirements for more of a professional level. Anybody that's a paraprofessional or lower clerical; they would all be considered nonexempt. There's a process that we go through between OMB and us to identify all those on the state payroll system.

Ryan Rauschenberger continued with his presentation.

Representative Boehning: For the renters credit; that's just for the elderly or are there some other parameters in there?

Ryan Rauschenberger: That's the same as the homestead tax credit; but the payment is based on income, rent paid and expenses paid. The target market is essentially the same for 65 and older.

Ryan Rauschenberger continued with his presentation.

Chairman Thoreson: Has that bill been heard on our side?

Ryan Rauschenberger: I don't believe so.

Ryan Rauschenberger continued with his presentation.

Chairman Thoreson: I have a constituent in Fargo that went to the federal office to get some booklets and forms and was told that they didn't have those because they're all available online. Do you have to fill in for anything where the federal government is no longer providing things? When people are looking for printed materials is that something you're handling out of your office?

Ryan Rauschenberger: To my knowledge we are not providing any additional printed materials because the federal government is not.

Ryan Rauschenberger continued with his presentation.

Vice Chairman Brandenburg: For the homestead tax credit there's \$30 million and for the disabled veteran's credit there's \$8.4 million; so the two together is about \$38.5 million?

Ryan Rauschenberger: That's correct. They are separate programs and separate appropriations.

Vice Chairman Brandenburg: Can you go back and give a trend of what's happened to that program?

Ryan Rauschenberger: We'd be happy to do that.

Chairman Thoreson: I'm wondering where are you at with security; are you seeing an increase of people trying to access that?

Ryan Rauschenberger: We're dealing with security from the stand point of fraudulent returns.

Chairman Thoreson: You hear all the time where people are just taking and filing returns at the state and federal level. They figure it out eventually but the check is already in the mail.

Ryan Rauschenberger: We've reallocated a number of employees to include sales tax auditors to work on income tax because of our increased security checks.

Chairman Thoreson: You're looking for certain things that are a red flag.

Ryan Rauschenberger: Absolutely.

Chairman Thoreson: Is this information shared with other states also?

Ryan Rauschenberger: We work with the federal tax examiners and contact other states to see what they're doing.

Chairman Thoreson: Is there anything else we need to be doing?

Ryan Rauschenberger: The key is to file early and do whatever you can to protect your personal data.

Chairman Thoreson: Then you'll see that someone has already filed and a second one will come in?

Ryan Rauschenberger: Exactly.

Representative Skarphol: I have a question about Gen Tax. At the time that we put Gen Tax in place there was supposed to be some substantiation of the money that was generated because of the fact that we implemented this tax program. I've never heard the exit analysis that would prove that the implementation of Gen Tax resulted in more taxes being collected.

Ryan Rauschenberger: I believe we may have some data on that.

Representative Skarphol: We put \$16 million to \$18 million in it with the premise that there would be proof that it was something of value.

Ryan Rauschenberger: The estimates based on revenue increases since the rollout through December 31, 2014; \$33.9 million. We can provide this to you.

Representative Glassheim: I do remember that the first year that \$2 million or \$3 million was recaptured. We've been concerned with firewalls and attacks on the system. How many IT people do you have and do they have the skills to combat intrusions?

Ryan Rauschenberger: We have four analysts and we're recruiting for two.

Representative Glassheim: ITD is protecting your system or are you separate from that?

Ryan Rauschenberger: Our IT person isn't here today.

Chairman Thoreson: I'd like some information on how that is set up.

Representative Skarphol: ITD has a firewall and security for the system. Do you have in your department security your business entities as opposed to what ITD supplies?

Ryan Rauschenberger: Gen Tax houses all that data and are involved very heavily in security.

Representative Skarphol: They provide the security?

Ryan Rauschenberger: Yes.

Representative Skarphol: You encourage E-filing. How about from out of state? Is out of state different from in state and is there an issue there?

Ryan Rauschenberger: From my experience, anyone who uses the same software and has the same type of filing would be able to file from out of state. What we've seen is certain tax preparation software vendors don't always support certain schedules. It can be based on someone's line item or credit they're trying to file and that would prevent them.

Chairman Thoreson: Closed the hearing.

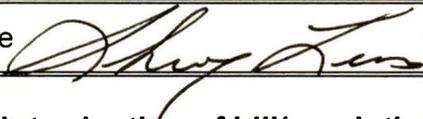
2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

SB2006
3/16/2015
Recording Job# 24838

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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

Minutes:

See attachment A

Chairman Skarphol: Opened the subcommittee on SB2006.

Chairman Skarphol: I've noticed quite an increase in postage.

Ryan Rauschenberger, Commissioner, ND Tax Department: We have decreased a lot of paper issuance. With the increase in new filers we have to issue more notices for collections.

Chairman Skarphol: What kind of increase are you seeing because you have a 20% increase in postage.

Ryan Rauschenberger: We have an increased volume and rate from this biennium.

Glenda Anderson, Director of Fiscal Management, ND Tax Department: We're dealing with presort services. We projected a possible 2% increase in postage rate itself. We're seeing a 4.5% to 5% increase in presort services which is included in the rate.

Chairman Skarphol: Under IT under \$5,000.00 you have a fairly substantial decrease; but then you have a commiserate in processing. Is it because you're changing how you do business with regard to your connection to ITD?

Glenda Anderson: No. We're following the guidelines for replacement of the equipment. What we have on schedule for next year is to replace the laptop computers. We're replacing our desktop computers this year.

Chairman Skarphol: The pc's have been replaced?

Glenda Anderson: They're being replaced this year; that's a four year replacement schedule for pc's.

Chairman Skarphol: In this fiscal year?

Glenda Anderson: Yes.

Chairman Skarphol: That's for your pc's and then laptops are next year?

Glenda Anderson: Yes.

Representative Hogan: I'm interested in looking at expansion and the income eligibility for the homestead tax credit and whether we need a section of language modifying that particular program in this bill.

Ryan Rauschenberger: There is a Senate bill that passed the Senate; I'm not sure of the status at this point. It has this exact expansion within finance and taxation committee.

Representative Hogan: There's not a fiscal note on that bill?

Ryan Rauschenberger: The policy is in that bill and the appropriation is in this bill. At this point they are corresponding.

Representative Boehning: It looks like you have zero overtime requested in this budget; you have a decrease of \$59,000.00 but you're asking for four FTE's. Can you explain that a little?

Ryan Rauschenberger: Last week I mentioned how we have had reliance on overtime in the past based on the types of work being done with overtime. One of the FTE's would help decrease the reliance on overtime.

Representative Boehning: You also said that you have eight vacant FTE's. Is that correct?

Ryan Rauschenberger: That's correct. See attachment A.

Chris Kadrmas, Fiscal Analyst, ND Legislative Council: The property tax credit that the tax commissioner is referring is SB2307. The fiscal note shows expenditures of \$250 million to maintain that 12% credit.

Representative Skarphol: Where's the money?

Chris Kadrmas: It shows it would be a general fund source.

Ryan Rauschenberger: The tax credit is in the state treasurer's budget.

Chairman Skarphol: If the news isn't good on Wednesday, you have three FTE's you're requesting. Are they listed in priority or should we as legislatures be most concerned about the research analyst position.

Ryan Rauschenberger: We do have a priority list. We did put the property tax specialist and the research analyst as the highest priorities. We can provide a more in depth list.

Representative Boehning: With your vacant FTE's are you able to move your funds around. How long have some of these vacancies been vacant?

Ryan Rauschenberger: We can put how long each of these positions have been open. We have had some retirements. The one that's been open the longest has been from 6 months ago.

Representative Boehning: How many vacancies do you have at any given time?

Ryan Rauschenberger: I'd say 3 to 5 at any given time. Because we do have some retirements by April 30 we do have more.

Chairman Skarphol: You have all the vacant positions listed that you're looking to fill?

Ryan Rauschenberger: Most of the vacancies we are actively advertising for right now. We do have a process in place for all of them.

Representative Hogan: In terms of your legal service division are your lawyers all designated assistant state's attorney general's? What's your relationship with the attorney general's office?

Ryan Rauschenberger: We have three attorneys. All three are special assistant attorney's general. We do have a close relationship with the attorney general's office.

Representative Hogan: Who does their performance evaluation? Do they directly report to you?

Ryan Rauschenberger: The legal division reports to the deputy tax commissioner and myself. Their performance evaluations are done by us.

Chairman Skarphol: Does the attorney general have any oversight into who you do or do not hire?

Ryan Rauschenberger: No.

Chairman Skarphol: Closed the subcommittee.

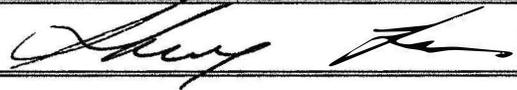
2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

SB2006
3/30/2015
Recording Job# 25618

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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

Minutes:

"Click to enter attachment information."

Chairman Thoreson: Opened the discussion on SB2006.

Representative Skarphol: By their estimate they're going to have \$4.7 million carried forward which would go back into the general fund. Based on that there was a current appropriation of \$20 million; they used \$15.3 million. However, they believe there will be more utilization in the future.

Representative Skarphol: Made a motion to remove \$10 million.

Vice Chairman Brandenburg: Seconded the motion.

Representative Hogan: So the \$2 million continuation of the homestead tax credit will remain?

Representative Skarphol: That was in anticipation that the number may need to be larger in this upcoming biennium than in this current biennium. They haven't utilized all of the money in this current biennium; they're going to have \$4.7 million as turn back.

Representative Hogan: With that turn back they have access?

Representative Skarphol: The turn back will get turned back. They would have the \$20 million just like they have in this biennium.

Representative Hogan: The \$20 million to continue the current allocation is where?

Representative Skarphol: The \$20 million is still there.

Representative Skarphol: Made a motion to retain the \$16,000.00 in their equipment line and add \$24,000.00.

Joe Morrissette, ND Tax Department: We have \$16,000.00 in the current biennium and we have \$16,000.00 in the budget for next biennium. If we could carry over the \$16,000.00 from this biennium that we won't spend; that would be a total of \$32,000.00. If you could add \$8,000.00 to that; it would give us a total of \$40,000.00 to replace the two scanners.

Representative Skarphol: As part of that motion we'll take care of the health insurance issue.

Voice vote made and carried.

Vice Chairman Brandenburg: Made a motion to remove 3 FTE's and \$47,000.00 for operating expenses.

Representative Skarphol: Seconded the motion.

Representative Hogan: I am concerned about the staffing levels with this group so I am going to oppose that motion.

Voice vote made and carried.

Representative Vigesaa: The continuation of the disabled veteran's tax credit. Could you explain what that is and what that amount is for a continuation?

Ryan Rauschenberger, Commissioner, ND Tax Department: We do have the increase built into the disabled veteran's line. That would be based on the volume of the program. There would be no program changes built into our budget. We had SB2113 that had land to be part of the veteran's credit. The veteran's credit does not include land; we figured about \$120,000.00 it would cost to add that into the credit. It would be equal for the county administration. The \$8.4 million would be a 10% increase in funding based on volume increases in the program.

Representative Hogan: Can you tell us the status on SB2113?

Ryan Rauschenberger: I can check on that.

Chairman Thoreson: Does anyone know what the status is?

Representative Vigesaa: Is there a balance left in that account that has not been utilized and would also be made available for the next biennium?

Chairman Thoreson: SB2113 passed the House 86-0 on March 20 and has been returned to the Senate.

Ryan Rauschenberger: The turn back is \$1.3 million; and that would be a general fund turn back in this biennium.

Representative Hogan: If you have turn back in this biennium, can we just allocate it for that \$767,000.00?

Ryan Rauschenberger: That is our estimated turn back. The program for this year is not completed..

Representative Hogan: That's not all of your turn back either.

Ryan Rauschenberger: Yes.

Representative Glassheim: If you mis-guess the number of applicants, in the past it's been the process that you do a deficiency appropriation. Is that how it's handled?

Ryan Rauschenberger: In 2011 we came back for a deficiency appropriation for the homestead credit of \$1.3 million. We do not have any kind of a cut off or proration of benefits.

Representative Glassheim: Made a motion to carry forward \$767,000.00 to the next biennium.

Representative Skarphol: Seconded the motion.

Representative Skarphol: You'll have the same dollar amount that you had last time for the purposes. Correct? If we don't give you the increase you will still have \$7.678 million in the account to take care of that. Correct?

Ryan Rauschenberger: That's correct.

Representative Glassheim: Are we allowing them to carry forward the \$1.3 million and taking out the \$767,000.00? Are we taking out both the carry forward and the \$767,000.00 and giving them just what they had before? My thought was to allow them to carry over but take the \$767,000.00 out.

Representative Skarphol: That also affects the bottom line because it's anticipated they're going to turn this back. I would have thought that we would allow them to have the same amount of money that they have in this biennium; because they're not utilizing all of it today.

Representative Glassheim: We would give them more because we would anticipate a growth in the program. We think they'll need some more than what they spent.

Representative Skarphol: Withdrew his second.

Representative Glassheim: Withdrew his motion.

Representative Hogan: Is the \$767,000.00 an increase from the current biennium?

Ryan Rauschenberger: The \$767,000.00 increase is appropriation to appropriation. In comparing the requested \$8.445 million for the 2015-2017 biennium; compared to the requested \$7.678 million in the actual appropriation for this biennium.

Representative Skarphol: The amount of money that they would turn back if we did nothing in this biennium is 17.9% unused. You could have a growth close to 20% and they would not exceed what they have in their budget if we just leave the same numbers they have in this biennium. They also have the ability to come and ask for a deficiency appropriation if they exceed. We're not tying his hands, we're just setting it back in the general fund so we have it for other purposes.

Representative Skarphol: Made a motion to allow the turn back for the unused portion and we remove the \$767,000.00 proposed in the Senate amendments and allow the amount to remain the same as in this biennium for the disabled veteran's tax credit.

Representative Vigesaa: Seconded the motion.

Representative Glassheim: Proposed a substitute motion to retain \$700,000.00 of the carry over and not get \$767,000.00 of new money.

Representative Hogan: Seconded the motion.

Representative Kempenich: Why don't we just propose \$600,000.00 and just leave the carry over. If we just leave the \$767,000.00 currently, they're probably going to have \$1.3 million again anyway.

Representative Glassheim: The turn back will be automatic.

Representative Kempenich: That doesn't really matter because we're re-appropriating the \$7.4 million back in again.

Representative Hogan: Withdrew her second.

Representative Glassheim: Withdrew his motion.

Representative Vigesaa: This biennium they spent \$6.3 million; next biennium they're going to get \$7.678 million. They're going to get \$1.378 million more next time than they spent in this biennium.

Representative Skarphol: Made a motion to remove the \$767,000.00 that the Senate put into the veteran's credit.

Voice vote made and carried.

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

Representative Hogan: Seconded the motion.

Roll call vote: 8 Yeas 0 Nays 0 Absent

Representative Skarphol carried the bill

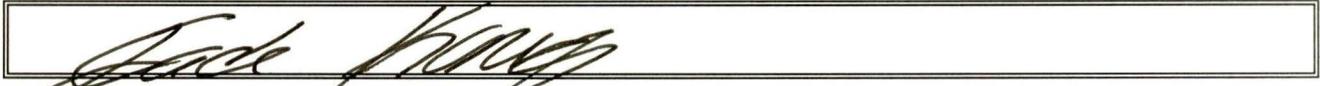
Chairman Thoreson: Closed the discussion.

2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2006
4/7/2015
25896

- Subcommittee
 Conference Committee



Explanation or reason for introduction of bill/resolution:

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

Minutes:



Representative Skarphol: I move amendment .02001 to SB 2006.

Representative Thoreson: Second.

Representative Skarphol: The changes we made are reflected on page two of the amendment. We adjusted the health insurance and number two we removed three FTEs that have been granted to the department. We left them one that was a requested technician. We removed the operating expenses for those three FTEs. Number four we removed 10 million dollars. That 10 million dollars is a result of the defeated SB 2221, that was 8 million. We removed 2 million dollars that had been added to the amount of money available for the homestead tax credit program. There will still be 20 million dollars available, the utilized 15.3 million in this current biennium. In the event that they were to run short in the next biennia they too have the ability to give a tax credit and come in for a deficiency appropriation. Number five we removed 767,000 dollars that was for the veterans disability a disabled veterans tax credit that would have increased it to 8,445,000 dollars. They had 7 some million in this biennia they only utilized 6.3 million. So there is still money available in that pool of money for what they per say to be their growth and they again can come back for a deficiency appropriation in the event that they need to.

Chairman Delzer: Are these separate line items or is it one line item within the department?

Representative Skarphol: The homestead tax credit is one line, the disabled veterans credit is another line. We did add 8,000 dollars and we allowed them to carry it forward making it 16,000 dollars that they had left over in this biennia and there was 16,000 dollars appropriated additional in this biennia and we added another 8,000 dollars to give them a total of 40,000 dollars to purchase two scanners for the tax commissioner's office to be able

to scan in all the forms that they get and get them into electronic files to where they are more manageable. That I believe is the extent of our work.

Chairman Delzer: I do have to ask you on the FTEs, when I look through here it looks like it was 134 and the Senate had sent over 137 and you removed the three so it is the same as it was?

Representative Skarphol: They originally asked for four and the Senate gave them three and we removed those three and left the one.

Chairman Delzer: So it is the same as it was?

Representative Skarphol: That is correct.

Motion to Adopt Amendment .02001 on SB 2006.
Motion made by Representative Skarphol.
Seconded by Representative Thoreson.
Voice vote.
Motion carries.

Representative Skarphol: I move a Do Pass As Amended on SB 2006.

Representative Boehing: Second.

Chairman Delzer: What is section three?

Representative Skarphol: That is the 16,000 dollars that they have in their budget for this biennia that we allowed them to carry forward in order to pay for that 40,000 dollar cost of those scanners.

Chairman Delzer: Section three on the bill itself, there is a transfer general fund of the state treasure out of motor vehicle fuel tax revenue collection 230,000 dollars. I would guess it is something that is normally in there I don't know if the number changed.

Brady Larson ~ Legislative Counsel: That is at least very similar to what has been in there in the past and the money just comes out the highway tax distribution funds and this to reimburse the general fund, because the general fund pays the salaries and operating expense to certain tax department employees that work with the motor fuels tax collections.

Motion for a Do Pass As Amended on SB 2006
Motion made by Representative Skarphol.
Seconded by Representative Boehing.
Total yes 21. No 0. Absent 2.
Motion carries.
Floor assignment Representative Skarphol.

SLC
4/17/15
113

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 4, remove "and"

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

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$2,665,030	\$22,803,518
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	463,755	8,185,589
Capital assets	16,000	8,000	24,000
Homestead tax credit	20,000,000	0	20,000,000
Disabled veterans' credit	<u>7,678,000</u>	<u>0</u>	<u>7,678,000</u>
Total all funds	\$56,179,140	\$2,511,967	\$58,691,107
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$2,511,967	\$58,566,107
Full-time equivalent positions	134.00	0.00	134.00"

Page 2, line 3, after "biennium" insert "and the 2015-17 one-time funding items included in appropriation in section 1 of this Act"

Page 2, replace lines 5 and 6 with:

"TAP project	\$1,000,000	\$0
Scanners	<u>0</u>	<u>8,000</u>
Total general fund	\$1,000,000	\$8,000

The 2015-17 one-time funding amounts are not a part of the entity's base budget for the 2017-19 biennium. The tax commissioner shall report to the appropriations committees of the sixty-fifth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2015, and ending June 30, 2017."

Page 2, after line 11, insert:

"SECTION 4. EXEMPTION. The amount appropriated for the capital assets line item in section 1 of chapter 6 of the 2013 Session Laws is not subject to section 54-44.1-11 and any unexpended funds from this line item are available during the biennium beginning July 1, 2015, and ending June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$20,138,488	\$23,324,177	(\$520,659)	\$22,803,518
Operating expenses	7,721,834	8,232,665	(47,076)	8,185,589
Capital assets	16,000	16,000	8,000	24,000
Homestead tax credit	20,000,000	30,000,000	(10,000,000)	20,000,000
Disabled veterans credit	7,678,000	8,445,000	(767,000)	7,678,000
Accrued leave payments	<u>624,818</u>			

Total all funds	\$56,179,140	\$70,017,842	(\$11,326,735)	\$58,691,107
Less estimated income	125,000	125,000	0	125,000
	\$56,054,140	\$69,892,842	(\$11,326,735)	\$58,566,107
General fund				
FTE	134.00	137.00	(3.00)	134.00

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

	Adjusts Funding for Health Insurance Premium Increases ¹	Removes New FTE Positions ²	Removes Funding for New FTE Operating Expenses ³	Reduces Funding for Homestead Tax Credit ⁴	Reduces Funding for Disabled Veterans' Tax Credit ⁵	Adds One-Time Funding for Scanners ⁶
Salaries and wages	(\$100,886)	(\$419,773)				
Operating expenses			(47,076)			
Capital assets						8,000
Homestead tax credit				(10,000,000)		
Disabled veterans credit					(767,000)	
Accrued leave payments						
Total all funds	(\$100,886)	(\$419,773)	(\$47,076)	(\$10,000,000)	(\$767,000)	\$8,000
Less estimated income	0	0	0	0	0	0
General fund	(\$100,886)	(\$419,773)	(\$47,076)	(\$10,000,000)	(\$767,000)	\$8,000
FTE	0.00	(3.00)	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	(\$520,659)
Operating expenses	(47,076)
Capital assets	8,000
Homestead tax credit	(10,000,000)
Disabled veterans credit	(767,000)
Accrued leave payments	
Total all funds	(\$11,326,735)
Less estimated income	0
General fund	(\$11,326,735)
FTE	(3.00)

¹ Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

² The following funding and FTE positions are removed:

- \$124,924 from the general fund for 1 compliance officer FTE position;
- \$133,597 from the general fund for 1 property tax specialist FTE position;
- \$133,597 from the general fund for 1 research analyst FTE position;
- \$14,701 from the general fund for related salary increases; and
- \$12,954 from the general fund for related health insurance increases.

³ Funding is removed for operating expenses related to the new FTE positions.

