

**2019 SENATE APPROPRIATIONS**

**SB 2006**

# 2019 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

SB 2006  
1/7/2019  
Job # 30491

- Subcommittee  
 Conference Committee

Committee Clerk: Rose Laning

### Explanation or reason for introduction of bill/resolution:

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

### Minutes:

Testimony Attached # 1 - 2

Legislative Council: Adam Mathiak  
OMB: Stephanie Gullickson

**Chairman Holmberg** called to order the hearing on SB 2006. All committee members are present. He announced the subcommittee for the Office of State Tax Commissioner. They will be Senators Wanzek, Bekkedahl, and Mathern.

**Ryan Rauschenberger, Commissioner, Office of State Tax Commissioner**  
Handed out Attachment # 1.

(9:22) **Senator Robinson:** I have a question on the retirements. Were they retirements based on years of service and they reached that age where the early retirements and combination thereof. Would you speak a bit on that?

**Ryan Rauschenberger:** They were retirements based on years of service. I mentioned that 35 year number - last year I gave out five 40 year awards. I think at any given time, about 25% of our agency could retire with the Rule of 85. We did not participate in the voluntary buy-out program because we knew that earlier this year, we had a dozen plus retirements that were announced within the agency that even to get down to that 110 number, we knew that with just the announced retirements, we were going to be there.

**Senator Robinson:** You're looking at 10% turnover which can be high. Speak to us of the history of the department. Is that a challenge for the department? I've read where a lot of corporate entities have encouraged early retirement only to find themselves in the position where they lost that historical perspective, continuity and seasoned employees.

**Ryan Rauschenberger:** Absolutely. Some of those who have retired were experts in their tax type. It depends on who retires, and knowledge transfer is a very serious issue that we

deal with. We try to plan ahead when we know some retirements will have some knowledge transfer. I mentioned that a lot of folks could retire – roughly 25% could walk out the door with the full benefits of the Rule of 85. We try to do our best over the years to work on job shadowing, knowledge transfer and it gets difficult when we aren't seeing it in the range when we had 137 or 133 when right now our filled positions are much closer to the 110. It gets difficult to take a lot of people off the job they are doing to do the knowledge transfer because we just don't have as many people to transfer that knowledge to. It's a consideration that we deal with all the time.

**Senator Robinson:** Have you been in a position where you have had to call someone back to resolve some issues and questions?

**Ryan Rauschenberger:** Absolutely. There are instances where we've had to call on some folks when they've been in retirement to help us out in some issues and pay them as full time temps for a month or two or longer so they could come back and help with those critical issues.

Continuing on page 5 –

Speaking of Priority 3 – Litigation Contingency Funds

(22:53) **Chairman Holmberg:** The PSC has also had money that they've received for litigation - and also the Industrial Commission. This is different though because we haven't had a litigation pool in OMBs budget.

**Stephanie Gullickson:** No, this is a new one. We've taken all the requests and put them into a pool.

**Senator Bekkedahl:** Would there be a \$1.2M expenditure in your budget and then a revenue into OMB for \$1.2M for that pool or is the expenditure all in OMB for this pool? In other words, is your budget going to take \$1.2M and move it to the OMB pool?

**Ryan Rauschenberger:** It would be a transfer upon request. I'm not sure how the mechanics would work – whether it would get transferred in and we'd expend the authority and then we'd get reimbursed when that money is spent. I can't necessarily speak to the order of operation. We haven't done this as an agency before.

**Chairman Holmberg:** Essentially, Commissioner Rauschenberger is giving a shout out to an appropriation in another bill that impacts his budget. It's something that will be discussed at OMB level when that budget is here and then a decision will be made of whether we want to pool this or do we want to not do it at all. Or do we want to say let's put the money in the individual budgets. OMB has a lot more flexibility so that will be part of the policy decision. For new committee members, the priorities that the commissioner is talking about are priorities that are already in the budget and they would like the to remain.

**Ryan Rauschenberger:** That is correct. So with Priorities 1 & 2, these statements are simply to recognize that with the governor's recommendation, at least in the FTE and GenTax case, we're happy with the recommendation and would appreciate support for that recommendation. And the same with Priority 3, we're supportive of that too.

Continuing on page 8 – Homestead Tax Credit

(28:57) **Chairman Holmberg:** These are statutory requirements. You have to pay this, they can't pro-rate this. At times we end up with these deficiency appropriates because you have no recourse but to pay.

**Ryan Rauschenberger:** That's a good point, but on page 9, these are both general fund programs that are seen as sister programs. Again, same funding source. Something that we pay to the counties for them to benefit the tax payers. Last time we had a line item transfer authority that if we're short in one and we won't know until the end of the biennium until we're short in one or ahead in the other. We had authority to transfer just between the two programs. In Appendix E, we have that language that would need to be amended to continue that. Again, I believe we would need that in whatever bill would eventually pass, so Appendix E would have some language that we can refer to that we would ask to be included in our bill so we can transfer between those two line items.