⁴ Funding is removed to continue the homestead tax credit changes made by the 2013 Legislative Assembly (\$2 million) and to expand the eligibility threshold for homestead tax credit program (\$8 million). Total funding for the homestead tax credit program is \$20 million, which is the same as the base level.

⁵ The amendment removes funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly. Total funding for the disabled veterans' tax credit program is \$7,678,000,

3/3

which is the same as the base level.

⁶ One-time funding is added for scanners.

This amendment also adds a new section to provide an exemption for the \$16,000 appropriated in the capital assets line item to the Tax Department in the 2013-15 biennium. As a result, \$40,000 will be available to the department to purchase scanners, of which \$16,000 is from carryover authority, \$16,000 is included in the department's base budget, and \$8,000 of one-time funding from the general fund is added in this amendment.

Date: March 30, 2015
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2006

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: _____

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

Other Actions: Reconsider _____

Motion Made By Rep Sharphol Seconded By Rep Brandenberg

Representatives	Yes	No	Representatives	Yes	No
VOICE VOTE					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Remove \$10 million from the homestead tax credit -
Vote carried

**2015 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. SB2006**

House Appropriations - Government Operations Divison Committee

Subcommittee

Amendment LC# or Description: _____

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

Motion Made By Representative Skarphol Seconded By Representative Hogan

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	x		Representative Hogan	x	
Vice Chairman Brandenburg	x		Representative Glassheim	x	
Representative Kempenich	x				
Representative Vigesaa	x				
Representative Boehning	x				
Representative Skarphol	x				

Total (Yes) 8 No 0

Absent 0

Floor Assignment Representative Skarphol

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** (21 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2006 was placed on the Sixth order on the calendar.

Page 1, line 4, remove "and"

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

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$2,665,030	\$22,803,518
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	463,755	8,185,589
Capital assets	16,000	8,000	24,000
Homestead tax credit	20,000,000	0	20,000,000
Disabled veterans' credit	<u>7,678,000</u>	<u>0</u>	<u>7,678,000</u>
Total all funds	\$56,179,140	\$2,511,967	\$58,691,107
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$2,511,967	\$58,566,107
Full-time equivalent positions	134.00	0.00	134.00"

Page 2, line 3, after "biennium" insert "and the 2015-17 one-time funding items included in appropriation in section 1 of this Act"

Page 2, replace lines 5 and 6 with:

"TAP project	\$1,000,000	\$0
Scanners	<u>0</u>	<u>8,000</u>
Total general fund	\$1,000,000	\$8,000

The 2015-17 one-time funding amounts are not a part of the entity's base budget for the 2017-19 biennium. The tax commissioner shall report to the appropriations committees of the sixty-fifth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2015, and ending June 30, 2017."

Page 2, after line 11, insert:

"SECTION 4. EXEMPTION. The amount appropriated for the capital assets line item in section 1 of chapter 6 of the 2013 Session Laws is not subject to section 54-44.1-11 and any unexpended funds from this line item are available during the biennium beginning July 1, 2015, and ending June 30, 2017."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$20,138,488	\$23,324,177	(\$520,659)	\$22,803,518
Operating expenses	7,721,834	8,232,665	(47,076)	8,185,589
Capital assets	16,000	16,000	8,000	24,000
Homestead tax credit	20,000,000	30,000,000	(10,000,000)	20,000,000
Disabled veterans credit	7,678,000	8,445,000	(767,000)	7,678,000
Accrued leave payments	<u>624,818</u>			
Total all funds	\$56,179,140	\$70,017,842	(\$11,326,735)	\$58,691,107
Less estimated income	<u>125,000</u>	<u>125,000</u>	<u>0</u>	<u>125,000</u>
General fund	\$56,054,140	\$69,892,842	(\$11,326,735)	\$58,566,107
	134.00	137.00	(3.00)	134.00

FTE

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

	Adjusts Funding for Health Insurance Premium Increases ¹	Removes New FTE Positions ²	Removes Funding for New FTE Operating Expenses ³	Reduces Funding for Homestead Tax Credit ⁴	Reduces Funding for Disabled Veterans' Tax Credit ⁵	Adds One-Time Funding for Scanners ⁶
Salaries and wages	(\$100,886)	(\$419,773)				
Operating expenses			(47,076)			
Capital assets						8,000
Homestead tax credit				(10,000,000)		
Disabled veterans credit					(767,000)	
Accrued leave payments						
Total all funds	(\$100,886)	(\$419,773)	(\$47,076)	(\$10,000,000)	(\$767,000)	\$8,000
Less estimated income	0	0	0	0	0	0
General fund	(\$100,886)	(\$419,773)	(\$47,076)	(\$10,000,000)	(\$767,000)	\$8,000
FTE	0.00	(3.00)	0.00	0.00	0.00	0.00

	Total House Changes
Salaries and wages	(\$520,659)
Operating expenses	(47,076)
Capital assets	8,000
Homestead tax credit	(10,000,000)
Disabled veterans credit	(767,000)
Accrued leave payments	
Total all funds	(\$11,326,735)
Less estimated income	0
General fund	(\$11,326,735)
FTE	(3.00)

¹ Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

² The following funding and FTE positions are removed:

- \$124,924 from the general fund for 1 compliance officer FTE position;
- \$133,597 from the general fund for 1 property tax specialist FTE position;
- \$133,597 from the general fund for 1 research analyst FTE position;
- \$14,701 from the general fund for related salary increases; and
- \$12,954 from the general fund for related health insurance increases.

³ Funding is removed for operating expenses related to the new FTE positions.

⁴ Funding is removed to continue the homestead tax credit changes made by the 2013 Legislative Assembly (\$2 million) and to expand the eligibility threshold for homestead tax credit program (\$8 million). Total funding for the homestead tax credit program is \$20 million, which is the same as the base level.

⁵ The amendment removes funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly. Total funding for the disabled veterans' tax credit program is \$7,678,000, which is the same as the base level.

⁶ One-time funding is added for scanners.

This amendment also adds a new section to provide an exemption for the \$16,000 appropriated in the capital assets line item to the Tax Department in the 2013-15 biennium. As a result, \$40,000 will be available to the department to purchase scanners, of which

\$16,000 is from carryover authority, \$16,000 is included in the department's base budget, and \$8,000 of one-time funding from the general fund is added in this amendment.

2015 CONFERENCE COMMITTEE

SB 2006

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2006
4/14/2015
Job # 26101

- Subcommittee
 Conference Committee

Committee Clerk Signature

Emmery Brotheg for Alice Delye

Explanation or reason for introduction of bill/resolution:

A Conference Committee hearing for the Tax Commissioner

Minutes:

Attachment: n/a

Senators:

Senator Wanzek, Chair; Senator Krebsbach; Senator Heckaman

Representatives:

Robert J. Skarphol; Randy Boehning; Kathy Hogan

Adam Mathiak, Legislative Council

Becky Keller, OMB

Senator Wanzek called the committee to order on Tuesday, April 14, 2015 at 3:30 in the Harvest Room in regards to SB 2006. Roll call was taken. He asked the House to explain and justify their changes.

Representative Skarphol: The total increase in this budget was 4.4% total increase. Much of that is due to some of the reductions that we made. First we did the health insurance change we've been doing in every budget because of the new contract. 2nd because of defeat of SB 2221 with regard to Homestead tax credit, we removed \$8M that was in this budget. We also removed the veterans tax credit that was in this budget for an additional \$2M. The reason for that was that there was \$20M in the account in this biennium to cover that homestead tax credit. There's \$20M in the budget for this biennium to do that, they only utilize \$15.3M which left \$4.7M unutilized and we did not see the logic behind adding another \$2M because there are no changes and it is not likely that they even utilized the \$20M in this upcoming biennium so we removed the \$2M as well rather than having a bunch of money sitting out there. On the disabled veterans, we removed \$767,000 that was added to that pool of money for the disabled veterans credit because in this biennia, they have \$7.7M available to fund that and they only used \$6.3M so it leaves \$1.4M unutilized and we couldn't see the logic behind putting additional money in there. So that covers the money that was removed from the funds. We also removed the 3 FTEs that were added by the Senate and the salaries and operating for those FTEs because that's what we've been endeavoring to do in all budgets is to have those be part of the discussion points on these budgets because all of these budgets were prepared when oil was \$100 a

barrel and we have to think in a few different terms to get this resolved. The other thing we did was that in the budget, there was \$16,000 for equipment for this upcoming biennia. In the current budget, there's in the current biennium we allowed the \$16,000 to carry forward and added another \$8,000 to give them a total of \$40,000 for IT equipment to buy scanners, to have adequate equipment to scan in all those tax forms they get. So we actually added \$8,000 to their equipment line to give them the carry forward ability.

Senator Wanzek: I do know in the senate appropriation's committee, we did adopt an amendment to HB 1059 that does expand the homestead tax credit by allowing for homes to be valued up to \$125,000 where I think they are valued at \$100,000 today. The bill you guys killed went to \$150,000 and also raised income levels. This amendment as it was adopted would just increase the evaluation of homes to qualify for the homestead tax credit and I've already been in contact with the tax department. That adjustment would cost roughly \$2.4M. Just so I understand, I've been informed with the homestead tax credit, the \$2M that was for continuation doesn't make a lot of sense if they are not utilizing the full amount now and I'm assuming appropriating \$20M more should cover any new potential growth. If we end up adopting that amendment, we might have to add \$2.4M. I don't know if we hold onto this or not come out conference until it's done; I don't know how to approach that.

That is our committee's opinion, I know that the tax department has expressed to me their number one priority is the research analysis. If there aren't any objections from anyone on this committee and if I could ask Joe or Ryan to come forward and explain their justification for that research analyst. The 2nd priority I've been told is the property tax specialist so if there are no objections, I would like them to refresh my memory on why they are important. It's been a while since we've on the Senate side seen this budget.

Ryan Rauschenberger, State Tax Commissioner: We have prioritized our FTEs with the research analyst being our number one priority. As we have more bills and proposals that require research during and out of session that deal with tax policy changes and we need someone to work with the person currently in that position. That is why we have that research analyst listed as #1 and it isn't just on fiscal notes on bills, she does the taxable sales and purchases reports, the red book, etc. and that is where a lot of our public work is done. This FTE would be another research analyst to help her out because she has a lot on her plate and we feel it's time to have some job shadowing and someone who can work with her and she also has over 30 years of experience. We need to have someone strictly dedicated to work with her.

Representative Boenning: How many vacancies do you currently have? I think you said you have 8?

Ryan Rauschenberger: The current count for vacancies is 7 vacancies; right now, we are interviewing so we are filling one of those starting on April 21 and the others are pending. The longest vacant is December 2014, so only a few months.

Representative Boenning: Would you be able to take one of these vacancies and turn it into a research analyst?

Ryan Rauschenberger: Because of the volume increase that we've had, there is opportunity to have reclassification but because of the increasing volume and registration, we do feel it is important to have that research analyst and not take away from other parts of the department. For example, we've been reallocating based on the increased fraud issues with individual income tax. We've had to work throughout sections and have those working other sections help out with individual income tax because we've had these expected work load increases so we are pretty lean for collecting \$14B - \$15B right now and having 134 FTEs; this would be a very critical position to have another FTE dedicated to it and not remove someone from another area where they are fully utilized right now.

Representative Skarphol: The positions that you have empty would they be in a lesser position than what this research analyst would be as far as qualifications or are you looking for someone more highly qualified for that research analyst position than these 7 vacancies?

Ryan Rauschenberger: That's a good point and I am trying to recall the classification for requirements for research analyst but an economist background is preferred; I don't remember if that's recommended or an actual requirement for a position but an economics background in analyst as opposed to an auditor or a compliance officer so it would be a different degree set and different type of qualifications than the other classifications we have open currently.

Representative Skarphol: Is the 7 number typical for your agency? Do you usually have some turnover or are you at a higher level right now than is normal?

Ryan Rauschenberger: That is pretty normal; I would say it probably averages between 5 and 9. With retirements coming up there will be more throughout the year.

Senator Wanzek: I would imagine that is typical in a lot of agencies, you always have people coming and going. The thing that would jump out at me is if that vacancy has been there over a year and then I would start wondering why but you said the longest vacancy has been since December?

Ryan Rauschenberger: That is correct; December 2nd is the oldest.

Vice Chairman Krebsbach: When you lose employees, are they going to other state positions or are they leaving and going out into the private market?

Ryan Rauschenberger: That is a good question. Some are leaving to other agencies; some are leaving to retirement, and some to the private sector. We do see a decent amount of our employees to other agencies.

Representative Skarphol: Do you have unutilized salary dollars that are going to be turned back from the vacancies that you've had in your department or have those dollars been utilized?

Ryan Rauschenberger: I have turn back in salary in wages. \$800,000 would be the turn back.

Vice Chairman Krebsbach: In regard to that, are those dollars that you use to pay when people retire for their vacation time or sick leave?

Ryan Rauschenberger: That is correct. Any vacation time is paid out of that as well as if they're eligible to be paid out of sick leave it is also paid out of this salary line item so that has already been figured into those onetime costs out of that \$800,000.

Senator Wanzek: You haven't touched yet on the property tax specialist, can you tell us a little bit about that position?

Ryan Rauschenberger: The property tax specialist is unique. It's a local tax but we're being asked to do more and more in the area of property taxes, it's a very small division within the department. Right now some of the major issues that they deal with are training; we train all of the local assessors, all the counties, and townships as well; we are responsible for training. We are seeing an increase our workload a bill that passed in 2011 which gave the state board of equalization more powers to have our division go on spot check counties if we think there are assessment issues out therefore equalization purposes. We actually are having staff going out that need to work directly more with counties. We have more pipeline, the state board of equalization values all utilities: wind and pipeline, we value that, the counties don't. With all of the thousand of miles put in the ground of pipeline, we value that the counties don't. Out of the property tax specialist that we have, one tends to handle all the pipelines. Gathering lines used to be a local assessment, we just handled the inter count pipelines, we do all that now and just give those values to the counties. We deal with any of disagreements and evaluations and all that comes to the state board and is recommended to the governor to approve. It is a small division with the job of evaluating billions of dollars of utility assets. Pipeline is where we see huge growth. We are being looked at to evaluate all of ND and we are spread very thin in that division. This would be a property tax specialist and we need to go out and assess homes or utility assessments.

Senator Wanzek: Before we end this meeting, there are reductions of funding for the tax credits. I am tending to agree with the House that the continuation of costs is not necessary. We haven't fully utilized the last monies from the last biennium. Are those turned back in if they're not used? On the disabled veterans fund, an increase of \$8.4M was appropriated last time, or is that what is used up to this point?

Ryan Rauschenberger: 13-15 appropriation was \$7.68B. Expenses for the current biennium are estimated at \$6.3B giving a turn back estimated over \$1.3M. The asked for appropriation for the 15-17 biennium was \$8.4B, that's for the increase in appropriations of \$767,000 comes from, so if you are looking at the turn-back amount that would be over \$1.3M.

Senator Wanzek: So if we appropriate at the base level, we have enough dollars to meet the programs under the current criteria. Any changes or expansions we make, we would need to add some to it. With the current program at it's current level, the appropriations appear to be adequate enough unless you are anticipating some huge new awareness that the program would be utilized to a greater extent?

Representative Skarphol: Is it not true that in the event the request exceeded the dollar amount, you can come into the deficiency appropriation and it is just granted?

Ryan Rauschenberger: That is true and if for example, the Homestead tax credit we have done that in the past and have come in for a deficiency appropriation and in our increases for 15-17 biennium, we assume that a general 10% increase in veterans coming into the program so that was a general 10%.

Senator Wanzek: Maybe with that general 10% increase, there is still enough money appropriated if we don't expand the program. It seems like both programs are adequately funded. If it does go over, there certainly would be a deficiency appropriation. If we address the amendment we passed this morning, I would be in favor of making sure that that's funded.

Representative Skarphol: Even with what you passed today, I still think there is enough money. If the price tag was \$2.4M as you suggested, there's \$4.7 that's unutilized and with a 10% increase; there would still be enough money.

Senator Wanzek: We will close without a compromise and see you again/

Senator Wanzek adjourned the subcommittee on SB 2006.

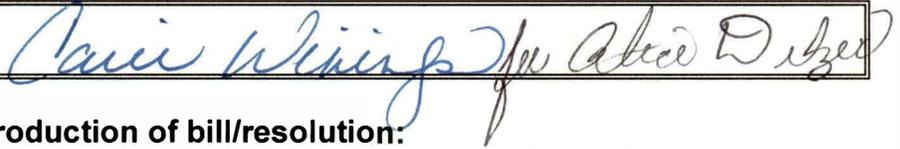
2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
4/15/2015
Job # 26143

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Conference Committee for the Tax Commissioner

Minutes:

No testimony attached

Senator Wanzek called the conference committee to order at 3:00 pm on Wednesday, April 15, 2015 in regards to SB 2006. All conferees were present.

Conference Committee Members:

Senators: Terry Wanzek - Chair, Karen Krebsbach, Joan Heckaman
Representatives: Robert J. Skarphol, Randy Boehning, Kathy Hogan

Becky Keller, OMB
Adam Mathiak, Legislative Council

Senator Wanzek: I know that the Senate had funded 3 of the 4 FTE requests and the House had removed all three. We had the homestead tax credit dollars in the bill and the House removed the increase, and also for the disabled veterans and then added \$8000 for scanners.

Representative Skarphol: And we removed the \$8 million that was going to be used on SB 2221 that got defeated and so it was no longer necessary.

Senator Wanzek: From my understanding, and I am speaking as the chairman, I cannot say that I am speaking for the other two Senators yet, but in looking at the numbers that are going to be turned back I am coming around to realizing that there may be adequate funds in there. If no one objects, we'll have Ryan come forward and talk about this. I think we can put that issue behind us and we can work on the differences that we might not agree on. The fact that we killed SB 2221, the expansion of the Homestead Tax Credit, but now we passed HB 1059 on the Senate floor today that would expand the evaluation from \$100,000 to \$125,000 property qualifying for the homestead tax credit. Can you share the amount of dollars that you anticipate to be in the turn back, and what kind of potential growth might we see next session if you have that available?

Ryan Rauschenberger, Office of the State Tax Commissioner: Currently we expect in this biennium, with the Homestead Tax Credit Program, to have a turn back of \$4.7 million dollars. That will be completing the 15 year of the program. That again is partial projection because that won't be complete by the end of the session. That is an estimate. Joe Morseitte has done a lot of the work on the expansion, and I believe we put a number of \$2.4 million just for the evaluation increase that was included in HB 1059. So it raised that cap for the applicants.

Senator Wanzek: I am seeing then that there is 4.7 which could accommodate a \$2 million increase in utilization plus a potential \$2.4 million increase in expanding the valuation numbers and expanding that program in that way.

Ryan Rauschenberger: That is correct. As long as we are close on our \$4.7 million turn back, and for whatever reason there isn't a surge, and also with abatements for prior years where the taxpayers have had the ability to abate the past three years which would fall into this year's program. We do have some unknowns there but if we are right with the \$4.7 million there would still be room to do the expansion and allow for some growth. We do actively promote the program with some of our advertising dollars. There are a lot of people out there that do not know about the program and are not applying for it. We are actively trying to get these applicants in so we do hope for an expansion.

Senator Wanzek: I am thinking that we can live within these numbers. We just have to understand next session, with the way that the program is written, that we cannot prorate the money if we run out. This tax department has to extend the funds for the program and I think that it is important to mention in the record that if we go with these numbers that we believe they can meet our needs but if not we would have to anticipate a deficiency appropriation in the next session. Now, how about the disabled veterans tax credit? I understand that we are going to utilize about \$6.3 million of the \$7.7 million appropriation?

Ryan Rauschenberger: That is correct. Leaving \$1.378 million as a turn back for the current biennium that again is using the current estimates to fill out the 2015 year. We believe we will turn back \$1.3 million out of the current program.

Senator Wanzek: So that is more than double what we originally showed in the budget for continuation. I was asking OMB and council here, what if you ever came to the end of the biennium and say the disabled veteran's tax credit is short and the homestead credit is long, do you have the authority to move some of the money from one fund to the other?

Ryan Rauschenberger: I do not believe so. That would have to be an emergency commission action. I do not believe that has ever happened. When we had a deficiency in the Homestead Tax Credit we went through the legislative process and we were approved for that additional \$1.1 million to cover that shortfall in 2011. I believe we could do the emergency commission.

Senator Wanzek: Would there be any interest in allowing you to move the money if one came up short and the other one was long at the end of the next biennium? Maybe there are reasons why we don't want to do that.

Representative Skarphol: My comment would be that it complicates the issue. They can go and get the deficiency appropriation. It keeps things neater in my mind to not bother with the transfer. They are going to get the money either way. Sometimes you create too many problems if you transfer money from one to the other.

Senator Wanzek: It seemed like it could work.

Ryan Rauschenberger: We are comfortable with the deficiency appropriation process.

All Senators agreed.

Senator Wanzek: I think we are down to the FTE's. Does the House have any movement there?

Representative Skarphol: The house fully recognizes the unique work that Kathy Strombeck does and when she retires it is going to take more than one person to replace her. We do have heartburn over any more FTE's than we absolutely have to do but the House is willing to do the research analyst. To begin the process of becoming educated with some small amount of what she has tucked away in that brain of hers. We would accept 1 FTE for the research analyst.

Senator Wanzek: Ok. I know we passed HB 1059 and I understand that the property tax specialist is important in the tax departments mind. I do not know how the other Senators feel about that. I think we are getting close.

Representative Skarphol: The suggestion was is that there is about 1000 hours of work that needs to be done. That is half of an FTE. If we give the research analyst, I guess the House's perception of that is with a little bit of massaging they should be able to find 1000 hours of time within their agency once they get all of their positions filled and so forth.

Senator Heckaman: They have asked for 4 and I would like to see us to do 2, the research analyst and the property tax specialist. I think that those would be important considering the increased work load they have had over the last 2 to 3 biennium. I do not think it is too much to ask.

V. Chairman Krebsbach: If we look at the number of FTE's in that department we are still below what we used to be. I think the case was very well made that they can easily justify 2 out of the four requests. I would like to see three additions added, but to compromise I would be willing to go down to getting the second one added.

Senator Wanzek: I think we are not that far off. I am prepared to settle if we get the property tax specialist and the research analyst and I am hearing that the House isn't so we have to try and get another meeting before we get this resolved. It appears that we are at a difference of 1 FTE at this time.

Representative Boehning: In the tax commissioner's testimony, the only burned less than 1000 hours of overtime and that is with having vacant FTE's in their office. I am thinking that once we get this all filled, I do not see why there should be a problem with them taking

care of that. I think 1000 hours of overtime is a pretty small number in an agency that has 134 FTE's.

Senator Heckaman: I think I remember yesterday that the tax commissioner also stated that those positions have not been open for a long time. It seems like he has been able to keep a pretty full staff for a very long time and I would gather that there are people working extra that are already working one position. Considering that they have not had those vacancies open very long, I don't think that is anything I would consider as a reason for not adding another one.

Representative Boehning: I think if I read this testimony right, the department has recruited for 29 vacated positions; 22% of the 134 FTE's and they only used 1000 hours of overtime. That is such a small amount of time.

Senator Wanzek: I am still trying to decide with some of the things we are doing regarding property tax; changing the assessors training, and changing the way we handle the modifiers. I am imagining there might be some additional work for the department in helping the counties. I am trying to determine if that is going to add an extra burden on them. I am just not prepared to give in to the one FTE at this point in time. We made some progress here today. I still consider it a fairly good conference committee. We'll adjourn and think about it.

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2006
4/20/2015
Job # 26289

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Conference Committee Hearing for the Tax Commissioner

Minutes:

No testimony submitted

Senator Wanzek called the Conference Committee Hearing to order on Monday, April 20, 2015 at 6:00 pm in the Harvest Room. All conferees were present.

Senators: Terry Wanzek, Chair., Karen Krebsbach and Senator Heckaman.
Representatives Robert Skarphol, Blair Thoreson, (replacing Randy Boehning for today)
Kathy Hogan

Adam Mathiak, Legislative Council
Becky Keller, OMB

Senator Wanzek: We are going to have just a short meeting. Roll call was taken.

Representative Thoreson: I am replacing Representative Boehning as he had a personal obligation he had to take care of today.

Representative Skarphol: I believe there was only one difference of opinion and it had to do with a FTE for property tax. To make short work of this the House is willing to give the FTE in $\frac{1}{4}$ of the salary for the biennium and the expectation would be there that they would use rollup to pay the balance.

Senator Wanzek: So we're talking about the FTE that was in question, the Property Tax Specialist.

Representative Skarphol: That's correct. We've agreed to the Research Analyst. The only one we were disagreeing about was the Property Tax. The House is willing to give them the FTE and $\frac{1}{4}$ of the money with the expectation they will use roll-up to pay the balance of that person's salary since they run 5 to 9 vacancies on a regular basis.

Senator Wanzek: That's pretty clear. I don't know that we are ready to say yes or no. I promise you we will take that into consideration when we come to the next meeting. We haven't had enough time to think about it or discuss it. I appreciate the offer and I am going to complement the House in digging and working on the homestead tax credit and the disabled veterans' tax credit and figuring out where we are at and making sure that we're covered. We will give that consideration and meet again tomorrow and hopefully we can get this one solved. The meeting is over.

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
4/21/2015
Job # 26316

- Subcommittee
 Conference Committee

Committee Clerk Signature

Memo for Rose Tanning

Explanation or reason for introduction of bill/resolution:

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

Minutes:

Legislative Council - Adam Mathiak
OMB - Becky Keller

Conference Committee Members:

Senators Wanzek, Krebsbach, Heckaman
Representatives Skarphol, Boehning, Hogan

Senator Wanzek: called the conference committee to order on SB 2006. All conferees were present. We are really down to one FTE. The House has made effort to pay ¼ cost of FTE. Visiting with the senators here, they have strong feelings about it, we are going to fund an FTE, we should fully fund them, but in the interest of compromise, we thought we would counter-offer and go with ½ of the cost paid to that one FTE.

Rep. Skarphol: Based on a conversation in last 10 minutes, House concerned about getting out of there. I would ask Joe Morrissette, if they could accomplish that if they had ¼ FTE. Because with 5-9 vacant positions I have to believe they have more than enough money to pick up the other 3/4ths.

Senator Wanzek: Asked Joe to come to the microphone.

Joe Morrissette: Deputy Tax Commissioner: In looking back at our budget, with 134 positions there is always some turnover and some savings from vacancies. I think we would be reluctant to hire with a quarter of the funding. We'd be reluctant to hire somebody right away, because we have retirements coming up that we have to pay out annual leave and sick leave. We'd have to be part way thru the biennium before we'd hire anyone. Once we had some sense of some assurance. Glenda is very conservative, let me just say that. Before there is some assurance that we knew for sure we would have some savings, because we had some period of vacancies. I don't know when it would be in the biennium, but it wouldn't be July 1. But it would probably be sometime before there was only 25% left

in the biennium. Sometime, maybe we would be half way through the biennium or something like that.

Rep. Skarphol: I expect you'll hire someone with some expertise in this area. How available do you think that expertise is, because it may take you 6 months to hire the person you are looking for?

Joe Morrissette: That is a really good point that's true. It does require experience in property tax. Typically it is people that have come to us from accounting. We wouldn't be able to advertise though until we felt confident that we could hire somebody in case they came through the door after it was posted for a week. So that is a little bit of a dilemma. Honestly, it will be very difficult to recruit for the position. There has been times when we had no applicants, and there's been times when we had one qualified applicant. We lucked out in the current biennium where somebody happened to be moving to Bismarck that had the right experience and we filled the position that way. It is very difficult positions to recruit for.

Senator Wanzek: Would going from one quarter to half of the funding make a difference?

Joe Morrissette: It would allow us to fill it sooner. We would have to go to less of the biennium to have a comfort level that we would have enough funding to fill that position. Even with half honestly, we wouldn't advertise before July 1. Maybe 3-6 months into the biennium we would feel comfortable that we would have that savings and we would be able to advertise for it then. It would expedite that and move it up for sure.

Senator Heckaman: I guess I am a little uncomfortable of allowing another FTE or us authorizing another FTE when we don't provide the funding for them because just listening now, in case there is a retirement and they have to pay out we're expecting them to come up with the money and that's not their job. Our job is to come up with the funding for this and so, I am comfortable if we're authorizing the position, but not funding it.

Senator Krebsbach: I to feel that asking for half is not out of line in this position. I think of the fact that you never know who can walk through that door and are we missing an opportunity by delaying the hiring.

Rep. Hogan: Joe, do you know how much roll-up you have in your budget at this point and time?

Joe Morrissette: It is very significant. I think it is \$800,000, we are anticipating at the end of this biennium that we'll have.

Rep. Hogan: Because of the recruitment problems you've had this year.

Joe Morrissette: That is correct. Yes, because of vacancies that have occurred and just the very time it takes to fill them, right.

Rep. Skarphol: As far as the accrued leave, if an agency needs the money for accrued leave, it's available. We've been reassured of that. We took accrued leave money out of the

securities department for an employee that was potentially going to retire that has 50 years of service. We were reassured that the money would be available in the event the agency needed it.

Senator Wanzek: Well there is not much more to say.

Rep. Skarpol: I am having some difficulty understanding why the hesitancy on the part of the agency. If you have 5-7-9 vacancies on an on-going basis that money is not being paid out to anyone. And if we give them a quarter of the money, to advertise and hire, I would submit to you that they may or may not get it done by the 1st of July, and even if they do, they've got 6 months of having 5-9 vacant positions to roll up dollars out of, to continue funding that employee. I guess today we're not willing to go the half.

Senator Wanzek: Well I think we'll probably adjourn the meeting then for now.

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
4/22/2015
Job # 26353

- Subcommittee
 Conference Committee

Committee Clerk Signature

Carie Winings for Rose Tanning

Explanation or reason for introduction of bill/resolution:

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

Minutes:

No Attachments

Legislative Council - Adam Mathiak
OMB - Becky Keller

Conference Committee Members:

Senators Wanzek, Krebsbach, Heckaman
Representatives Skarphol, Boehning, Hogan

Senator Wanzek: Called the conference committee on SB 2006 to order. We're really close on this one. When I started calculating out the dollars, I think we are within \$33,000. Does House have anything to offer or say?

Representative Skarphol: With the realization that they are likely going to have \$800,000 in turn back and a relatively consistent vacant number of positions; maybe the right proposal is that they just reclassify one of the vacant positions to this property tax specialist and hire the person without any money. If they are going to run regularly with vacancies and you have 5-7 FTE's, you should be able to reclassify one of them. I think our offer is legitimate and I would even go one step further. If they fall short of money, they can always go to the emergency commission and ask for the balance of the money because the FTE was authorized or they can ask for the deficiency appropriation. I don't think we are willing to budge.

Senator Heckaman: I would think that the property tax specialist would have specific skills that some of the others may not have right now and I do not know what position that we would be disposing of if we moved someone out of a position. We never even considered that and we never had any conversation on that when we had the testimony on this bill. I would be a little leery of that. I don't think it's a large amount of money for the amount of work that they have had to do in the last few years. I am not in favor of authorizing them to fill different position with a property tax position.

Senator Krebsbach: I would agree. I think we are kind of fighting in one sense of the word over pennies when looking at the total budget. To fund $\frac{1}{4}$ of a person just doesn't seem realistic to me. Funding it half I could agree with because then we can count on them going for the other half. When you look at the work that they are doing and the additional amount of work that has been put on this agency and the additional dollars that have been collected that benefit the state, why are we arguing over \$33,000 dollars?

Representative Skarphol: My impression is that they're arguing over less than that in places. This is one FTE. Seriously, if you have the ability to run short on employees today, which they obviously do, the extra FTE to me seems to be a non-issue. What is more important is that the FTE should be defined as a property tax specialist. If need be, we can give them authorizing language to transfer funds to make sure that there are enough dollars to cover the cost of that individual's salary versus the one they're going to eliminate. We'll go with $\frac{1}{4}$ and the FTE, but beyond that I do not think we will.

Senator Wanzek: I can appreciate what you're saying, however, I think it is unrealistic to think that an agency will always have 100% capacity and not have a vacancy now and then. I am thinking that is part of the reality of employing a number of people. People come and go. The FTE count is 4 or 5 and it does not seem to be really out of line. I haven't look at my sheet that shows the number of months that they have been vacant.

Representative Skarphol: The numbers I quoted were provided in testimony. When I asked the question about vacancies, he said that it runs from 5-9 on a regular basis. I understand the difficulty of running an agency and that you have vacancies but when you can roll up \$800,000 in one biennium and you only need \$150,000 for this position, it is less than a fifth of that.

Senator Heckaman: I would see if we were doing this policy consistently across all agencies. Maybe we should consider that next biennium but right now we are not doing this consistently and I think we heard testimony in Senate Appropriations that the longest vacancy is one back from December. These are not very old vacancies. If you consider old vacancies, I think I remember from the Governor's budget/office that the Deputy Chief of Staff position is still funded and it has been open for 60 months and we still appropriate funding for it. If we allow that in one agency, I am not sure why we are picking on another agency. If we are going to do it for these positions, then I would guess that it should be uniform policy across all agencies.

Representative Skarphol: Maybe we should try it once to see if it works.

Senator Heckaman: I look back at the amount of work that they've added and I don't think that 2 positions out of the total of 7 positions they asked for in the executive budget is too much. I think one is pretty limited when we look at that.

Senator Wanzek: We're still at a stalemate. I don't know if we can get another hearing scheduled, but we'll call another meeting. Adjourned the meeting.

2015 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2006
4/22/2015
Job # 26370

Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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

Minutes:

No Attachments

Legislative Council - Adam Mathiak
OMB - Becky Keller

Conference Committee Members:

Senators Wanzek, Krebsbach, Heckaman
Representatives Skarphol, Thoreson, Hogan

Senator Wanzek called the conference committee to order on SB 2006.

Senator Heckaman: I agree with House that FTE is important. In visiting with Glenda on funding, she said that they have continued to have some roll up. With the intent that the tax department can go to the emergency commission if they don't have funding I am willing to make a motion.

Senator Heckaman: Moved to authorize the one FTE (property tax specialist) at ¼ of the salary.

Representative Skarphol: Seconded.

Senator Wanzek: We have a motion and a second for a property tax specialist at ¼ funding in the budget for that positions. Is there any further discussion?

Representative Skarphol: So they are getting the FTE, they get the ¼ the salary, they hire the person, and they use them for the full two years so that next time their budget comes out the dollar amount is included in their salary line for the full FTE. Is that a correct assumption? They paid him and it has all been salary money and they'll just have less rollup next biennium.

Adam Mathiak, Legislative Council: It gets a little bit complicated. The base level would be the same as this appropriation. There is typically with every agency a base payroll change adjustment. You saw it in all the budgets and it was pretty much approved on all of them. I do not know of any of them that it wasn't. That accounts for things like salary increases. It would probably show up in that part of it. It would specifically be stated but it would be in the budget. Identifying specifically where and how it would show up is a little bit difficult to say at this point. It would be in the budget.

Representative Skarphol: But it would be highly unusual that it would come back as ¼ funded?

Adam Mathiak: Correct. It maybe would show a little bit larger increase than another agency because there would have to be additional money added in that base payroll change but it would be accounted for in the budget for next time.

A Roll Call Vote Was Taken: Yea: 6 Nays: 0 Absent: 0

Motion Carried.

Senator Heckaman: Could you have Adam go over the other changes that we have agreed on because I am not sure where we are right now.

Adam Mathiak: The House would recede and it would be further amended. The simplest way to explain it based on the discussion here is that it would be the changes that the House made with the exception of the two FTE positions that were discussed. The House version had taken out all of the FTE's so we would be adding two FTE positions and then the 1¼ funding associated with those positions. The House had also adjusted the homestead tax credit and the disabled veterans tax credit. As always with the other agencies, the insurance adjustment would be included.

Representative Skarphol: As far as the actions of the conference committee itself, it was just the FTE issues.

Adam Mathiak: Yes.

Senator Wanzek: We understand that was the only change that we are making from the House amendments.

Representative Thoreson: Moved the House Recede from House Amendments and Further Amend with actions of the committee.

Senator Heckaman: Seconded.

A Roll Call vote was taken. Yea: 6 Nay: 0 Absent: 0

Motion Carried.

Senator Krebsbach and Rep. Thoreson will carry the bill on the floor.

*1/23
 4/23/15
 Jane*

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

That the House recede from its amendments as printed on pages 1232-1234 of the Senate Journal and pages 1438-1440 of the House Journal and that Engrossed Senate Bill No. 2006 be amended as follows:

Page 1, line 4, remove "and"

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

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$2,849,226	\$22,987,714
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	483,370	8,205,204
Capital assets	16,000	8,000	24,000
Homestead tax credit	20,000,000	0	20,000,000
Disabled veterans' credit	<u>7,678,000</u>	<u>0</u>	<u>7,678,000</u>
Total all funds	\$56,179,140	\$2,715,778	\$58,894,918
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$2,715,778	\$58,769,918
Full-time equivalent positions	134.00	2.00	136.00"

Page 2, line 3, after "biennium" insert "and the 2015-17 one-time funding items included in the appropriation in section 1 of this Act"

Page 2, replace lines 5 and 6 with:

"TAP project	\$1,000,000	\$0
Scanners	<u>0</u>	<u>8,000</u>
Total general fund	\$1,000,000	\$8,000

The 2015-17 one-time funding amounts are not a part of the entity's base budget for the 2017-19 biennium. The tax commissioner shall report to the appropriations committees of the sixty-fifth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2015, and ending June 30, 2017."

Page 2, after line 11, insert:

"SECTION 4. EXEMPTION. The amount appropriated for the capital assets line item in section 1 of chapter 6 of the 2013 Session Laws is not subject to section 54-44.1-11 and any unexpended funds from this line item are available during the biennium beginning July 1, 2015, and ending June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$20,138,488	\$23,324,177	(\$336,463)	\$22,987,714	\$22,803,518	\$184,196

Operating expenses	7,721,834	8,232,665	(27,461)	8,205,204	8,185,589	19,615
Capital assets	16,000	16,000	8,000	24,000	24,000	
Homestead tax credit	20,000,000	30,000,000	(10,000,000)	20,000,000	20,000,000	
Disabled veterans credit	7,678,000	8,445,000	(767,000)	7,678,000	7,678,000	
Accrued leave payments	624,818					
Total all funds	\$56,179,140	\$70,017,842	(\$11,122,924)	\$58,894,918	\$58,691,107	\$203,811
Less estimated income	125,000	125,000	0	125,000	125,000	0
General fund	\$56,054,140	\$69,892,842	(\$11,122,924)	\$58,769,918	\$58,566,107	\$203,811
FTE	134.00	137.00	(1.00)	136.00	134.00	2.00

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

	Adjusts Funding for Health Insurance Premium Increases ¹	Removes New FTE Positions ²	Removes Funding for New FTE Operating Expenses ³	Reduces Funding for Homestead Tax Credit ⁴	Reduces Funding for Disabled Veterans' Tax Credit ⁵	Adds One-Time Funding for Scanners ⁶
Salaries and wages	(\$100,886)	(\$235,577)				
Operating expenses			(27,461)			
Capital assets						8,000
Homestead tax credit				(10,000,000)		
Disabled veterans credit					(767,000)	
Accrued leave payments						
Total all funds	(\$100,886)	(\$235,577)	(\$27,461)	(\$10,000,000)	(\$767,000)	\$8,000
Less estimated income	0	0	0	0	0	0
General fund	(\$100,886)	(\$235,577)	(\$27,461)	(\$10,000,000)	(\$767,000)	\$8,000
FTE	0.00	(1.00)	0.00	0.00	0.00	0.00

	Total Conference Committee Changes
Salaries and wages	(\$336,463)
Operating expenses	(27,461)
Capital assets	8,000
Homestead tax credit	(10,000,000)
Disabled veterans credit	(767,000)
Accrued leave payments	
Total all funds	(\$11,122,924)
Less estimated income	0
General fund	(\$11,122,924)
FTE	(1.00)

¹ Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

² The following funding and FTE positions are removed:

- \$124,924 from the general fund and 1 compliance officer FTE position;
- \$100,198 from the general fund related to 1 property tax specialist position;
- \$4,631 from the general fund for related salary increases; and
- \$5,824 from the general fund for related health insurance increases.

The conference committee version includes \$184,196 from the general fund and 2 FTE positions. The Senate provided \$419,773 from the general fund and 3 FTE positions. The House removed the positions and the related funding.

323

³ Funding is removed for operating expenses related to the new FTE positions. The Senate version provided \$47,076, and the House version removed \$47,076.

⁴ Funding is removed to continue the homestead tax credit changes made by the 2013 Legislative Assembly (\$2 million) and to expand the eligibility threshold for homestead tax credit program (\$8 million). Total funding for the homestead tax credit program is \$20 million, which is the same as the base level and House version. The Senate provided funding of \$30 million, an increase of \$10 million over the base level and the House version.

⁵ The amendment removes funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly. Total funding for the disabled veterans' tax credit program is \$7,678,000, which is the same as the base level and the House version. The Senate version provided total funding of \$8,445,000 from the general fund.

⁶ One-time funding is added for scanners, which is the same as the House version. The Senate version did not include this funding.

This amendment also adds a new section to provide an exemption for the \$16,000 appropriated in the capital assets line item to the Tax Department in the 2013-15 biennium. As a result, \$40,000 will be available to the department to purchase scanners, of which \$16,000 is from carryover authority, \$16,000 is included in the department's base budget, and \$8,000 of one-time funding from the general fund is added in this amendment. The House version also included the exemption, but the Senate version did not provide an exemption.

Attendance Sheet

Date: 4-14-15
 Roll Call Vote #: _____

**2015 SENATE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. SB 2006 as (re) engrossed

Senate Appropriations Committee

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

Motion Made by: _____ Seconded by: _____

Senators				Yes	No		Representatives				Yes	No
	4/14	4/15	4/20					4/14	4/15	4/20		
Wanzek	X	X	X				Skarphol	X	X	X		
Krebsbach	X	X	X				Boehning	X	X	A		
Heckaman	X	X	X				Hogan	X	X	X		
							Thoreson			X		
Total Senate Vote							Total Rep. Vote					

Vote Count Yes: _____ No: _____ Absent: _____

Senate Carrier _____ House Carrier _____

LC Number _____ of amendment

LC Number _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

**2015 SENATE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. SB 2006 as (re) engrossed

Senate Appropriations Committee

- Action Taken**
- SENATE accede to House Amendments
 - SENATE accede to House Amendments and further amend
 - HOUSE recede from House amendments
 - HOUSE recede from House amendments and amend as follows

 - Unable to agree**, recommends that the committee be discharged and a new committee be appointed

*** Motion to approve one quarter employee

Motion Made by: Senator Heckaman Seconded by: Rep. Skarphol

Senators	AM PM			Yes	No		AM PM			Yes	No	
	4/21	4/22	4/22				4/21	4/22	4/22			
Wanzek	X	X	X	X			Skarphol	X	X	X	X	
Krebsbach	X	X	X	X			Thoreson	X	X	X	X	
Heckaman	X	X	X	X			Hogan	X	X	X	X	
Total Senate Vote				3			Total Rep. Vote				3	

Vote Count Yes: 6 No: 0 Absent: 0

Senate Carrier _____ House Carrier _____

LC Number _____ of amendment

LC Number _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

**2015 SENATE CONFERENCE COMMITTEE
 ROLL CALL VOTES**

BILL/RESOLUTION NO. SB 2006 as (re) engrossed

Senate Appropriations Committee

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

Motion Made by: Rep. Thoreson Seconded by: Senator Heckaman

Senators					Representatives							
			Yes	No				Yes	No			
Wanzek			X		Skarphol			X				
Krebsbach			X		Thoreson			X				
Heckaman			X		Hogan			X				
Total Senate Vote							3	Total Rep. Vote				3

Vote Count Yes: 6 No: 0 Absent: 0

Senate Carrier Senator Wanzek House Carrier Rep. Thoreson

LC Number 15.8139 . 02002 of amendment

LC Number 15.8139 . 04000 of engrossment

Emergency clause added or deleted
 Statement of purpose of amendment

REPORT OF CONFERENCE COMMITTEE

SB 2006, as engrossed: Your conference committee (Sens. Wanzek, Krebsbach, Heckaman and Reps. Skarphol, Thoreson, Hogan) recommends that the **HOUSE RECEDE** from the House amendments as printed on SJ pages 1232-1234, adopt amendments as follows, and place SB 2006 on the Seventh order:

That the House recede from its amendments as printed on pages 1232-1234 of the Senate Journal and pages 1438-1440 of the House Journal and that Engrossed Senate Bill No. 2006 be amended as follows:

Page 1, line 4, remove "and"

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

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$2,849,226	\$22,987,714
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	483,370	8,205,204
Capital assets	16,000	8,000	24,000
Homestead tax credit	20,000,000	0	20,000,000
Disabled veterans' credit	<u>7,678,000</u>	<u>0</u>	<u>7,678,000</u>
Total all funds	\$56,179,140	\$2,715,778	\$58,894,918
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$2,715,778	\$58,769,918
Full-time equivalent positions	134.00	2.00	136.00"

Page 2, line 3, after "biennium" insert "and the 2015-17 one-time funding items included in the appropriation in section 1 of this Act"

Page 2, replace lines 5 and 6 with:

"TAP project	\$1,000,000	\$0
Scanners	<u>0</u>	<u>8,000</u>
Total general fund	\$1,000,000	\$8,000

The 2015-17 one-time funding amounts are not a part of the entity's base budget for the 2017-19 biennium. The tax commissioner shall report to the appropriations committees of the sixty-fifth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2015, and ending June 30, 2017."