(30:40) **Chairman Holmberg:** You are able to do that today – thru the emergency commission.

**Ryan Rauschenberger:** Right, but I don't believe that is in code. I think we need it in our appropriation language. That was new last time, but today we can do it. It probably won't happen because they're likely to be short. We've had it in the past where the veteran's might be \$100,000 short. There used to be a lot more cushion in the Homestead program. We usually had a couple million. Last time we weren't looking for as much cushion and brought that down a lot closer to where the actual program expenditures are meant to be. The line item transfers would help if we have just a little savings in one, it can help backfill any shortfall in the other.

**Senator Bekkedahl:** Do you think that's the result of more applications or do you think it's the result of the appreciated values of some of these properties out there?

**Ryan Rauschenberger:** I would say for sure more application. We do spend our own dollars \$30,000-40,000 a biennium to promote these programs because they are application based. They don't just automatically get that reduction in their property taxes. You need a smaller public education to promote these. Every year it does get a little larger. There are more veterans and then more veterans that are eligible and applying for this with at least 50% disability. The population is definitely growing. I can't speak to the valuation, but Linda Leadbetter is here. Is most due to the applications or would it be getting closer to a higher valuation – because it is capped on the value side, but there aren't a lot of programs that are below that cap anymore. They're getting closer and closer.

**Linda Leadbetter, Property Tax Division:** It was primarily because the program was expanded and assets were changed and once they find they are eligible, they can go back apply for an abatement.

**Ryan Rauschenberger:** The eligibility requirements were changed – fairly large changes in 2013, and once they learn about it, tax payers can go back for abatements and then we have

to write out the checks for that too. They have a couple years to go back if they found out they missed a year or two.

Continuing on Page 9 – Requested to spend \$40,000 per biennium from the Homestead Tax Credit line and up to \$5000 from the Disabled Veteran's Credit line item so they'd actually have the money come from the program and not necessarily from the general operating budget.

(35:06) **Chairman Holmberg:** You might want to mention, since we have new committee people, that under the Homestead tax credit, there are actually two parts. There's the homeowners and then the renters. There's an application process.

**Ryan Rauschenberger:** Renters refund is something that we administer at the state level because it's something that the renter applies for. They are not the one filling out the property tax bill. It's similar to the Homestead Tax Credit program because as your income rises, your benefit goes down. It's a formula of rent and expenditures and what your income level is. The check goes right to the renter if eligible. There are fairly tight parameters of having a certain lower income level, and again on a sliding scale.

(36:20) **Senator G. Lee:** In our bill, in section 2, it talks about a transfer from the motor vehicle fuel tax revenue to the general fund. In the governor's bill, it's section three. Can you explain what that's about?

**Ryan Rauschenberger:** That is a statutory requirement that we have to meet based on a calculation we do every biennium. I could have our CFO, Glenda Anderson, probably explain it better than I can. There is a calculation that we have to do every biennium and that becomes the number that is in that section of the bill which is to basically cover the general fund's cost of administering the highway tax distribution fund, the fuel tax, etc. In short, the fuel tax pays the general fund for the general fund administering fuel tax.

**Senator G. Lee:** The fuel tax goes to the highway distribution and DOT manages that, don't they?

**Ryan Rauschenberger:** We do administer the fuel tax. The DOT administers or is our agent for the vehicle excise tax, the title transfer tax, the sales tax on vehicles generally. They are our agent. We back them up. We administer the fuel tax because we have sales tax with retailers and wholesalers. We actually administer that side of it. Because we're a general fund agency, it basically requires that the fuel tax does kick back something to the general fund.

(39:14) **Senator Wanzek:** Do you believe it's enough to cover the expenses of administering the motor vehicle fuels fund? Is there a formula where they subtract it off the vehicle.

**Ryan Rauschenberger:** I'll let Glenda explain the calculation.

(40:04) **Glenda Anderson, Chief Fiscal Officer, State Tax Commissioner's Office:** What that transfer is – We go through and we analyze all of the expenditures that were related to operating the motor fuels section – every cost that they incurred, data processing, printing,

postage, anything that we can tie directly to them, the salaries that go along with it, and then we use that as a formula and determine how much we're going to put into this section as a transfer request.

(40:48) **Senator Hogue:** We've got a couple wide version estimates on upcoming corporate income taxes, and I'm wondering if you are aware of that and if you could tell us what your sense is to where we should be looking as the most reliable indication of what corporate income tax revenue will be for the upcoming biennium.

**Ryan Rauschenberger:** Between the executive and the IHS numbers this morning, there is considerable variance between those two. I've looked at the numbers correctly very quickly and I think corporate income tax is the biggest differences between the two. There are potentially some factors in the executive forecast that IHS maybe is in the weeds.