Page 2, after line 11, insert:

"SECTION 4. EXEMPTION. The amount appropriated for the capital assets line item in section 1 of chapter 6 of the 2013 Session Laws is not subject to section 54-44.1-11 and any unexpended funds from this line item are available during the biennium beginning July 1, 2015, and ending June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$20,138,488	\$23,324,177	(\$336,463)	\$22,987,714	\$22,803,518	\$184,196
Operating expenses	7,721,834	8,232,665	(27,461)	8,205,204	8,185,589	19,615
Capital assets	16,000	16,000	8,000	24,000	24,000	
Homestead tax credit	20,000,000	30,000,000	(10,000,000)	20,000,000	20,000,000	
Disabled veterans credit	7,678,000	8,445,000	(767,000)	7,678,000	7,678,000	
Accrued leave payments	624,818					

Total all funds	\$56,179,140	\$70,017,842	(\$11,122,924)	\$58,894,918	\$58,691,107	\$203,811
Less estimated income	125,000	125,000	0	125,000	125,000	0
General fund	\$56,054,140	\$69,892,842	(\$11,122,924)	\$58,769,918	\$58,566,107	\$203,811
FTE	134.00	137.00	(1.00)	136.00	134.00	2.00

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

	Adjusts Funding for Health Insurance Premium Increases ¹	Removes New FTE Positions ²	Removes Funding for New FTE Operating Expenses ³	Reduces Funding for Homestead Tax Credit ⁴	Reduces Funding for Disabled Veterans' Tax Credit ⁵	Adds One-Time Funding for Scanners ⁶
Salaries and wages	(\$100,886)	(\$235,577)				
Operating expenses			(27,461)			
Capital assets						8,000
Homestead tax credit				(10,000,000)		
Disabled veterans credit					(767,000)	
Accrued leave payments						
Total all funds	(\$100,886)	(\$235,577)	(\$27,461)	(\$10,000,000)	(\$767,000)	\$8,000
Less estimated income	0	0	0	0	0	0
General fund	(\$100,886)	(\$235,577)	(\$27,461)	(\$10,000,000)	(\$767,000)	\$8,000
FTE	0.00	(1.00)	0.00	0.00	0.00	0.00

	Total Conference Committee Changes
Salaries and wages	(\$336,463)
Operating expenses	(27,461)
Capital assets	8,000
Homestead tax credit	(10,000,000)
Disabled veterans credit	(767,000)
Accrued leave payments	
Total all funds	(\$11,122,924)
Less estimated income	0
General fund	(\$11,122,924)
FTE	(1.00)

¹ Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

² The following funding and FTE positions are removed:

- \$124,924 from the general fund and 1 compliance officer FTE position;
- \$100,198 from the general fund related to 1 property tax specialist position;
- \$4,631 from the general fund for related salary increases; and
- \$5,824 from the general fund for related health insurance increases.

The conference committee version includes \$184,196 from the general fund and 2 FTE positions. The Senate provided \$419,773 from the general fund and 3 FTE positions. The House removed the positions and the related funding.

³ Funding is removed for operating expenses related to the new FTE positions. The Senate version provided \$47,076, and the House version removed \$47,076.

⁴ Funding is removed to continue the homestead tax credit changes made by the 2013 Legislative Assembly (\$2 million) and to expand the eligibility threshold for homestead tax credit program (\$8 million). Total funding for the homestead tax credit program is \$20 million, which is the same as the base level and House version. The Senate provided

funding of \$30 million, an increase of \$10 million over the base level and the House version.

⁵ The amendment removes funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly. Total funding for the disabled veterans' tax credit program is \$7,678,000, which is the same as the base level and the House version. The Senate version provided total funding of \$8,445,000 from the general fund.

⁶ One-time funding is added for scanners, which is the same as the House version. The Senate version did not include this funding.

This amendment also adds a new section to provide an exemption for the \$16,000 appropriated in the capital assets line item to the Tax Department in the 2013-15 biennium. As a result, \$40,000 will be available to the department to purchase scanners, of which \$16,000 is from carryover authority, \$16,000 is included in the department's base budget, and \$8,000 of one-time funding from the general fund is added in this amendment. The House version also included the exemption, but the Senate version did not provide an exemption.

Engrossed SB 2006 was placed on the Seventh order of business on the calendar.

2015 TESTIMONY

SB 2006

Department 127 - Tax Commissioner
 Senate Bill No. 2006

Executive Budget Comparison to Prior Biennium Appropriations

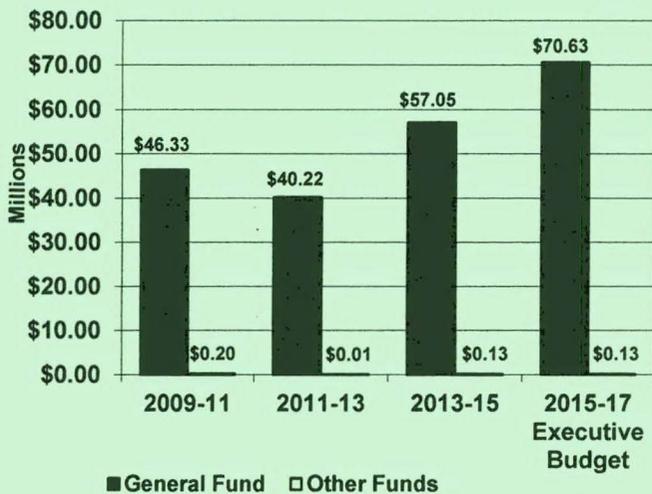
	FTE Positions	General Fund	Other Funds	Total
2015-17 Executive Budget	138.00	\$70,625,716	\$125,000	\$70,750,716
2013-15 Legislative Appropriations ¹	134.00	57,054,140	125,000	57,179,140
Increase (Decrease)	4.00	\$13,571,576	\$0	\$13,571,576

¹The 2013-15 appropriation amounts do not include general fund allocations of \$81,000 to the agency from the state agency energy impact funding pool for temporary salary adjustments for agency employees located in areas of the state affected by energy development.

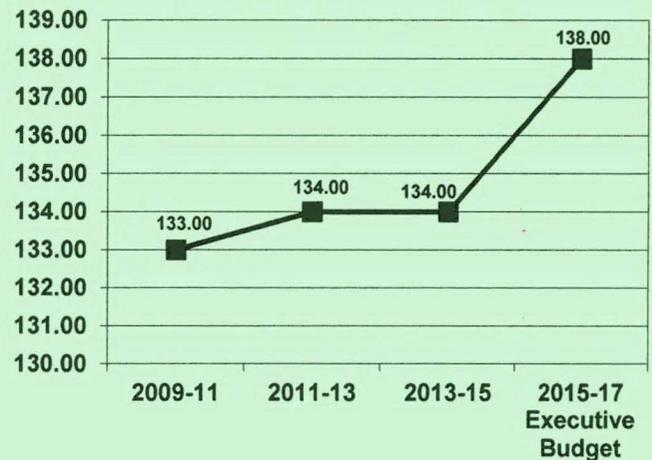
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2015-17 Executive Budget	\$70,625,716	\$0	\$70,625,716
2013-15 Legislative Appropriations	56,054,140	1,000,000	57,054,140
Increase (Decrease)	\$14,571,576	(\$1,000,000)	\$13,571,576

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2015-17 Executive Budget	\$70,625,716	\$125,000	\$70,750,716
2015-17 Base Level	56,054,140	125,000	56,179,140
Increase (Decrease)	\$14,571,576	\$0	\$14,571,576

First House Action

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

Executive Budget Highlights
 (With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases of which \$1,115,188 relates to performance increases, \$214,339 is for market equity adjustments, \$595,860 is for health insurance increases, and \$114,940 is for retirement contribution increases. The Senate provided funding for performance salary increases of 2 to 4 percent per year and funding for health insurance increases, but did not include funding for market equity increases or funding for retirement contribution increases.	\$2,040,327	\$0	\$2,040,327

2. Adds funding to continue salary adjustments made in the 2013-15 biennium	\$332,929	\$0	\$332,929
3. Adds funding for 4.00 new FTE positions, of which \$490,831 is for salaries and wages and \$62,768 is for operating expenses	\$553,599	\$0	\$553,599
• 1 FTE audit technician position			
• 1 FTE compliance officer position			
• 1 FTE property tax specialist position			
• 1 FTE research analyst position			
The Senate provided funding of \$439,194 for 1 compliance officer FTE position, 1 property tax specialist FTE position, and 1 research analyst FTE position.			
4. Increases funding for Nexus software programs and the Multistate Tax Commission audit program	\$64,440	\$0	\$64,440
5. Increases funding for GenTax service maintenance contracts, which reflects a 6.25 percent increase for the biennium	\$200,000	\$0	\$200,000
6. Adds funding for temporary wages (\$97,000) and increases funding for postage costs (\$199,315) for total postage funding of \$1,170,276	\$296,315	\$0	\$296,315
7. Increases funding to continue the homestead tax credit program for total funding of \$22 million	\$2,000,000	\$0	\$2,000,000
8. Adds funding to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million (Legislation has not yet been introduced making this statutory change)	\$8,000,000	\$0	\$8,000,000
9. Increases funding to continue the disabled veterans' tax credit for total funding of \$8,445,000	\$767,000	\$0	\$767,000

Other Sections in Bill

Transfer - Section 3 provides for a transfer \$2,303,496 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Salary of Tax Commissioner - Section 4 provides the statutory changes necessary to increase the Tax Commissioner's salary as follows:

Annual salary authorized by the 2013 Legislative Assembly:

July 1, 2013	\$105,050
July 1, 2014	\$108,202

Proposed annual salary recommended in the 2015-17 executive budget:

July 1, 2015	\$112,530
July 1, 2016	\$117,031

The executive budget includes funding for elected officials' salary increases of 4 percent effective July 1, 2015, and 4 percent effective July 1, 2016.

The Senate provided for a 3 percent annual increase to the Tax Commissioner's salary, resulting in an annual salary of \$111,448 effective July 1, 2015, and \$114,791 effective July 1, 2016.

Continuing Appropriations

There are no continuing appropriations for this agency.

Significant Audit Findings

The operational audit for the Tax Department conducted by the State Auditor's office during the 2013-14 interim identified no significant audit findings.

Major Related Legislation

Senate Bill No. 2113 - Expands the disabled veterans' homestead tax credit by changing the taxable valuation from the value of the fixtures, buildings, and improvements of the property to the value of the property.

Senate Bill No. 2115 - Allows the Tax Commissioner to accept reduced tax collections from taxes assessed but not yet paid if the taxpayer provides information verifying that the assessment exceeds the actual amount due.

Senate Bill No. 2221 - Expands the homestead tax credit program by increasing the income limit from \$42,000 to \$50,000, increases the maximum refund amount available for the renter refund program from \$400 to \$600, and increases the maximum homestead value for credits from \$100,000 to \$150,000.

House Bill No. 1053 - Exempts the Tax Department from required centralized desktop support services provided by the Information Technology Department.

House Bill No. 1133 - Allows the Tax Commissioner to offset future distributions of tax collections related to overpayments, requires tax refunds to be at least \$5 before a payment is issued, and provides technical corrections for consistency and clarity.

Tax Department - Budget No. 127
Senate Bill No. 2006
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2015-17 Biennium Base Level	134.00	\$56,054,140	\$125,000	\$56,179,140	134.00	\$56,054,140	\$125,000	\$56,179,140
2015-17 Ongoing Funding Changes								
Base payroll changes		\$316,966		\$316,966		\$316,966		\$316,966
Salary increase - Performance		1,115,188		1,115,188		830,316		830,316
Salary increase - Market equity		214,339		214,339				0
Retirement contribution increase		114,940		114,940				0
Health insurance increase		595,860		595,860		591,542		591,542
Continuation of 2013-15 salary adjustments		332,929		332,929		332,929		332,929
New FTE audit technician position	1.00	98,713		98,713				0
New FTE compliance officer position	1.00	124,924		124,924	1.00	124,924		124,924
New FTE property tax specialist position	1.00	133,597		133,597	1.00	133,597		133,597
New FTE research analyst position	1.00	133,597		133,597	1.00	133,597		133,597
FTE operating expenses		62,768		62,768		47,076		47,076
Changes funding for operating expenses		64,440		64,440		64,440		64,440
GenTax contracts		200,000		200,000		200,000		200,000
Temporary wages and postage		296,315		296,315		296,315		296,315
Continuation of homestead tax credit		2,000,000		2,000,000		2,000,000		2,000,000
Expansion of homestead tax credit		8,000,000		8,000,000		8,000,000		8,000,000
Continuation of disabled veterans' tax credit		767,000		767,000		767,000		767,000
Total ongoing funding changes	4.00	\$14,571,576	\$0	\$14,571,576	3.00	\$13,838,702	\$0	\$13,838,702
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	4.00	\$14,571,576	\$0	\$14,571,576	3.00	\$13,838,702	\$0	\$13,838,702
2015-17 Total Funding	138.00	\$70,625,716	\$125,000	\$70,750,716	137.00	\$69,892,842	\$125,000	\$70,017,842

Other Sections in Senate Bill No. 2006

	Executive Budget Recommendation	Senate Version
Motor vehicle fuel tax administration transfer	Section 3 provides for a transfer of \$2,030,496 from motor vehicle fuel tax collections to the general fund for expenses related to the collection of the taxes.	Section 3 provides for a transfer of \$2,030,496 from motor vehicle fuel tax collections to the general fund for expenses related to the collection of the taxes.
Salary of Tax Commissioner	Section 4 provides for the statutory changes necessary to increase the Tax Commissioner's salary from \$108,202 in state fiscal year 2015 to \$112,530 (4 percent) in state fiscal year 2016 and to \$117,031 (4 percent) in state fiscal year 2017.	Section 4 provides for the statutory changes necessary to increase the Tax Commissioner's salary from \$108,202 in state fiscal year 2015 to \$111,448 (3 percent) in state fiscal year 2016 and to \$114,791 (3 percent) in state fiscal year 2017.



Attachment #1

BUDGET PRESENTATION

SENATE APPROPRIATIONS COMMITTEE

SENATOR RAY HOLMBERG, CHAIRMAN

AGENCY OVERVIEW

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota. We strive to provide prompt, accurate, and courteous service to taxpayers as we promote compliance with the state's tax laws. Thanks to our knowledgeable, professional, and experienced staff, we have been able to meet the challenges of a workload that has grown tremendously in recent years while still maintaining a high standard of customer service.

As you know, the Office of State Tax Commissioner is the primary revenue collection agency for the state. For the 2013-15 biennium, the department will collect over 95 percent of all general fund dollars, excluding transfers -- an amount expected to exceed \$4.5 billion. In addition, the department is expected to collect \$6.8 billion in oil tax revenues during the current biennium, based on the executive revenue forecast.

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

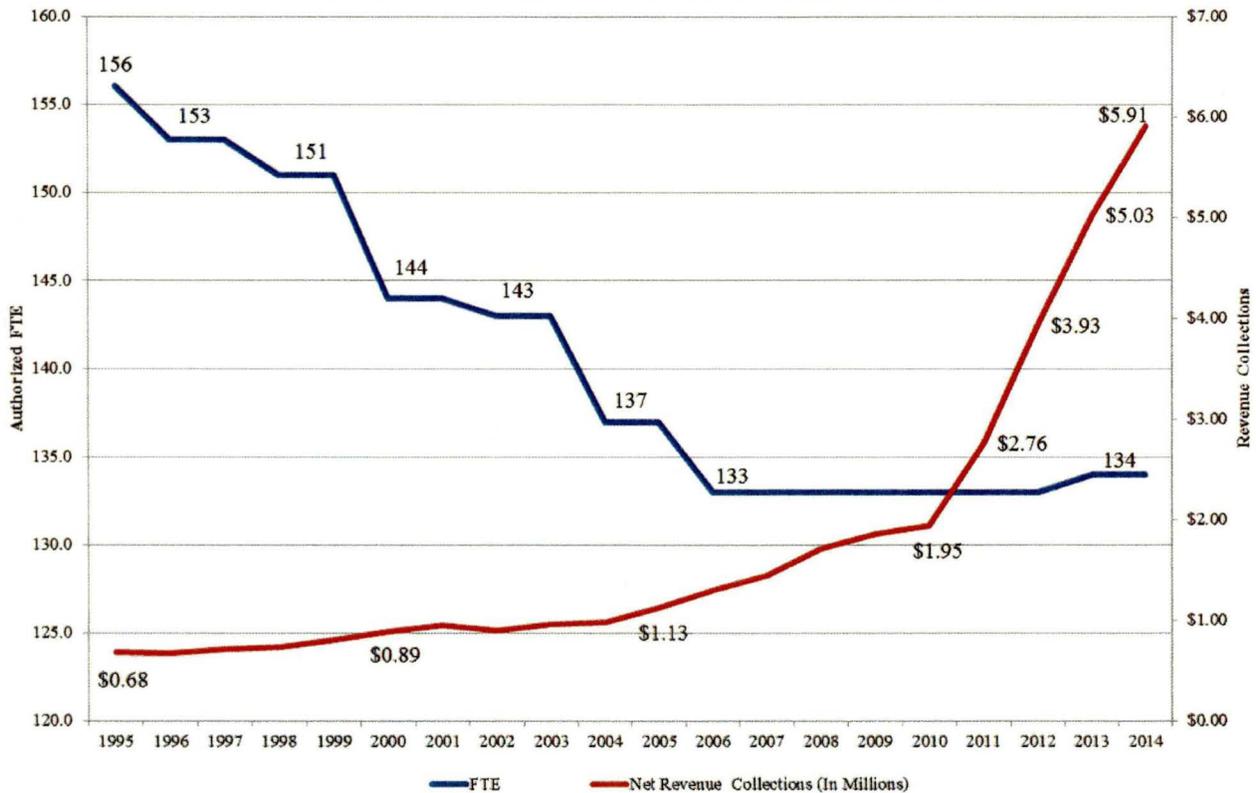
The chart on the following page shows the various tax types administered by the department and the amounts collected in fiscal years 2010 and 2014. In many cases, the growth is not merely in the dollars collected, but is a reflection of the growth in the number of filers and returns processed by the department.

FISCAL YEARS 2010 AND 2014

<u>Description</u>	<u>FY 2010</u> <u>Net</u> <u>Collections</u>	<u>FY 2014</u> <u>Net</u> <u>Collections</u>	<u>Change</u>
Sales & Use Tax	\$603,732,481.40	\$1,320,167,041.71	\$716,434,560.31
Motor Vehicle Excise Tax	106,657.48	225,363.41	118,705.93
City Occupancy Tax	1,872,368.29	4,373,399.07	2,501,030.78
City Sales Tax	119,411,810.30	228,776,286.83	109,364,476.53
City Restaurant and Lodging Tax	4,289,398.83	6,327,731.25	2,038,332.42
City Motor Vehicle Rental Tax	110,556.92	189,413.02	78,856.10
Individual Income Tax	304,252,923.84	516,139,885.46	211,886,961.62
Corporate Income Tax	87,874,592.38	239,404,246.94	151,529,654.56
Financial Institutions Tax	10,451,318.55	13,228,788.43	2,777,469.88
Cigarette Tax (Cities)	1,353,441.68	1,643,720.29	290,278.61
Cigarette Tax (Tribe)	64,692.59	68,792.28	4,099.69
Cigarette Tax (GF)	18,454,355.21	22,489,944.95	4,035,589.74
Tobacco Tax	3,976,397.58	7,032,346.44	3,055,948.86
Oil & Gas Gross Production Tax	302,099,211.20	1,492,982,452.06	1,190,883,240.86
Oil Extraction Tax	280,611,436.86	1,754,824,617.09	1,474,213,180.23
Telecommunications Tax	11,252,316.31	11,631,088.50	378,772.19
Wholesale Liquor/beer Tax	7,411,422.08	9,297,118.86	1,885,696.78
Estate Tax	9,173.85	14,466.04	5,292.19
Miscellaneous Remittances	13,019.06	9,399.36	(3,619.70)
Coal Severance Tax	11,506,450.67	11,233,706.50	(272,744.17)
Coal Conversion Tax	26,154,149.83	24,937,582.21	(1,216,567.62)
Transmission Line Tax	442,604.25	8,401,467.81	7,958,863.56
Music and Composition Tax	155,922.63	171,019.52	15,096.89
Sales & Use Tax Cash Bonds	51,050.00	494,640.38	443,590.38
Fuel Dealers & Inspection Fees	0.00	385,370.26	385,370.26
Motor Vehicle Fuel Tax	85,179,818.23	105,625,777.29	20,445,959.06
Special Fuel Tax	66,553,655.95	123,068,252.79	56,514,596.84
Motor Fuel Tax - Cash Bond	(2,000.00)	(108,600.00)	(106,600.00)
Nongame Wildlife Fund	19,443.98	29,697.89	10,253.91
Centennial Tree Trust Fund	20,374.55	31,225.99	10,851.44
Organ Transplant Support Fund	11,949.57	18,065.94	6,116.37
Airline Tax	202,398.98	178,594.45	(23,804.53)
Prepaid Wireless Fees	0.00	135,642.65	135,642.65
Provider Assessment	4,094,197.00	5,901,063.30	1,806,866.30
TOTAL COLLECTIONS	\$1,951,737,590.05	\$5,909,329,608.97	\$3,957,592,018.92

The chart on the following page shows a longer-term history of revenue collected and provides a comparison to the number of employees authorized for the Office of State Tax Commissioner. 1.2

OFFICE OF STATE TAX COMMISSIONER
FTE AND ANNUAL NET REVENUE COLLECTIONS



As you can see, the number of positions authorized for the department has declined from a high of 156 in 1995 to 134 in the current biennium. This reduction in staff has been made possible through administrative efficiencies and technological advancements, such as an increasing percentage of electronically filed returns, the implementation of web-file solutions for businesses such as the recently implemented Taxpayer Access Point (TAP), and the implementation of our integrated tax system known as GenTax. However, with the tremendous growth our state has experienced, our workload has grown to a point where it is becoming increasingly difficult to deal with the volume of returns in a timely and efficient manner while continuing to provide the same level of customer service.

1.3

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

	2006	2014	Increase	Percent Increase
Sales tax accounts as of December 31 st	32,108	40,067	7,959	25%
Sales tax returns filed	135,968	194,856	58,888	43%
Income tax withholding accounts as of December 31 st	22,364	32,023	9,659	43%
Individual income tax withholding original returns filed	101,965	148,213	46,248	45%
Individual income tax original returns filed	332,489	480,903	148,414	45%
Partnership and S Corp original returns filed	20,748	38,835	18,087	87%
Corporate income tax original returns filed by out of state corporations	4,921	7,419	2,498	51%
Oil and gas tax active wells	3,638	11,900	8,262	227%
Oil and gas tax amended returns filed	770	2,595	1,825	237%
Collections statements mailed	81,067	192,758	111,691	138%
Canadian refund requests	4,998	25,022	20,024	401%

ACCOMPLISHMENTS

In addition to effectively and efficiently collecting a record amount of revenue for the state and dealing with an unprecedented number of returns in most tax types, we have accomplished many important objectives during the past two years.

- **Taxpayer Access Point (TAP)** – The \$1 million one-time appropriation authorized by the 2013 legislature was utilized to implement a new GenTax module to provide web-based self-service functions for business taxpayers. The project was completed within budget and went live in September 2014. TAP will make applying for sales tax permits and filing certain business returns simpler for the taxpayer and more efficient for the department.
- **Refund processing** – The average refund turnaround time was reduced for both paper and electronically filed individual income tax returns for the 2014 filing season.
- **E-filing** – Efforts were continued to educate taxpayers on the benefits of e-filing. The department worked with software vendors to provide multiple e-file options. The percentage of electronically filed individual income tax returns increased from 78.6 percent to 80.9 percent in 2014.
- **Discovery work** – The department continued discovery work in individual income tax, corporate income tax, and sales tax, in part made possible through a new compliance officer position authorized by the 2011 legislature. The discovery work resulted in additional collections of approximately \$8 million in fiscal year 2014 alone.
- **Sales tax refund program for flood victims** – The department administered the 2013 sales tax refund program for flood victims with no additional staff. A total of 985 refunds were processed and over \$1.6 million was refunded.
- **New tax types** – The department implemented administration of two new tax types authorized by the 2013 legislature; prepaid wireless 911 fees and withholding on royalty income.

1.4

- **Homestead tax credit program** – The department worked cooperatively with counties and cities to provide education, outreach and administration of the expanded homestead tax credit program.
- **Standardized property tax statement** – At the direction of the Interim Taxation Committee, the Department formed a working group of county officials and software vendors to develop a standardized property tax statement for the 2014 tax year. The statement was utilized in all counties.

2013-15 BIENNIUM APPROPRIATION AND 2015-17 BIENNIUM BUDGET REQUEST

The attached Schedule A provides a summary of the Office of State Tax Commissioner's 2013-15 biennium appropriation, estimated 2013-15 expenditures, and the Governor's recommended budget for the 2015-17 biennium, by line item and funding source. The narrative below explains the major changes in each line item.

Salaries and wages – Provides funding for the department's 134 FTE, temporary employees hired to process individual income tax returns and Canadian refund requests, and related employee benefits.

2013-15 – \$20,802,306

The department expects to have significant savings in this line item and will likely turn back nearly \$800,000 to the general fund. The savings is primarily related to turnover. The department has experienced unusually high turnover, with 26 positions being vacated and recruited for during the 2013-15 biennium to date. Some positions have proven difficult to fill and have remained vacant for an extended period. This high turnover reflects the tight labor market and the need for the state to maintain competitive salaries and benefits. High turnover reduces our efficiency and results in significant staff time and expense incurred to recruit and train new employees. In order to help address this issue, we have requested funding for an equity increase, which will be discussed in more detail later in testimony.

2015-17 – \$24,041,359

The salary and wages line was increased by:

- \$610,895 to continue legislatively authorized salary increases and other salary changes related to position reclassifications, promotions, and equity adjustments.
- \$214,339 for the Governor's recommended market-based salary adjustments.
- \$1,825,988 for the Governor's recommended compensation package, including increases in health insurance and compensation.
- \$490,831 for salaries and wages related to 4.0 new FTE positions included in the executive budget.
- \$97,000 for additional temporary employees and salary increases for temporary employees.

Operating expenses – Provides funding for operating expenses, such as employee professional development, audit staff travel, postage, and Information Technology (IT) contractual services.

2013-15 – \$8,744,443

Estimated expenditures are tracking closely with the appropriation. The department anticipates approximately \$200,000 of unspent authority for operating expenses, \$100,000 in unspent federal funds and \$100,000 general fund ¹⁵

turn back. The projected savings in operating expenses includes the remaining balance of the \$1.0 million one-time TAP appropriation (\$37,283), savings in professional services (\$25,000), savings from efficiencies in other operating line items (\$37,717), and unused federal grant funds (\$100,000).

2015-17 – \$8,248,357

Major changes include:

- \$1,022,609 removed for 2013-15 biennium one-time items - \$1 million for the TAP project and \$22,609 for a carryover grant to NDSU
- \$95,917 reduction to reflect IT equipment purchases that will not be recurring during the 2015-17 biennium
- \$199,315 increase for postage due to increasing volume and rate
- \$200,000 increase for the GenTax contract, to continue on-site support, software updates, and maintenance of the application
- \$223,125 increase for the net changes in all other operating account codes, such as printing, IT data processing rates, and rent for remote offices

Homestead tax credit – Provides funding to reimburse counties for the homestead tax credit, which reduces property taxes for qualifying individuals.

2013-15 - \$20,000,000

The 2013-15 biennium appropriation provided for an expansion of the program to raise the income limit and the maximum asset limit. First year expenditures were \$5.6 million, but as more people become aware of their eligibility, additional amounts will be spent for prior year abatements and the number of applicants for 2015 will likely grow significantly. The Department estimates that a total of \$15.3 million will be spent for the homestead tax credit program during the 2013-15 biennium. Any unspent moneys will be returned to the general fund at the end of the biennium.

2015-17 - \$30,000,000

The 2015-17 biennium appropriation is estimated to provide funding for the Governor's proposed program expansion to:

- Increase the maximum annual income limit from \$42,000 to \$50,000
- Increase the maximum value to which the credit applies from \$100,000 to \$150,000
- Increases the maximum renters credit from \$400 to \$600

Disabled veterans credit – Provides funding for a property tax credit for qualifying disabled veterans based on the level of their service-related disability. As the number of veterans returning from service increases, the potential number of applicants also increases. Expenditures have grown each biennium from the \$3 million first appropriated in 2009.

2013-15 - \$7,678,000

First year expenditures were \$2.8 million. The Department estimates that a total of \$6.3 million will be spent for the disabled veterans credit program during the 2013-15 biennium. Any unspent moneys will be returned to the general fund at the end of the biennium.

2015-17 - \$8,445,000

Based on estimated growth in the number of applicants, a 10 percent increase in funding was requested for the biennium, reflecting no changes in program eligibility. However, SB2113, introduced by the Office of State Tax Commissioner, provides for the credit to be applied to both homestead fixtures and land, slightly increasing the cost of the program by \$120,000 for the 2015-17 biennium. This cost is included in the recommended budget amount.

ONE-TIME FUNDING ITEMS

The attached Schedule B provides a summary of 2013-15 one-time funding items. No one-time funding items are requested for the 2015-17 biennium.

OPTIONAL REQUESTS

The attached Schedule C provides a summary of optional requests. The following narrative explains each request:

1. Restore Multistate Tax Commission (MTC) Audit fees and Nexus Program - \$413,369 **(Included in executive budget)**
 - \$376,920 – This funding is for North Dakota’s fees for continuing involvement in the MTC audit program. This program allows the state to participate in the audits of large multi-state and multi-national corporations that would otherwise be difficult to audit. Since 2005, the return on investment for the state through increased audit collections has been 5 to 1.
 - \$36,449 – This funding allows North Dakota to continue participation in the MTC National Nexus program which allows corporations to contact MTC and enter voluntary disclosure programs for multiple states in order to resolve outstanding tax liabilities for prior years. North Dakota’s return on investment for 2013 was 3 to 1 and for 2014 was 10 to 1.
2. Inflationary increase in GenTax contract - \$200,000 **(Included in executive budget)**
 - Since 2005, the department has contracted with FAST Enterprises for development, maintenance, and support of the state’s integrated tax system, GenTax. This increase, which is 6.25% for the biennium or about 3% per year, is the first increase in the contract rate in 4 years. This funding will allow the department to continue the contract with FAST and will allow the continuation of software maintenance, on-site support, and upgrades critically important to maintain this system during the 2015-17 biennium.
3. Volume and Inflationary Increases - \$296,315 **(Included in executive budget)**
 - \$97,000 – Temporary salaries – The department relies on temporary employees to process tax returns during the peak activity of the filing season and to process Canadian sales tax refund requests. Wage rates currently being offered are significantly below market. It is critical for the department to be able to employ an adequate number of qualified people for a limited time each year. This funding will allow the hiring of additional temporary employees and allow the wage rate to be increased each year, to an average of \$12-\$13 per hour by the second year of the biennium.

- \$199,315 – Postage - Despite increases each year in the percentage of returns filed electronically and ongoing efforts to provide all guidelines and publications on-line, the department continues to experience increases in postage costs. There will continue to be a need to mail booklets, returns, billings, and other correspondence. With the significant increase in the number of filers, the department needs adequate funding to continue mailings. This funding is based on the expected mailing service rate increase, U.S. Postal Service rate increase, and a continued increase in the number of filers in all tax types.

4. Four New FTE's - \$553,599 **(Included in executive budget)**

- The workload in the department has increased substantially in recent years while the number of FTEs necessary to handle that workload has not. Funding this request will allow the department to fill critical needs in the areas of Sales Tax Compliance (processing amended returns, refunds, responding to inquiries, and drafting guidelines and policy), Taxpayer Services (return processing and fraudulent refund prevention), Property Tax (updating education standards for local assessment officials, performing utility assessment for centrally assessed properties), and Research (conducting research, preparing statistical publications, and assisting with revenue forecasting and fiscal note preparation).
- No funding is requested for additional office space rent. Although space in the department is very limited, we will find a way to accommodate these critical staff members if authorized.

5. Equity/Compression - \$254,129 **(Not included in executive budget)**

- In order to compete in the current job market the Office of State Tax Commissioner needs to offer competitive starting salaries. Increasing starting salaries for new employees, however, has a compression impact on existing long-tenured employees. This request will provide 20% of the total amount required to move employees to appropriate positions within their pay grade (15 years to midpoint; 35 years to maximum) to address compression concerns and make salaries more competitive with the private job market and other state agencies.

6. Oil Impact - \$90,426 **(Included in executive budget through OMB funding pool)**

- Employees in the Minot, Williston, and Dickinson field offices are impacted by the significant growth in the energy industry. This request will allow the department to continue providing a \$500 per month pay differential to seven employees in these field offices. Continuation of this funding is necessary to retain these employees.

7. Three Additional New FTE's - \$407,859 **(Not included in executive budget)**

- Funding this request will allow the department to fill critical needs in the areas of Taxpayer Registration (registration, taxpayer assistance with TAP on-line services), Income Tax (processing returns for withholding, taxpayer assistance), and Sales Tax Compliance (taxpayer assistance, assist compliance officers).
- If the additional 4.0 FTE positions included in the executive budget are approved, no additional people could be housed in our existing space. Consequently, this request includes \$58,000 for rent to accommodate moving one section out of the Capitol building to rented space in Bismarck.

8. Homestead Tax Credit Expansion - \$28,000,000 **(Included in executive budget at lesser amount)**
 - This request will cover a proposed expansion of the Homestead Tax Credit program by increasing the income eligibility threshold from \$42,000 to \$63,000, removing Social Security payments from the income formula, and doubling the maximum reduction from the first \$100,000 to the first \$200,000 in homestead value. The Governor's budget includes a smaller expansion by increasing the income eligibility threshold from \$42,000 to \$50,000, increasing the maximum reduction from the first \$100,000 to the first \$150,000 in homestead value, and increasing the maximum renters credit from \$400 to \$600.

REQUESTED CHANGES TO THE GOVERNOR'S RECOMMENDED BUDGET

1. Additional salary funding to address equity and compression issues - \$254,129
2. Additional 3.0 FTE positions and related operating expenses to address workload growth and maintain customer service - \$407,859 (without executive compensation package)

SCHEDULE A

Line Item/ \$ Object Description	Appropriation 2013 - 2015	Estimated Expenses 2013 - 2015	Variance		Governor's Recommended 2015 - 2017	Inc/(Decr) Recommended over 13 - 15 Appn
Salaries & Wages	20,802,306	20,003,219	799,087	(1)	24,041,359	3,239,053 (3)
Operating Expenses	8,744,443	8,544,443	200,000	(2)	8,248,357	(496,086) (4)
Capital Assets	16,000	16,000	0		16,000	0
Subtotal	29,562,749	28,563,662	999,087		32,305,716	2,742,967
% of Change						9.3%
Homestead Tax Credit (General Fund)	20,000,000	15,300,000	4,700,000		30,000,000	10,000,000 (5)
Disabled Veterans Credit (General Fund)	7,678,000	6,300,000	1,378,000		8,445,000	767,000 (6)
TOTAL FOR DEPARTMENT	\$57,240,749	\$50,163,662	7,077,087		\$70,750,716	\$13,509,967
# FTE	134				138	4
TOTAL GENERAL FUND	57,115,749	50,138,662	6,977,087		70,625,716	13,509,967
TOTAL SPECIAL FUND	0	0	0		0	0
TOTAL FEDERAL FUND	125,000	25,000	100,000		125,000	0
TOTAL FUNDING SOURCE	\$57,240,749	\$50,163,662	7,077,087		\$70,750,716	\$13,509,967
% of Change						23.6%

- ¹ The projected underrun in Salaries is due to savings from vacancies and filling positions less than budgeted. As of 1/01/2015 the Department had 9 vacancies.
- ² The projected under-run in Operating Expenses is primarily from the remaining balance of the \$1.0 M one-time TAP appropriation (\$37,283), savings in professional services (\$25,000), efficiencies within other operating line items (\$37,717), and unused federal grant funds (\$100,000).
- ³ The increase in the 2015-2017 Salary line includes the cost to fully fund all positions and to continue the 2013-2015 biennium salary expenses and the proposed salary compensation package recommended by the Governor.
- ⁴ The base budget request was reduced by \$1.0 million for the one-time funding of the taxpayer access point (TAP) enhancement (a GenTax module) and \$22,509 NDSU grant to update the Ag land valuation model to a new software platform.
- ⁵ An additional \$10 million is included in the Governor's recommended budget to fully fund this program based on enhanced program eligibility requirements.
- ⁶ The 2013 - 15 increase for the Disabled Veterans Credit program reflects the amount needed to fully fund this program based on current program eligibility requirements.

1.10

OFFICE OF STATE TAX COMMISSIONER
 ONE-TIME BUDGET ITEMS
 2013 - 2015

Description	Budget	Spent	Remaining Balance	Status
Taxpayer Access Point	1,000,000.00	962,716.58	37,283.42	TAP implemented September 2014
NDSU grant to update land valuation model	22,609.45	18,680.10	3,929.35	Valuation model completed in January 2014

111

SCHEDULE C

OFFICE OF STATE TAX COMMISSIONER
 COMPARISON OF OPTIONAL ADJUSTMENT REQUESTS
 2015-2017 EXECUTIVE BUDGET REQUEST

Description of Optional Request	A	B	C
	Included in Governor's Recommendation	NOT Included in Governor's Recommendation	Request for Funding in Addition to Governor's Recommendation
	Agency Requested		
Restore MTC & Nexus Programs	\$413,369		
Inflation increase for GenTax contract	\$200,000		
Volume and Inflation increases for temporary employees and postage	\$296,315		
New FTEs to meet critical needs (4 FTEs)	\$553,599		
Equity/Compression Package		\$254,129	\$254,129
Oil Impact pay differential		\$90,426	The Department will request funding from the energy impact pool included in OMB's budget
NEW FTEs to meet critical needs (3 FTEs)		\$407,859	\$407,859
Enhance Homestead Credit program		\$28,000,000	The Department supports the Governor's proposed expansion, included in a bill that will be introduced through a legislative sponsor. The additional appropriation is included in the Department's budget recommendation.
Subtotal	\$1,463,283	\$28,752,414	\$661,988
	Governor Recommendation		
Governor's compensation package	\$1,825,988		
Governor's market equity	\$214,339		
Enhance Homestead Credit Program	\$8,000,000		
Grand Total	\$11,503,610	\$28,752,414	\$661,988

112

23-15
/
Subcom
SB 2006

Department 127 - Tax Commissioner
Senate Bill No. 2006

Executive Budget Comparison to Prior Biennium Appropriations

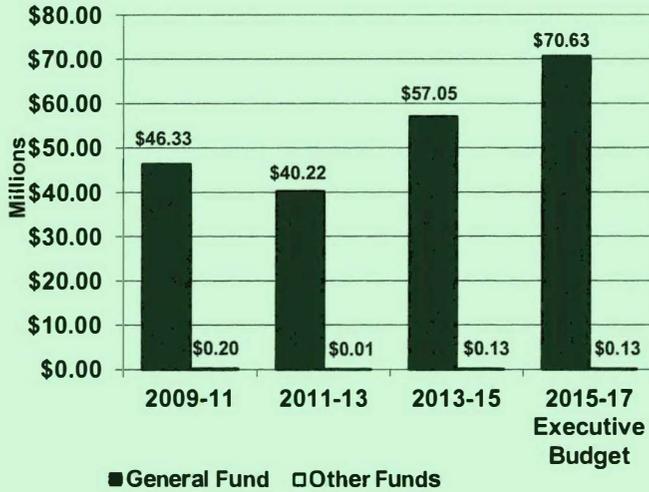
	FTE Positions	General Fund	Other Funds	Total
2015-17 Executive Budget	138.00	\$70,625,716	\$125,000	\$70,750,716
2013-15 Legislative Appropriations ¹	134.00	57,054,140	125,000	57,179,140
Increase (Decrease)	4.00	\$13,571,576	\$0	\$13,571,576

¹The 2013-15 appropriation amounts do not include general fund allocations of \$81,000 to the agency from the state agency energy impact funding pool for temporary salary adjustments for agency employees located in areas of the state affected by energy development.

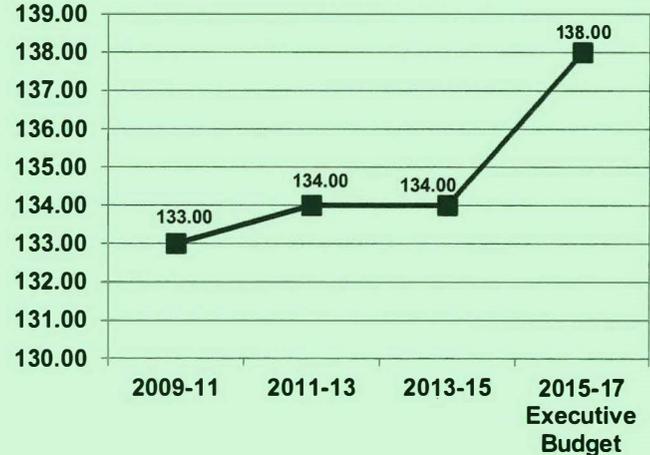
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2015-17 Executive Budget	\$70,625,716	\$0	\$70,625,716
2013-15 Legislative Appropriations	56,054,140	1,000,000	57,054,140
Increase (Decrease)	\$14,571,576	(\$1,000,000)	\$13,571,576

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2015-17 Executive Budget	\$70,625,716	\$125,000	\$70,750,716
2015-17 Base Level	56,054,140	125,000	56,179,140
Increase (Decrease)	\$14,571,576	\$0	\$14,571,576

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

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases of which \$1,115,188 relates to performance increases, \$214,339 is for market equity adjustments, \$595,860 is for health insurance increases, and \$114,940 is for retirement contribution increases	\$2,040,327	\$0	\$2,040,327
2. Adds funding to continue salary adjustments made in the 2013-15 biennium	\$332,929	\$0	\$332,929
3. Adds funding for 4.00 new FTE positions, of which \$490,831 is for salaries and wages and \$62,768 is for operating expenses	\$553,599	\$0	\$553,599

- 1 FTE audit technician position
- 1 FTE compliance officer position
- 1 FTE property tax specialist position
- 1 FTE research analyst position

4. Increases funding for Nexus software programs and the Multistate Tax Commission audit program	\$64,440	\$0	\$64,440
5. Increases funding for GenTax service maintenance contracts, which reflects a 6.25 percent increase for the biennium	\$200,000	\$0	\$200,000
6. Adds funding for temporary wages (\$97,000) and increases funding for postage costs (\$199,315) for total postage funding of \$1,170,276	\$296,315	\$0	\$296,315
7. Increases funding to continue the homestead tax credit program for total funding of \$22 million	\$2,000,000	\$0	\$2,000,000
8. Adds funding to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million (Legislation has not yet been introduced making this statutory change)	\$8,000,000	\$0	\$8,000,000
9. Increases funding to continue the disabled veterans' tax credit for total funding of \$8,445,000	\$767,000	\$0	\$767,000

Other Sections in Bill

Transfer - Section 3 provides for a transfer \$2,303,496 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Salary of Tax Commissioner - Section 4 provides the statutory changes necessary to increase the Tax Commissioner's salary as follows:

Annual salary authorized by the 2013 Legislative Assembly:

July 1, 2013	\$105,050
July 1, 2014	\$108,202

Proposed annual salary recommended in the 2015-17 executive budget:

July 1, 2015	\$112,530
July 1, 2016	\$117,031

The executive budget includes funding for elected officials' salary increases of 4 percent effective July 1, 2015, and 4 percent effective July 1, 2016.

Continuing Appropriations

There are no continuing appropriations for this agency.

Significant Audit Findings

The operational audit for the Tax Department conducted by the State Auditor's office during the 2013-14 interim identified no significant audit findings.

Major Related Legislation

House Bill No. 1133 - Changes annual wholesale liquor tax payments to quarterly payments, allows the Tax Commissioner to offset future distributions of tax collections related to overpayments, requires tax refunds to be at least \$5 before a payment is issued, and provides technical corrections for consistency and clarity.

Senate Bill No. 2033 - Requires the Tax Commissioner to determine if total oil and gas tax revenue collections exceed the legislative forecast for the first six months of the 2015-17 biennium. The bill includes a contingent appropriation of \$200 million from the strategic investment and improvements fund to provide funding distributions to political subdivisions if actual oil and gas tax collections exceed estimates by at least 20 percent.

Senate Bill No. 2113 - Expands the disabled veterans' homestead tax credit by changing the taxable valuation from the value of the fixtures, buildings, and improvements of the property to the value of the property.

Senate Bill No. 2115 - Allows the Tax Commissioner to accept reduced tax collections from taxes assessed but not yet paid if the taxpayer provides information verifying that the assessment exceeds the actual amount due.

Tax Department - Budget No. 127
Senate Bill No. 2006
Base Level Funding Changes

	Executive Budget Recommendation			Total
	FTE Positions	General Fund	Other Funds	
2015-17 Biennium Base Level	134.00	\$56,054,140	\$125,000	\$56,179,140
2015-17 Ongoing Funding Changes				
Base payroll changes		\$316,966		\$316,966
Salary increase - Performance		1,115,188		1,115,188
Salary increase - Market equity		214,339		214,339
Retirement contribution increase		114,940		114,940
Health insurance increase		595,860		595,860
Continuation of 2013-15 salary adjustments		332,929		332,929
New FTE audit technician position	1.00	98,713		98,713
New FTE compliance officer position	1.00	124,924		124,924
New FTE property tax specialist position	1.00	133,597		133,597
New FTE research analyst position	1.00	133,597		133,597
FTE operating expenses		62,768		62,768
Changes funding for operating expenses		64,440		64,440
GenTax contracts		200,000		200,000
Temporary wages and postage		296,315		296,315
Continuation of homestead tax credit		2,000,000		2,000,000
Expansion of homestead tax credit		8,000,000		8,000,000
Continuation of disabled veterans' tax credit		767,000		767,000
Total ongoing funding changes	4.00	\$14,571,576	\$0	\$14,571,576
One-time funding items				
No executive budget one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	4.00	\$14,571,576	\$0	\$14,571,576
2015-17 Total Funding	138.00	\$70,625,716	\$125,000	\$70,750,716

Other Sections in Senate Bill No. 2006

	Executive Budget Recommendation
Motor vehicle fuel tax administration transfer	Section 3 provides for a transfer of \$2,030,496 from motor vehicle fuel tax collections to the general fund for expenses related to the collection of the taxes.
Salary of Tax Commissioner	Section 4 provides for the statutory changes necessary to increase the Tax Commissioner's salary from \$108,202 in state fiscal year 2015 to \$112,530 (4 percent) in state fiscal year 2016 and to \$117,031 (4 percent) in state fiscal year 2017.



SB 2006
 2-13-15
 #1

Memorandum

To: Senators Terry Wanzek, Karen Krebsbach, and Joan Heckaman
 From: Ryan Rauschenberger, Tax Commissioner
 Re: Questions Relating to Tax Department Budget
 Date: February 9, 2015

During the February 3, 2015, meeting of the Senate Appropriations subcommittee, you asked several questions regarding our budget and operations. Our responses are below:

1. **What is the Tax Department spending for overtime compensation?**

The following schedule shows Tax Department expenditures and compensatory time awarded for overtime in fiscal years 2012 through January 31 of the current fiscal year. As you can see, overtime expense has grown significantly in recent years as we deal with increasing workload and a limited number of staff. Overtime hours were only 63 in fiscal year 2012, but increased to 560 in fiscal year 2013, and 973 in fiscal year 2014. Keep in mind that with the fiscal year 2015 individual income tax season still ahead of us, we anticipate the need to incur a significant amount of additional overtime expense yet this fiscal year, which is not reflected on the chart below.

Description	FY 2012		FY 2013		Total	
	Earnings	Hours	Earnings	Hours	Earnings	Hours
Straight-time Overtime - Permanent	0.00	0.00	56.38	2.00	56.38	2.00
Time and one-half Overtime - Permanent	150.52	6.50	14,344.07	456.75	14,494.59	463.25
Time and one-half Overtime - Temporary	799.85	56.67	1,472.20	101.25	2,272.05	157.92
Total 2011-2013	950.37	63.17	15,872.65	560.00	16,823.02	623.17

Comp time Earned - Permanent		497.50		485.50		983.00
------------------------------	--	--------	--	--------	--	--------

Description	FY 2014		FY 2015 to date		Total	
	Earnings	Hours	Earnings	Hours	Earnings	Hours
Straight-time Overtime - Permanent	303.91	10.50	31.25	1.00	335.16	11.50
Time and one-half Overtime - Permanent	28,704.44	913.00	17,060.01	431.50	45,764.45	1,344.50
Time and one-half Overtime - Temporary	915.08	49.00	7.31	0.50	922.39	49.50
Total 2013-2015 thru Jan. 31, 2015	29,923.43	972.50	17,098.57	433.00	47,022.00	1,405.50

Comp time Earned - Permanent		639.00		71.00		710.00
------------------------------	--	--------	--	-------	--	--------

1.1

2. **How is the amount to be transferred pursuant to Section 3 of SB2006 determined?**

Section 3 of the bill provides for a transfer of \$2,030,496 from motor vehicle fuel tax revenue to the general fund. This is a longstanding provision that reimburses the general fund for agency salaries, printing, postage, and other expenses relating to the administration, collection, and enforcement of motor vehicle fuel taxes. The amount is determined based upon a cost allocation schedule and our budgeted expenditures in this area. The cost allocation worksheet is available.

3. **The executive recommendation includes 4 of the 7 additional FTE requested by the Tax Department. How would the Department prioritize the 4 positions included in the executive budget?**

The Department views these 4 positions as the highest priority and in the budget request process, already prioritized them over the remaining 3 FTE that were not included in the executive budget. As we deal with a tremendous increase in workload due to a growing number of individual, corporate, sales and other taxpayers, we are forced to request additional staff. These 4 FTE are in the highest priority areas. However, in an effort to comply with your request, the Tax Department ranks the positions in the following priority order:

- 1) **Property Tax Specialist** – The Property Tax Division verifies real estate sales and assessment data, provides local assessor recertification and training, and provides support to county directors of tax equalization. The division provides education and professional development for assessment officials statewide. Because education is important to ensure that property tax assessments are correct and equitable, the Department has increased and enhanced educational offerings for assessment officials. The division also determines values for all centrally assessed property in the state. Growth in wind generation and oil and gas infrastructure has resulted in a significant increase in the amount of property to be valued for central assessment purposes. In order to deal with the increased workload in this division, the Department has been forced to hire an additional property tax specialist as a temporary employee. If authorized, this FTE position will be used to convert this temporary position to permanent status, allowing the Department to provide benefits and retain an employee with valuable experience.
- 2) **Research Analyst** – This position will work in our Research and Education Section. This section is significantly understaffed with one person primarily responsible for completing fiscal notes on all tax-related legislation and providing statistical information in response to legislative requests. Such limited depth of staffing provides no opportunity for knowledge transfer or succession planning. It is a concern that the Department is too dependent upon a single person to complete work that is critical to the Department and legislature. If authorized, this position will allow for training and knowledge transfer to take place within this section.
- 3) **Compliance Officer** – This position will work in our Sales and Special Tax Compliance Section. Duties for this position include processing amended returns, issuing refunds, responding to taxpayer inquiries and providing assistance to taxpayers in complying with sales tax requirements. As noted in our testimony, the number of sales tax returns processed annually by the Tax Department has increased over 40% since 2006. If authorized, this position will help maintain taxpayer services in the area of sales and special taxes and assist in addressing the increased workload in this area.
- 4) **Tax Services Specialist** – This position will work in our Taxpayer Services Section. This position will have responsibilities in various tax types and will work on processing tax returns and detecting and preventing fraudulent refunds. As indicated in our testimony, the number of individual income tax returns processed each filing season has grown significantly, up nearly 50% since 2006. We strive to maintain customer service and issue refunds promptly. By law, refunds issued after 45 days require the state to pay 12% interest. We have been successful avoiding interest expense in the past, but it has required a significant amount of overtime. In addition, we continue to see an increase in fraud and identity theft, which requires us to implement additional processes and slows our return processing time. If authorized, this position will help maintain taxpayer services, maintain return processing and refund issuance turnaround time, and bolster our fraud and identity theft detection efforts.

1.2

2-16-15
 #1
 SB 2006

Department 127 - Tax Commissioner
 Senate Bill No. 2006

Executive Budget Comparison to Prior Biennium Appropriations

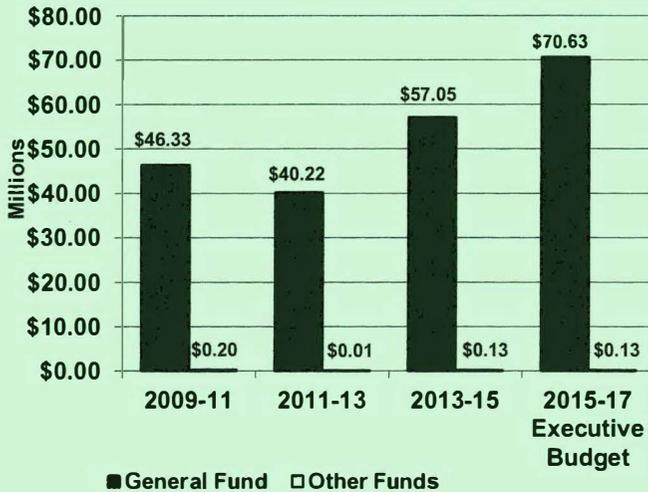
	FTE Positions	General Fund	Other Funds	Total
2015-17 Executive Budget	138.00	\$70,625,716	\$125,000	\$70,750,716
2013-15 Legislative Appropriations ¹	134.00	57,054,140	125,000	57,179,140
Increase (Decrease)	4.00	\$13,571,576	\$0	\$13,571,576

¹The 2013-15 appropriation amounts do not include general fund allocations of \$81,000 to the agency from the state agency energy impact funding pool for temporary salary adjustments for agency employees located in areas of the state affected by energy development.

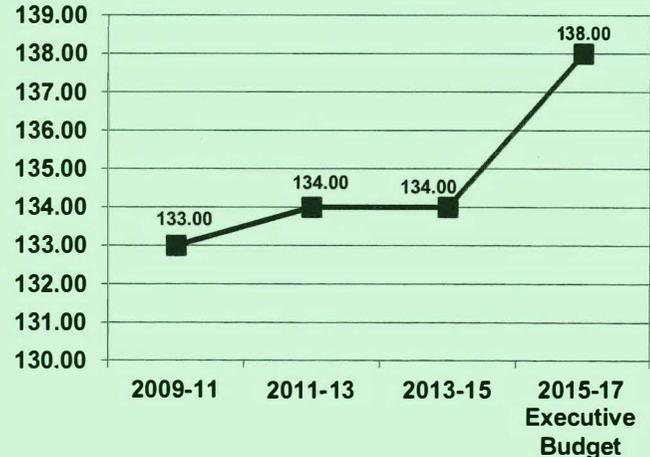
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2015-17 Executive Budget	\$70,625,716	\$0	\$70,625,716
2013-15 Legislative Appropriations	56,054,140	1,000,000	57,054,140
Increase (Decrease)	\$14,571,576	(\$1,000,000)	\$13,571,576

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2015-17 Executive Budget	\$70,625,716	\$125,000	\$70,750,716
2015-17 Base Level	56,054,140	125,000	56,179,140
Increase (Decrease)	\$14,571,576	\$0	\$14,571,576

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

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases of which \$1,115,188 relates to performance increases, \$214,339 is for market equity adjustments, \$595,860 is for health insurance increases, and \$114,940 is for retirement contribution increases	\$2,040,327	\$0	\$2,040,327
2. Adds funding to continue salary adjustments made in the 2013-15 biennium	\$332,929	\$0	\$332,929
3. Adds funding for 4.00 new FTE positions, of which \$490,831 is for salaries and wages and \$62,768 is for operating expenses	\$553,599	\$0	\$553,599

1-1

- 1 FTE audit technician position
- 1 FTE compliance officer position
- 1 FTE property tax specialist position
- 1 FTE research analyst position

4. Increases funding for Nexus software programs and the Multistate Tax Commission audit program	\$64,440	\$0	\$64,440
5. Increases funding for GenTax service maintenance contracts, which reflects a 6.25 percent increase for the biennium	\$200,000	\$0	\$200,000
6. Adds funding for temporary wages (\$97,000) and increases funding for postage costs (\$199,315) for total postage funding of \$1,170,276	\$296,315	\$0	\$296,315
7. Increases funding to continue the homestead tax credit program for total funding of \$22 million	\$2,000,000	\$0	\$2,000,000
8. Adds funding to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million (Legislation has not yet been introduced making this statutory change)	\$8,000,000	\$0	\$8,000,000
9. Increases funding to continue the disabled veterans' tax credit for total funding of \$8,445,000	\$767,000	\$0	\$767,000

Other Sections in Bill

Transfer - Section 3 provides for a transfer \$2,303,496 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.

Salary of Tax Commissioner - Section 4 provides the statutory changes necessary to increase the Tax Commissioner's salary as follows:

Annual salary authorized by the 2013 Legislative Assembly:

July 1, 2013	\$105,050
July 1, 2014	\$108,202

Proposed annual salary recommended in the 2015-17 executive budget:

July 1, 2015	\$112,530
July 1, 2016	\$117,031

The executive budget includes funding for elected officials' salary increases of 4 percent effective July 1, 2015, and 4 percent effective July 1, 2016.

Continuing Appropriations

There are no continuing appropriations for this agency.

Significant Audit Findings

The operational audit for the Tax Department conducted by the State Auditor's office during the 2013-14 interim identified no significant audit findings.

Major Related Legislation

House Bill No. 1133 - Changes annual wholesale liquor tax payments to quarterly payments, allows the Tax Commissioner to offset future distributions of tax collections related to overpayments, requires tax refunds to be at least \$5 before a payment is issued, and provides technical corrections for consistency and clarity.

Senate Bill No. 2033 - Requires the Tax Commissioner to determine if total oil and gas tax revenue collections exceed the legislative forecast for the first six months of the 2015-17 biennium. The bill includes a contingent appropriation of \$200 million from the strategic investment and improvements fund to provide funding distributions to political subdivisions if actual oil and gas tax collections exceed estimates by at least 20 percent.

Senate Bill No. 2113 - Expands the disabled veterans' homestead tax credit by changing the taxable valuation from the value of the fixtures, buildings, and improvements of the property to the value of the property.

Senate Bill No. 2115 - Allows the Tax Commissioner to accept reduced tax collections from taxes assessed but not yet paid if the taxpayer provides information verifying that the assessment exceeds the actual amount due.

Tax Department - Budget No. 127
Senate Bill No. 2006
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2015-17 Biennium Base Level	134.00	\$56,054,140	\$125,000	\$56,179,140
2015-17 Ongoing Funding Changes				
Base payroll changes		\$316,966		\$316,966
Salary increase - Performance		1,115,188		1,115,188
Salary increase - Market equity		214,339		214,339
Retirement contribution increase		114,940		114,940
Health insurance increase		595,860		595,860
Continuation of 2013-15 salary adjustments		332,929		332,929
New FTE audit technician position	1.00	98,713		98,713
New FTE compliance officer position	1.00	124,924		124,924
New FTE property tax specialist position	1.00	133,597		133,597
New FTE research analyst position	1.00	133,597		133,597
FTE operating expenses		62,768		62,768
Changes funding for operating expenses		64,440		64,440
GenTax contracts		200,000		200,000
Temporary wages and postage		296,315		296,315
Continuation of homestead tax credit		2,000,000		2,000,000
Expansion of homestead tax credit		8,000,000		8,000,000
Continuation of disabled veterans' tax credit		767,000		767,000
Total ongoing funding changes	4.00	\$14,571,576	\$0	\$14,571,576
One-time funding items				
No executive budget one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	4.00	\$14,571,576	\$0	\$14,571,576
2015-17 Total Funding	138.00	\$70,625,716	\$125,000	\$70,750,716

Other Sections in Senate Bill No. 2006

	Executive Budget Recommendation
Motor vehicle fuel tax administration transfer	Section 3 provides for a transfer of \$2,030,496 from motor vehicle fuel tax collections to the general fund for expenses related to the collection of the taxes.
Salary of Tax Commissioner	Section 4 provides for the statutory changes necessary to increase the Tax Commissioner's salary from \$108,202 in state fiscal year 2015 to \$112,530 (4 percent) in state fiscal year 2016 and to \$117,031 (4 percent) in state fiscal year 2017.



#2
\$B 2006

2-16-15

Memorandum

To: Senator Wanzek
From: Ryan Rauschenberger, Tax Commissioner
Re: Department Payroll Budget
Date: February, 16, 2014

The current biennium appropriation for the Tax Department includes over \$20 million for salaries, wages, and benefits for 134 FTE positions as well as up to 30 temporary employees hired during individual income tax filing season.

We conservatively manage our pay plan to effectively and efficiently utilize the money you have appropriated.

- We currently estimate that nearly \$800,000 will be unspent from our salaries and wages line item and returned to the general fund at the end of this biennium. This is nearly 4% of our current biennium salaries and wages line.
- We **HAVE NOT** provided any general salary increase during the 2013-15 biennium other than what you approved last session.

It is important to note that the current biennium pay plan, which is the basis for calculating the cost to continue base budget salaries for the 2015-17 biennium, was prepared over 2 years ago. **The Legislative Council "green sheet" lists \$332,929 as the additional cost to continue 2013-15 salaries, over the cost calculated by OMB to continue the base budget pay plan. This is only 1.4% of our recommended pay plan for the 2015-17 biennium.**

Many changes occur within the salaries and wages line item during the three years that transpire between the time the budget is prepared and the biennium ends. The current biennium budget was initially prepared in July 2012. Each salary change not considered when the current budget was initially prepared affects the cost to continue salaries for the 2015-17 biennium.

- During the first 18 months of this biennium, we have experienced 26 position vacancies. For each one of those vacancies, we have had to recruit for new staff. In many cases, in order to recruit for a position, the new staff member is paid at or above the level of other persons in the same pay grade who have been with the Department for several years. When this occurs, we are forced to make pay adjustments to reduce this type of inequity and retain our valued, experienced staff. Because adjustments of this type were not considered when our pay plan was developed over 2 years ago, the cost to continue these adjustments is an addition to the OMB calculated cost to continue the base pay plan.
- In some cases, a resignation has resulted in an internal promotion. Such a promotion was not considered when our current biennium pay plan was prepared. To continue the salary increase in the 2015-17 biennium results in an additional cost above the base pay plan calculated by OMB.

2.1

- Throughout the biennium, we look at our business processes and try to make the best use of staff and the most efficient use of resources. In some cases, this results in a reclassification of a position to a higher classification appropriate for additional responsibilities. Any reclassification of this type was not considered in our original pay plan and results in an additional cost for the 2015-17 biennium.
- We have had a revue of our audit technician series by HRMS and the result was the reclassification of several positions into a new Tax Services Specialist series. For those positions that moved to a higher pay grade, salary increases were provided in the current biennium to meet the minimum salary requirements of a higher pay grade. The cost to continue those adjustments results in an additional cost for the 2015-17 biennium.
- We see cases where an employee is eligible for a promotion, for example to an Auditor III position. However, our existing Auditor III's, with years of experience at this level, are at a salary level that does not allow for a new Auditor III to be moved into this classification at a level lower than those with years of experience while still meeting the minimum salary requirements for the pay grade. In order to offer a promotion and retain a valuable, experienced staff member, increases are required to move other staff further into the pay range. All of these salary changes – the promotion and the resulting increases to reduce compression – are outside of our original pay plan and result in a cost in addition to the OMB calculated cost to continue the base pay plan.

2.2

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

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



PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 1, replace lines 14 through 23 with:

"Salaries and wages	\$20,138,488	\$2,852,760	\$22,991,248
Accrued leave payments	624,818	(624,818)	0
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000	0	16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans credit	<u>7,678,000</u>	<u>767,000</u>	<u>8,445,000</u>
Total all funds	\$56,179,140	\$13,505,773	\$69,684,913
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Total general fund	\$56,054,140	\$13,505,773	\$69,559,913
Full-time equivalent positions	134.00	3.00	137.00"

Page 2, line 16, replace "twelve" with "eleven"

Page 2, line 17, replace "five" with "four"

Page 2, line 17, replace "thirty" with "forty-eight"

Page 2, line 17, replace "seventeen" with "fourteen"

Page 2, line 18, replace "thirty-one" with "seven hundred ninety-one"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$20,138,488	\$2,852,760	\$22,991,248
Operating expenses	7,721,834	510,831	8,232,665
Capital assets	16,000		16,000
Homestead tax credit	20,000,000	10,000,000	30,000,000
Disabled veterans credit	7,678,000	767,000	8,445,000
Accrued leave payments	624,818	(624,818)	
Total all funds	\$56,179,140	\$13,505,773	\$69,684,913
Less estimated income	<u>125,000</u>	<u>0</u>	<u>125,000</u>
General fund	\$56,054,140	\$13,505,773	\$69,559,913
FTE	134.00	3.00	137.00

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

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Salary and Benefit Increases ²	Adds Funding for FTE Positions ³	Increases Funding for Operating Expenses ⁴	Increases Funding to Continue Homestead Tax Credit ⁵	Adds Funding to Expand Homestead Tax Credit ⁶
Salaries and wages	\$941,784	\$1,421,858	\$392,118	\$97,000		
Operating expenses			47,076	463,755		
Capital assets						
Homestead tax credit					2,000,000	8,000,000
Disabled veterans credit						

Accrued leave payments	(624,818)					
Total all funds	\$316,966	\$1,421,858	\$439,194	\$560,755	\$2,000,000	\$8,000,000
Less estimated income	0	0	0	0	0	0
General fund	\$316,966	\$1,421,858	\$439,194	\$560,755	\$2,000,000	\$8,000,000
FTE	0.00	0.00	3.00	0.00	0.00	0.00

	Increases Funding to Continue Disabled Veterans' Tax Credit ⁷	Total Senate Changes
Salaries and wages		\$2,852,760
Operating expenses		510,831
Capital assets		
Homestead tax credit		10,000,000
Disabled veterans credit	767,000	767,000
Accrued leave payments		(624,818)
Total all funds	\$767,000	\$13,505,773
Less estimated income	0	0
General fund	\$767,000	\$13,505,773
FTE	0.00	3.00

¹ Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

² The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance	\$830,316	\$0	\$830,316
Health insurance increase	591,542	0	591,542
Total	\$1,421,858	\$0	\$1,421,858

³ Funding is provided from the general fund for FTE positions as follows:

	FTE Positions	Salaries and Wages	Operating Expenses	Total General Fund
Compliance officer	1.00	\$124,924	\$15,692	\$140,616
Property tax specialist	1.00	133,597	15,692	149,289
Research analyst	1.00	133,597	15,692	149,289
Total	3.00	\$392,118	\$47,076	\$439,194

⁴ Funding is added for Nexus software programs and the Multistate Tax Commission audit programs (\$64,440), GenTax service maintenance contractions (\$200,000), temporary wages (\$97,000), and postage costs (\$199,315).

⁵ This amendment increases funding to continue the homestead tax credit changes made by the 2013 Legislative Assembly to provide a total of \$22 million for the homestead tax credit.

⁶ This amendment adds \$8 million to expand the eligibility income threshold from \$42,000 to \$50,000 for the homestead tax credit program for total funding of \$30 million.

⁷ This amendment increases funding to continue the disabled veterans' tax credit changes made by the 2013 Legislative Assembly to provide a total of \$8,445,000 for the disabled veterans' tax credit.

Section 4 is amended to reflect a 3 percent annual increase to the Tax Commissioner's salary.

SB2006 March 9, 2015 Attachment #



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

Engrossed Senate Bill No. 2006
March 9, 2015

BUDGET PRESENTATION

HOUSE APPROPRIATIONS COMMITTEE – GOVERNMENT OPERATIONS DIVISION

REPRESENTATIVE BLAIR THORESON, CHAIRMAN

Agency Overview

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota. We strive to provide prompt, accurate, and courteous service to taxpayers as we promote compliance with the state's tax laws. Thanks to our knowledgeable, professional, and experienced staff, we have been able to meet the challenges of a workload that has grown tremendously in recent years while still maintaining a high standard of customer service.

As you know, the Office of State Tax Commissioner is the primary revenue collection agency for the state. For the 2013-15 biennium, the department will collect over 95 percent of all general fund dollars, excluding transfers -- an amount expected to exceed \$4.5 billion. In addition, the department is expected to collect more than \$6.0 billion in oil tax revenues during the current biennium.

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

The chart on the following page shows the various tax types administered by the department and the amounts collected in fiscal years 2010 and 2014. In many cases, the growth is not merely in the dollars collected, but is a reflection of the growth in the number of filers and returns processed by the department.

1

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



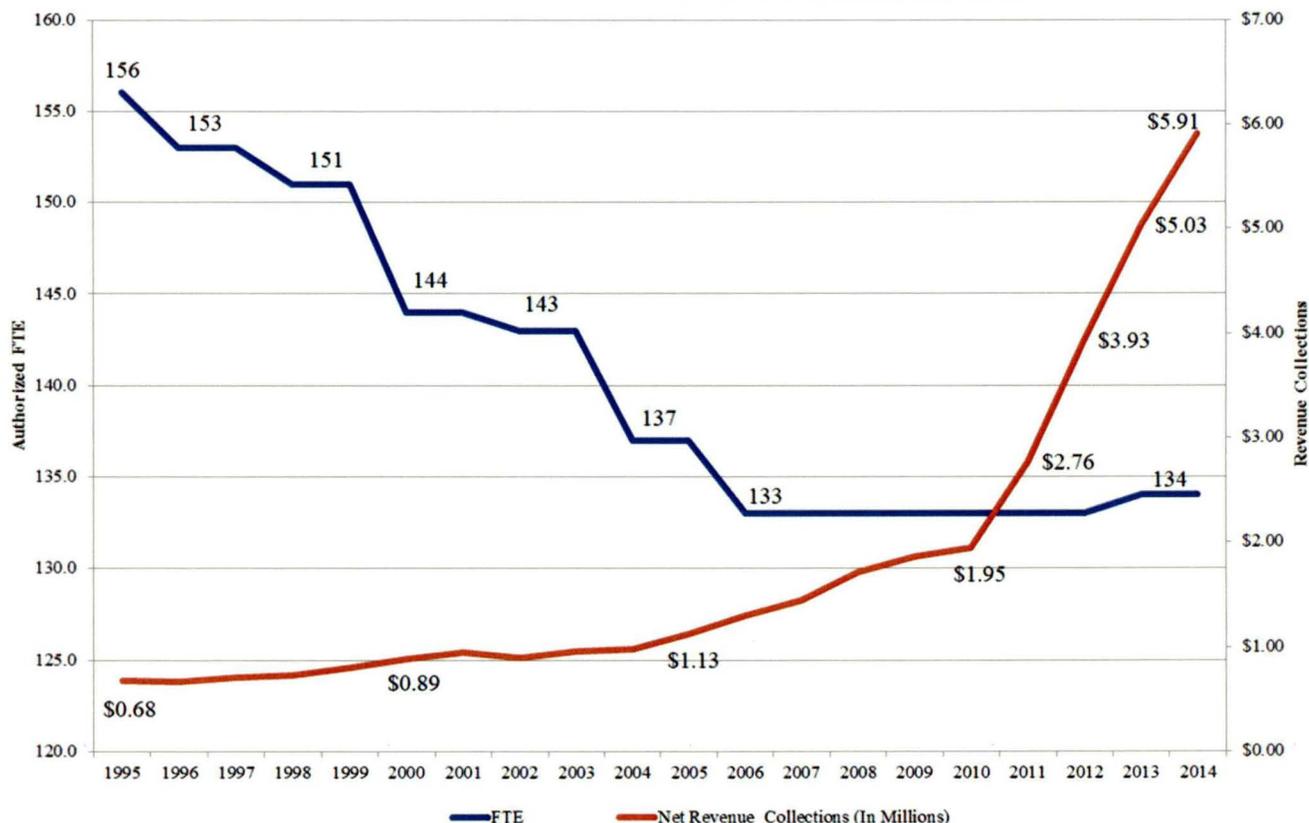
WWW.ND.GOV/TAX | TAXINFO@ND.GOV NORTH DAKOTA

FISCAL YEARS 2010 AND 2014

<u>Description</u>	FY 2010	FY 2014	<u>Change</u>
	<u>Net Collections</u>	<u>Net Collections</u>	
Sales & Use Tax	\$603,732,481.40	\$1,320,167,041.71	\$716,434,560.31
Motor Vehicle Excise Tax	106,657.48	225,363.41	118,705.93
City Occupancy Tax	1,872,368.29	4,373,399.07	2,501,030.78
City Sales Tax	119,411,810.30	228,776,286.83	109,364,476.53
City Restaurant and Lodging Tax	4,289,398.83	6,327,731.25	2,038,332.42
City Motor Vehicle Rental Tax	110,556.92	189,413.02	78,856.10
Individual Income Tax	304,252,923.84	516,139,885.46	211,886,961.62
Corporate Income Tax	87,874,592.38	239,404,246.94	151,529,654.56
Financial Institutions Tax	10,451,318.55	13,228,788.43	2,777,469.88
Cigarette Tax (Cities)	1,353,441.68	1,643,720.29	290,278.61
Cigarette Tax (Tribe)	64,692.59	68,792.28	4,099.69
Cigarette Tax (GF)	18,454,355.21	22,489,944.95	4,035,589.74
Tobacco Tax	3,976,397.58	7,032,346.44	3,055,948.86
Oil & Gas Gross Production Tax	302,099,211.20	1,492,982,452.06	1,190,883,240.86
Oil Extraction Tax	280,611,436.86	1,754,824,617.09	1,474,213,180.23
Telecommunications Tax	11,252,316.31	11,631,088.50	378,772.19
Wholesale Liquor/beer Tax	7,411,422.08	9,297,118.86	1,885,696.78
Estate Tax	9,173.85	14,466.04	5,292.19
Miscellaneous Remittances	13,019.06	9,399.36	(3,619.70)
Coal Severance Tax	11,506,450.67	11,233,706.50	(272,744.17)
Coal Conversion Tax	26,154,149.83	24,937,582.21	(1,216,567.62)
Transmission Line Tax	442,604.25	8,401,467.81	7,958,863.56
Music and Composition Tax	155,922.63	171,019.52	15,096.89
Sales & Use Tax Cash Bonds	51,050.00	494,640.38	443,590.38
Fuel Dealers & Inspection Fees	0.00	385,370.26	385,370.26
Motor Vehicle Fuel Tax	85,179,818.23	105,625,777.29	20,445,959.06
Special Fuel Tax	66,553,655.95	123,068,252.79	56,514,596.84
Motor Fuel Tax - Cash Bond	(2,000.00)	(108,600.00)	(106,600.00)
Nongame Wildlife Fund	19,443.98	29,697.89	10,253.91
Centennial Tree Trust Fund	20,374.55	31,225.99	10,851.44
Organ Transplant Support Fund	11,949.57	18,065.94	6,116.37
Airline Tax	202,398.98	178,594.45	(23,804.53)
Prepaid Wireless Fees	0.00	135,642.65	135,642.65
Provider Assessment	4,094,197.00	5,901,063.30	1,806,866.30
TOTAL COLLECTIONS	\$1,951,737,590.05	\$5,909,329,608.97	\$3,957,592,018.92

The chart on the following page shows a longer-term history of revenue collected and provides a comparison to the number of employees authorized for the Office of State Tax Commissioner.

OFFICE OF STATE TAX COMMISSIONER FTE AND ANNUAL NET REVENUE COLLECTIONS



As you can see, the number of positions authorized for the department has declined from a high of 156 in 1995 to 134 in the current biennium. This reduction in staff has been made possible through administrative efficiencies and technological advancements, such as an increasing percentage of electronically filed returns, the implementation of web-file solutions for businesses such as the recently implemented Taxpayer Access Point (TAP), and the implementation of our integrated tax system known as GenTax. However, with the tremendous growth our state has experienced, our workload has grown to a point where it is becoming increasingly difficult to deal with the volume of returns in a timely manner while continuing to provide the same level of customer service.

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

	2006	2014	Increase	Percent Increase
Sales tax accounts as of December 31 st	32,108	40,067	7,959	25%
Sales tax returns filed	135,968	194,856	58,888	43%
Income tax withholding accounts as of December 31 st	22,364	32,023	9,659	43%
Individual income tax withholding original returns filed	101,965	148,213	46,248	45%
Individual income tax original returns filed	332,489	480,903	148,414	45%
Partnership and S Corp original returns filed	20,748	38,835	18,087	87%
Corporate income tax original returns filed by out of state corporations	4,921	7,419	2,498	51%
Oil and gas tax active wells	3,638	11,900	8,262	227%
Oil and gas tax amended returns filed	770	2,595	1,825	237%
Collections statements mailed	81,067	192,758	111,691	138%
Canadian refund requests	4,998	25,022	20,024	401%

Accomplishments

In addition to effectively and efficiently collecting a record amount of revenue for the state and dealing with an unprecedented number of returns in most tax types, we have accomplished many important objectives during the past two years.

- **Taxpayer Access Point (TAP)** – The \$1 million one-time appropriation authorized by the 2013 legislature was utilized to implement a new GenTax module to provide web-based self-service functions for business taxpayers. The project was completed within budget and went live in September 2014. TAP will make applying for sales tax permits and filing certain business returns simpler for the taxpayer and more efficient for the department.
- **Refund processing** – The average refund turnaround time was reduced for both paper and electronically filed individual income tax returns for the 2014 filing season.
- **E-filing** – Efforts were continued to educate taxpayers on the benefits of e-filing. The department worked with software vendors to provide multiple e-file options. The percentage of electronically filed individual income tax returns increased from 78.6 percent to 80.9 percent in 2014.
- **Discovery work** – The department continued discovery work in individual income tax, corporate income tax, and sales tax, in part made possible through a new compliance officer position authorized by the 2011 legislature. The discovery work resulted in additional collections of approximately \$8 million in fiscal year 2014 alone.
- **Sales tax refund program for flood victims** – The department effectively administered, with no additional staff, the 2013 sales tax refund program for flood victims. A total of 985 refunds were processed and over \$1.6 million was refunded.
- **New tax types** – The department implemented administration of two new tax types authorized by the 2013 legislature; prepaid wireless 911 fees and withholding on royalty income.

- **Homestead tax credit program** – The department worked cooperatively with counties and cities to provide education, outreach and administration of the expanded homestead tax credit program.
- **Standardized property tax statement** – At the direction of the Interim Taxation Committee, the Department formed a working group of county officials and software vendors to develop a standardized property tax statement for the 2014 tax year. The statement was utilized in all counties.

Challenges and Critical Issues

Future critical issues affecting the Office of State Tax Commissioner include:

- **Growing workload** – As the number of taxpayers for corporate, individual, sales, oil and gas, and other tax types has increased dramatically in recent years, so has the workload for the department. In order to deal with the growing workload and a limited number of FTE positions, the amount of overtime has greatly increased. In fiscal year 2012, compensated overtime hours totaled only 63. In fiscal year 2014, the compensated overtime hours grew to 973. Such significant overtime is, at best, a temporary solution to deal with an ongoing workload increase. Employee burnout is a concern as workloads continue to grow and in some cases limit the ability of employees to utilize earned vacation. Continuing to address the workload growth by requesting existing staff to work overtime will likely increase employee turnover in the long run. Additional staff would help the department appropriately address the growing workload, maintain customer service levels, and reduce the reliance on overtime.
- **Employee retention** – Employee retention is important for any agency. In our case, it is especially important due to the technical nature of many jobs within the department. Employees deal with complicated tax compliance and reporting issues and it often takes several years of training for an employee to become an “expert” in their field. Employee turnover requires staff resources to be diverted to recruiting and training new employees. The new employees are less productive during their training period, further increasing the work demands on the veteran employees. Some turnover is inevitable as employees retire or leave to pursue other interests. However, in many cases employees leave the department for higher compensation. Maintaining competitive salary levels is vitally important. So far during the 2013-15 biennium, the department has recruited for 29 vacated positions (22% of the 134 authorized FTE).
- **Recruiting** – It is growing increasingly difficult to attract qualified applicants. In many cases, positions are posted multiple times in order to get a minimum number of applicants. In some cases, positions remain open due to our inability fill them. It is often necessary to offer a starting salary above the minimum in order to be competitive with other employers, including other state agencies, and attract any applicants. Hiring above the salary range minimum results in additional salary costs in the current biennium. Those costs are more than offset by savings resulting from positions which remain open for extended recruiting periods. However, hiring at rates above the salary range minimum contained in the budgeted pay plan requires additional salary funding in the subsequent biennium. We urge your support of our requested pay plan which includes funding to continue existing salaries.
- **Salary equity issues** – The department strives to maintain equity between employees based on years of service. Salary inequities increase employee turnover. Employees will eventually seek other employment if they feel their compensation level is unfair in relation to other employees with similar qualifications and years of experience. When the agency is forced to hire new employees above the salary range minimum,

inequities are created with employees with several years of experience who are paid at or below the rate of newly hired employees. In order to retain the experienced employees, salary adjustments must be made to move the experienced employees higher into the pay range. Any such adjustment, not anticipated in the budgeted pay plan, requires additional salary funding in the subsequent biennium. We urge your support of our requested pay plan, which includes funding to continue existing salaries, as well as our optional request for salary equity funding.

2013-15 Biennium Appropriation and 2015-17 Biennium Budget Request

The attached Schedule A provides a summary of the Office of State Tax Commissioner's 2013-15 biennium appropriation, estimated 2013-15 expenditures, the 2015-17 biennium Senate version, as well as a comparison to the 2015-17 executive budget. The narrative below explains the major changes in each line item.

Salaries and wages – Provides funding for the department's 134 FTE, temporary employees hired to process individual income tax returns and Canadian refund requests, and related employee benefits.

2013-15 – \$20,802,306

The department expects to have significant savings in this line item and will likely turn back approximately \$800,000 to the general fund. The savings is primarily related to turnover. The department has experienced high turnover, with 29 positions being vacated and recruited for during the 2013-15 biennium to date. Some positions have proven difficult to fill and have remained vacant for an extended period. This high turnover reflects the tight labor market and the need to maintain competitive salaries and benefits. High turnover reduces our efficiency and results in significant staff time and expense incurred to recruit and train new employees. In order to help address this issue, we have requested funding for a salary equity package, which will be discussed in more detail later in the testimony.

2015-17 (Senate version) – \$23,324,177

The salary and wages line was increased by:

- \$610,895 to continue legislatively authorized salary increases and other payroll changes.
- \$1,421,858 for the legislative compensation package, including increases in health insurance and compensation.
- \$392,118 for salaries and wages related to 3.0 new FTE positions included in the Senate version.
- \$97,000 for additional temporary employees and salary increases for temporary employees.

REQUESTED CHANGES TO SENATE VERSION:

- 1 FTE and \$98,713 included in the executive budget and removed by the Senate for a Tax Services Specialist. This position will work in our Taxpayer Services Section. This position will have responsibilities in various tax types and will work on processing tax returns and detecting and preventing fraudulent refunds. As indicated in our testimony, the number of individual income tax returns processed each filing season has grown significantly, up nearly 50% since 2006. We strive to maintain customer service and issue refunds promptly. By law, refunds issued after 45 days require the state to pay 12% interest. We have been successful avoiding interest expense in the past, but it has required a significant amount of overtime. In addition, we continue to see an increase in fraud and identity theft, which requires us to implement additional processes and slows our return processing

time. If authorized, this position will help maintain taxpayer services, maintain return processing and refund issuance turnaround time, and bolster our fraud and identity theft detection efforts.

- \$254,129 for equity and compression adjustments. In order to compete in the current job market the Office of State Tax Commissioner needs to offer competitive starting salaries. Increasing starting salaries for new employees, however, has a compression impact on existing long-tenured employees. This request will provide 20% of the total amount required to move employees to appropriate positions within their pay grade (15 years to midpoint; 35 years to maximum) to address compression concerns and make salaries more competitive with the private job market and other state agencies.

Operating expenses – Provides funding for operating expenses, such as employee professional development, audit staff travel, postage, and Information Technology (IT) contractual services.

2013-15 – \$8,744,443

Estimated expenditures are tracking closely with the appropriation. The department anticipates approximately \$200,000 of unspent authority for operating expenses, \$100,000 in unspent federal funds and \$100,000 general fund turn back. The projected savings in operating expenses includes the remaining balance of the \$1.0 million one-time TAP appropriation (\$37,283), savings in professional services (\$25,000), savings from efficiencies in other operating line items (\$37,717), and unused federal grant funds (\$100,000).

2015-17 (Senate version) – \$8,232,665

Major changes include:

- \$1,022,609 removed for 2013-15 biennium one-time items - \$1 million for the TAP project and \$22,609 for a carryover grant to NDSU
- \$95,917 reduction to reflect IT equipment purchases that will not be recurring during the 2015-17 biennium
- \$199,315 increase for postage due to increasing volume and rate
- \$200,000 increase for the GenTax contract, to continue on-site support, software updates, and maintenance of the application
- \$207,433 increase for the net changes in all other operating account codes, such as printing, IT data processing rates, and rent for remote offices

REQUESTED CHANGE TO SENATE VERSION:

- \$15,692 for operating expenses relating to the additional 1 FTE Tax Services Specialist included in the executive budget and removed by the Senate

Homestead tax credit – Provides funding to reimburse counties for the homestead tax credit, which reduces property taxes for qualifying individuals.

2013-15 - \$20,000,000

The 2013-15 biennium appropriation provided for an expansion of the program to raise the income limit and the maximum asset limit. First year expenditures were \$5.6 million, but as more people become aware of their eligibility, additional amounts will be spent for prior year abatements and the number of applicants for 2015 will likely grow significantly. The Department estimates that a total of \$15.3 million will be spent for the homestead

tax credit program during the 2013-15 biennium. Any unspent moneys will be returned to the general fund at the end of the biennium.

2015-17 (Senate version) - \$30,000,000

The 2015-17 biennium appropriation is estimated to provide funding for the proposed program expansion, as contained in SB2221:

- Increase the maximum annual income limit from \$42,000 to \$50,000
- Increase the maximum value to which the credit applies from \$100,000 to \$150,000
- Increases the maximum renters credit from \$400 to \$600

Disabled veterans credit – Provides funding for a property tax credit for qualifying disabled veterans based on the level of their service-related disability. As the number of veterans returning from service increases, the potential number of applicants also increases. Expenditures have grown each biennium from the \$3 million first appropriated in 2009.

2013-15 - \$7,678,000

First year expenditures were \$2.8 million. The Department estimates that a total of \$6.3 million will be spent for the disabled veterans credit program during the 2013-15 biennium. Any unspent moneys will be returned to the general fund at the end of the biennium.

2015-17 (Senate version) - \$8,445,000

Based on estimated growth in the number of applicants, a 10 percent increase in funding was requested for the biennium, reflecting no changes in program eligibility. However, SB2113, introduced by the Office of State Tax Commissioner, provides for the credit to be applied to both homestead fixtures and land, slightly increasing the cost of the program by an estimated \$120,000 for the 2015-17 biennium. This cost is included in the \$8.4 million budget amount.

Optional Requests

The attached Schedule B provides a summary of optional requests. The following narrative explains each request:

1. Continue Multistate Tax Commission (MTC) Audit fees and Nexus Program - \$413,369 **Included in executive budget and Senate version**
 - \$376,920 – This funding is for North Dakota’s fees for continuing involvement in the MTC audit program. This program allows the state to participate in the audits of large multi-state and multi-national corporations that would otherwise be difficult to audit. Since 2005, the return on investment for the state through increased audit collections has been 5 to 1.
 - \$36,449 – This funding allows North Dakota to continue participation in the MTC National Nexus program which allows corporations to contact MTC and enter voluntary disclosure programs for multiple states in order to resolve outstanding tax liabilities for prior years. North Dakota’s return on investment for 2013 was 3 to 1 and for 2014 was 10 to 1.

2. Inflationary increase in GenTax contract - \$200,000 **(Included in executive budget and Senate version)**
 - Since 2005, the department has contracted with FAST Enterprises for development, maintenance, and support of the state's integrated tax system, GenTax. This increase, which is 6.25% for the biennium or about 3% per year, is the first increase in the contract rate in 4 years. This funding will allow the department to continue the contract with FAST and will allow the continuation of software maintenance, on-site support, and upgrades critically important to maintain this system during the 2015-17 biennium.

3. Volume and Inflationary Increases - \$296,315 **(Included in executive budget and Senate version)**
 - \$97,000 – Temporary salaries – The department relies on temporary employees to process tax returns during the peak activity of the filing season and to process Canadian sales tax refund requests. Wage rates currently being offered are significantly below market. It is critical for the department to be able to employ an adequate number of qualified people for a limited time each year. This funding will allow the hiring of additional temporary employees and allow the wage rate to be increased each year, to an average of \$12-\$13 per hour by the second year of the biennium.
 - \$199,315 – Postage - Despite increases each year in the percentage of returns filed electronically and ongoing efforts to provide all guidelines and publications on-line, the department continues to experience increases in postage costs. There will continue to be a need to mail booklets, returns, billings, and other correspondence. With the significant increase in the number of filers, the department needs adequate funding to continue mailings. This funding is based on the expected mailing service rate increase, U.S. Postal Service rate increase, and a continued increase in the number of filers in all tax types.

4. Four New FTE's - \$553,599 **(4 new FTE included in executive budget; 3 new FTE included in Senate version)**
 - The workload in the department has increased substantially in recent years while the number of FTEs necessary to handle that workload has not. Funding this request will allow the department to fill critical needs in the areas of Sales Tax Compliance (processing amended returns, refunds, responding to inquiries, and drafting guidelines and policy), Taxpayer Services (return processing and fraudulent refund prevention), Property Tax (updating education standards for local assessment officials, performing utility assessment for centrally assessed properties), and Research (conducting research, preparing statistical publications, and assisting with revenue forecasting and fiscal note preparation).
 - No funding is requested for additional office space rent. Although space in the department is very limited, we will find a way to accommodate these critical staff members if authorized.

5. Equity/Compression - \$254,129 **(Not included in executive budget or Senate version)**
 - In order to compete in the current job market the Office of State Tax Commissioner needs to offer competitive starting salaries. Increasing starting salaries for new employees, however, has a compression impact on existing long-tenured employees. This request will provide 20% of the total amount required to move employees to appropriate positions within their pay grade (15 years to midpoint; 35 years to maximum) to address compression concerns and make salaries more competitive with the private job market and other state agencies.

6. Oil Impact - \$90,426 **(Included in executive budget through OMB funding pool)**
 - Employees in the Minot, Williston, and Dickinson field offices are impacted by the significant growth in the energy industry. This request will allow the department to continue providing a \$500 per month pay differential to seven employees in these field offices. Continuation of this funding is necessary to retain these employees.
7. Three Additional New FTE's - \$407,859 **(Not included in executive budget or Senate version)**
 - Funding this request will allow the department to fill critical needs in the areas of Taxpayer Registration (registration, taxpayer assistance with TAP on-line services), Income Tax (processing returns for withholding, taxpayer assistance), and Sales Tax Compliance (taxpayer assistance, assist compliance officers).
 - If the additional 4.0 FTE positions included in the executive budget are approved, no additional people could be housed in our existing space. Consequently, this request includes \$58,000 for rent to accommodate moving one section out of the Capitol building to rented space in Bismarck.
8. Homestead Tax Credit Expansion - \$28,000,000 **(Included in executive budget and Senate version at \$8,000,000)**
 - This request will cover a proposed expansion of the Homestead Tax Credit program by increasing the income eligibility threshold from \$42,000 to \$63,000, removing Social Security payments from the income formula, and doubling the maximum reduction from the first \$100,000 to the first \$200,000 in homestead value. The Governor's budget and Senate version include a smaller expansion by increasing the income eligibility threshold from \$42,000 to \$50,000, increasing the maximum reduction from the first \$100,000 to the first \$150,000 in homestead value, and increasing the maximum renter's credit from \$400 to \$600. Statutory changes are included in SB2221.

Requested Changes to Senate Version

1. 1.0 FTE and \$114,405 (\$98,713 for salaries and wages, \$15,692 for operating expenses) for an additional tax services specialist to help maintain taxpayer services, maintain return processing and refund issuance turnaround time, and bolster our fraud and identity theft detection efforts.
2. \$254,129 for salary adjustments to address compression and make salaries more competitive with the private job market and other state agencies.

Line Item/ \$ Object Description	Appropriation 2013 - 2015	Estimated Expenses 2013 - 2015	Variance		Governor's Recommended 2015 - 2017	Inc/(Decr) Recommended over 13 - 15 Appn	Senate Version 2015 - 2017	Inc/(Decr) over 13 - 15 Appn	
Salaries & Wages	20,802,306	20,003,219	799,087	(1)	24,041,359	3,239,053	23,324,177	2,521,871	(3)
Operating Expenses	8,744,443	8,544,443	200,000	(2)	8,248,357	(496,086)	8,232,665	(511,778)	(4)
Capital Assets	16,000	16,000	0		16,000	0	16,000	0	
Subtotal	29,562,749	28,663,662	999,087		32,305,716	2,742,967	31,572,842	2,010,093	
% of Change						9.3%			
Homestead Tax Credit (General Fund)	20,000,000	15,300,000	4,700,000		30,000,000	10,000,000	30,000,000	10,000,000	(5)
Disabled Veterans Credit (General Fund)	7,678,000	6,300,000	1,378,000		8,445,000	767,000	8,445,000	767,000	(6)
TOTAL FOR DEPARTMENT	\$57,240,749	\$50,163,662	\$7,077,087		\$70,750,716	\$13,509,967	\$70,017,842	\$12,777,093	
# FTE	134				138	4	137	3	
TOTAL GENERAL FUND	57,115,749	50,138,662	6,977,087		70,625,716	13,509,967	69,892,842	12,777,093	
TOTAL SPECIAL FUND	0	0	0		0	0	0	0	
TOTAL FEDERAL FUND	125,000	25,000	100,000		125,000	0	125,000	0	
TOTAL FUNDING SOURCE	\$57,240,749	\$50,163,662	\$7,077,087		\$70,750,716	\$13,509,967	\$70,017,842	\$12,777,093	
% of Change						23.6%			

¹ The projected underrun in Salaries is due to savings from vacancies and filling positions less than budgeted. As of 3/5/2015 the Department had 8 vacancies.

² The projected under-run in Operating Expenses is primarily from the remaining balance of the \$1.0 M one-time TAP appropriation (\$37,283), savings in professional services (\$25,000), efficiencies within other operating line items (\$37,717), and unused federal grant funds (\$100,000).

³ The increase in the 2015-2017 Salary line includes the cost to fully fund all positions and to continue the 2013-2015 biennium salary expenses and the proposed salary compensation package. This request was reduced for 1 FTE in the Senate version.

⁴ The base budget request was reduced by \$1.0 million for the one-time funding of the taxpayer access point (TAP) enhancement (A GenTax module) and \$22,509 NDSU grant to update the Ag land valuation model to a new software platform. This request was reduced for operating expenses for 1 FTE removed in the Senate version.

⁵ An additional \$10 million is included in the Governor's recommended budget to fully fund this program based on enhanced program eligibility requirements.

⁶ The 2013-2015 increase for the Disabled Veterans Credit program reflects the amount needed to fully fund this program based on current program eligibility requirements.

OFFICE OF STATE TAX COMMISSIONER
 COMPARISON OF OPTIONAL ADJUSTMENT REQUESTS
 2015-2017 EXECUTIVE BUDGET REQUEST

Description of Optional Requests	A		B		C	
	Included in Governor's Recommendation	Adjustments made by Senate	NOT Included in Senate Version	Request for restoration of optional request		
Agency Requested						
Restore MTC & Nexus Programs	413,369					
Inflation increase for GenTax contract	200,000					
Volume and Inflation increases for temporary employees and postage	296,315					
New FTEs to meet critical needs (4 FTEs)	553,599	(114,405)	114,405			114,405
Equity/Compression Package			254,129			254,129
Oil Impact pay differential			90,426		The Department will request funding from the energy impact pool included in OMB's budget.	
NEW FTESs to meet critical needs (3 FTEs)						0
Enhance Homestead Credit program			28,000,000		The Department supports the Governor's proposed expansion, included in a bill that will be introduced through a legislative sponsor. The additional appropriation is included in the Department's budget recommendation.	
Sub total	1,463,283		28,458,960			368,534

12

Tax Department - Budget No. 127
Senate Bill No. 2006
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2015-17 Biennium Base Level	134.00	\$56,054,140	\$125,000	\$56,179,140	134.00	\$56,054,140	\$125,000	\$56,179,140	0.00	\$0	\$0	\$0
2015-17 Ongoing Funding Changes												
Base payroll changes		\$316,966		\$316,966		\$316,966		\$316,966				\$0
Salary increase - Performance		1,115,188		1,115,188		830,316		830,316		(284,872)		(284,872)
Salary increase - Market equity		214,339		214,339				0		(214,339)		(214,339)
Retirement contribution increase		114,940		114,940				0		(114,940)		(114,940)
Health insurance increase		595,860		595,860		591,542		591,542		(4,318)		(4,318)
Continuation of 2013-15 salary adjustments		332,929		332,929		332,929		332,929				0
New FTE audit technician position	1.00	98,713		98,713				0	(1.00)	(98,713)		(98,713)
New FTE compliance officer position	1.00	124,924		124,924	1.00	124,924		124,924				0
New FTE property tax specialist position	1.00	133,597		133,597	1.00	133,597		133,597				0
New FTE research analyst position	1.00	133,597		133,597	1.00	133,597		133,597				0
FTE operating expenses		62,768		62,768		47,076		47,076		(15,692)		(15,692)
Changes funding for operating expenses		64,440		64,440		64,440		64,440				0
GenTax contracts		200,000		200,000		200,000		200,000				0
Temporary wages and postage		296,315		296,315		296,315		296,315				0
Continuation of homestead tax credit		2,000,000		2,000,000		2,000,000		2,000,000				0
Expansion of homestead tax credit		8,000,000		8,000,000		8,000,000		8,000,000				0
Continuation of disabled veterans' tax credit		767,000		767,000		767,000		767,000				0
Total ongoing funding changes	4.00	\$14,571,576	\$0	\$14,571,576	3.00	\$13,838,702	\$0	\$13,838,702	(1.00)	(\$732,874)	\$0	(\$732,874)
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	4.00	\$14,571,576	\$0	\$14,571,576	3.00	\$13,838,702	\$0	\$13,838,702	(1.00)	(\$732,874)	\$0	(\$732,874)
2015-17 Total Funding	138.00	\$70,625,716	\$125,000	\$70,750,716	137.00	\$69,892,842	\$125,000	\$70,017,842	(1.00)	(\$732,874)	\$0	(\$732,874)

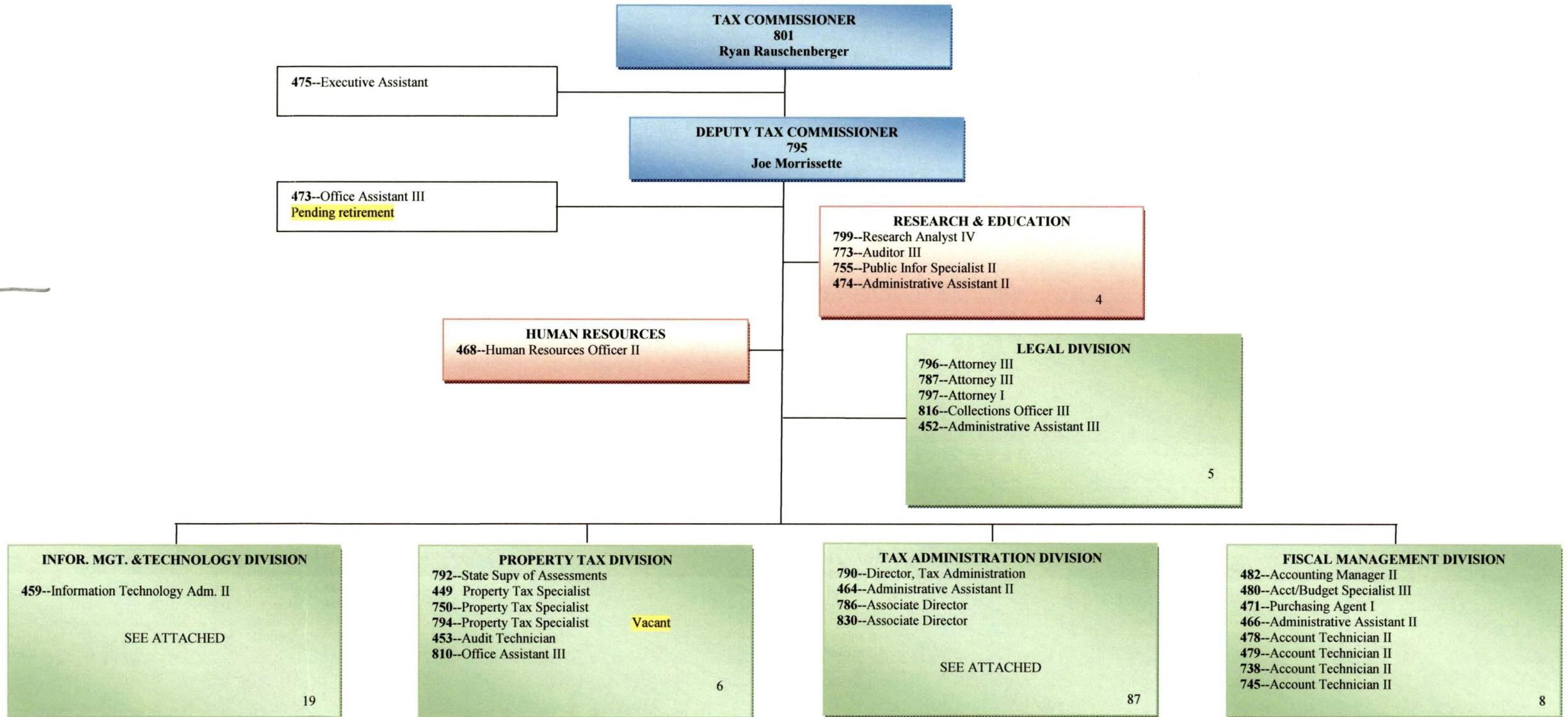
Other Sections in Senate Bill No. 2006

	Executive Budget Recommendation
Motor vehicle fuel tax administration transfer	Section 3 provides for a transfer of \$2,030,496 from motor vehicle fuel tax collections to the general fund for expenses related to the collection of the taxes.
Salary of Tax Commissioner	Section 4 provides for the statutory changes necessary to increase the Tax Commissioner's salary from \$108,202 in state fiscal year 2015 to \$112,530 (4 percent) in state fiscal year 2016 and to \$117,031 (4 percent) in state fiscal year 2017.

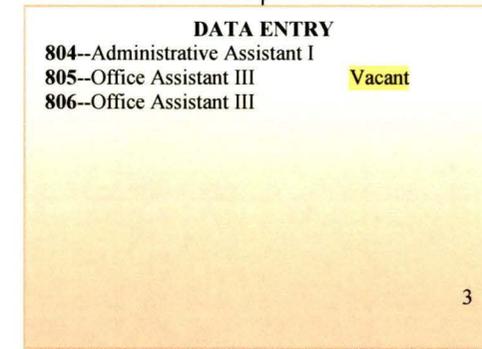
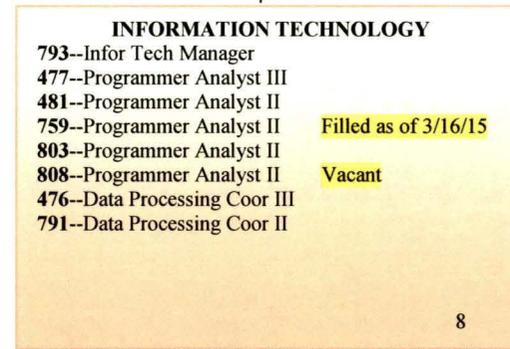
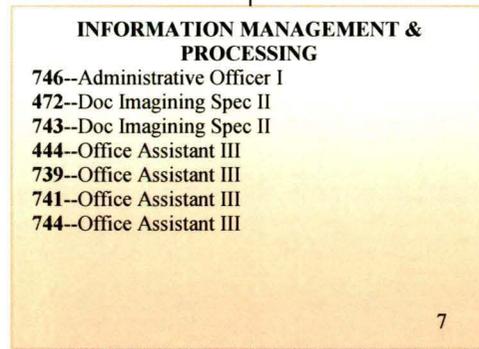
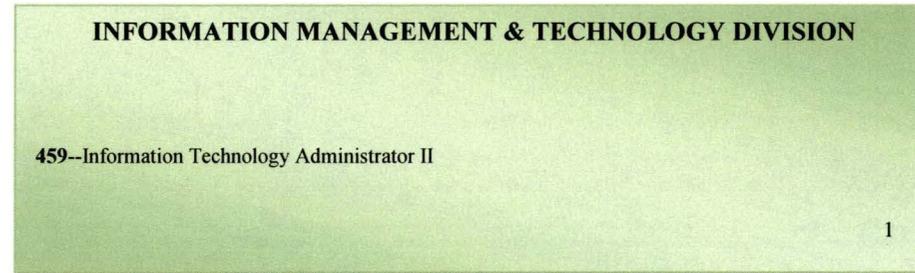
	Senate Version
Motor vehicle fuel tax administration transfer	Section 3 provides for a transfer of \$2,030,496 from motor vehicle fuel tax collections to the general fund for expenses related to the collection of the taxes.
Salary of Tax Commissioner	Section 4 provides for the statutory changes necessary to increase the Tax Commissioner's salary from \$108,202 in state fiscal year 2015 to \$111,448 (3 percent) in state fiscal year 2016 and to \$114,791 (3 percent) in state fiscal year 2017.

51

OFFICE OF STATE TAX COMMISSIONER
March 2015



OFFICE OF STATE TAX COMMISSIONER
March 2015



OFFICE OF STATE TAX COMMISSIONER

March 2015

TAX ADMINISTRATION DIVISION

790--Director, Tax Administration
464--Administrative Assistant II
786--Associate Director (Auditor V)
830--Associate Director
825--Compliance Officer II
28812--Compliance Officer II

6

REGISTRATION

824--Com Officer II
467--Com Officer I
448--Com Officer I
463-- Tax Service Spec. I
469-- Tax Service Spec. I
748-- Tax Service Spec. I
445--Office Assist. III
462--Tax Service Spec I Vacant

8

TAXPAYER SERVICES

789--Auditor IV
817--Auditor III
454--Auditor I
450--Tax Service Spec. I
455-- Tax Service Spec. II
470-- Tax Service Spec. I
749-- Tax Service Spec. I
800-- Tax Service Spec. II
835-- Tax Service Spec. I

9

COLLECTIONS

752--Tax Col Supervisor
483--Col Officer III pending retirement
484--Col Officer III
485--Col Officer III vacant
486--Col Officer III
487--Col Officer III
747--Col Officer III

7

MOTOR FUELS, OIL & GAS, & ESTATE TAXES

822--Auditor IV
757--Auditor III
782--Auditor III
811--Com Officer I
784-- Tax Service Spec. II
829--Office Assist III

6

SALES & SPECIAL TAXES COMPLIANCE

785--Auditor IV
826--Auditor III
465--Com Officer II
754--Com Officer II
769--Com Officer II pending retirement
821--Auditor III
758--Com Officer I pending retirement
446-- Tax Ser. Spec. II

8

SALES & SPECIAL TAXES 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 Vacant
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 III
461--Auditor II
819--Auditor II
807--Auditor I Vacant

22

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
833--Auditor I
456-- Tax Ser. Spec. I
460-- Tax Ser. Spec. I Vacant
832-- Tax Ser. Spec. I
447--Office Assistant II
834--Office Assistant II

14

CORPORATE TAX AUDIT

781--Auditor IV
823--Auditor IV
780--Auditor III
783--Auditor III
798--Auditor III
818--Auditor III
820--Auditor II

7