If you look at corporate income tax historically, it's as volatile a tax. We talk about oil tax a lot, but when you're making money as a corporation, you pay. When you lose money as a corporation, you get to carry that forward for a number of years, so when you're not making money, you're not paying for potentially a long time. It can be very unlike oil tax where it's pay as you go every month. There's a price on the gross, kind of simple algebra. Corporate income tax is the most difficult tax to forecast because, partly, we have the Tax Cuts Jobs Act that was changed. There are more deductions allowable, different treatment on the federal level. Again, I can't speak for what's in IHS's numbers. I don't know what was taken into account, but I know we made some reductions in changes for that with certain deductions expanded that corporations can take advantage of within the next couple years and wipe out some of the North Dakota taxable income. Part of the reason it's so difficult is because we're basing it on federal taxable income to get North Dakota and that gets difficult to know exactly what that North Dakota portion will be of a multi-state company. I have a lot more knowledge of what went into the state side as opposed to IHS, but I think we wrote down the corporate side as much percentage wise as anything after the downturn in revenues, like in 2016 & 2017. The corporate executive one is pretty conservative, but because it's so volatile, I think that's one of the reasons it was written down so much.

**Chairman Holmberg:** You answered it. You said you know as much about it as Moody's and IHS. It's a tough one.

**Ryan Rauschenberger** – concluded.

**Chairman Holmberg:** Do you have the internet sales? When will you have a good idea? Will it be two years from now? Where are we at?

**Ryan Rauschenberger:** As of today, we've hit the 2000 mark of online companies that were not registered before the Supreme Court decision that have registered as a result of it. We're tracking that. It's a sought after line item. It's new to the budget and this process. We just collected about \$2M but because of the delay in filing, we want to be clear that we actually won't have a good read on it. Some of them are monthly filers, but we won't have December monthly or fourth quarter 2018 until the end of this month. So those two filers, which is a big group, we won't have those numbers until early February. That's something I've put a hold on requests because then we'll at least have a full quarter. It's a big shopping quarter so it

will be a high number. Every day we have more and more companies registering. The reason they aren't all registered as we'd like them to be right now is because there is a national bottleneck with companies that specialize in this. There are a few big companies that do this on behalf of online companies. They're getting such an influx of requests that they're not getting in the door right away. They weren't all able to flip a switch and start collecting and mapping their inventory for all the different 45 states that have a sales tax.

We collected about \$2M, but that does not reflect the bulk of the busy shopping season that we just went through. Black Friday & Cyber Monday were up 20% from the year before so online sales is definitely where the expenditures are shifting. We're focusing our efforts on the top 1000 online companies. We have that list. We probably have 1/3 of them in at this point, but we're focusing on the top 250-500 because they're the ones paying Google to get up to the top of the search. We are focusing our compliance efforts on the top sellers.

(49:04) **Senator Robinson:** On page 12, on the financial analysis – line item 14-15 – How many of our FTEs in the tax dept. are officed outside the tower?

**Ryan Rauschenberger:** We've had fewer than we've had in the past, but we do have Dickinson, Williston, Minot, Grand Forks and Fargo. I'm going to say 15, maybe a full 20 are in different cities, with the most being in Fargo. So our largest field office is in Fargo because 20% of all retail sales in the state are in Fargo. We do a lot out west, but we have cut back on the number of people in the field pretty significantly over the years.

**Senator Wanzek:** In the last budget we had, it authorized 133 FTEs, but really only provided funding for 127. Does this budget provide the full funding for the 123?

**Ryan Rauschenberger:** This budget, as presented by the governor, would fully fund 123. Those unfunded FTEs are not asking to be funding specifically in this budget. We're not asking for the funding for those six

**Senator Wanzek:** I see in the green sheet, there's a number of 772,000 "underfund salaries and wages". Can you explain?

**Chairman Holmberg:** You're one of the agencies that's large enough so they underfunded you out of the shoot.

**Glenda Anderson:** My understanding is that we had put in our Optional Funding Request, an unfunding of 2.58M. That would've been for a full 17 FTEs, but the governor only restored 1.8M of that. This 772,000 is the difference, so that's the equivalent of four FTEs – not specifically identified, just unfunded in total.

**Senator Mathern:** Just a follow up - I still don't understand how many positions are fully funded in this budget.

**Ryan Rauschenberger:** The fully funded positions in this budget would be the 123. My understanding is that the difference between the 123 and 127 makes up the 772,000. We didn't get the 127 that we had requested. That was 17 FTEs up from 110 – so the 90% is the 110. We asked for 17 more to go with the 127. The governor recommended 123, so 123

would be the fully funded FTE count in this budget and I believe that's the final number on the green sheet. It gets a little difficult because it goes from 133 down to 123, but the budget number is from 127 to 123. The budget dollar amounts don't necessarily reconcile with the FTE count because of the six unfunded.

(54:07) **Senator Mathern:** The difference between 123 and 127 – would you fund those if you found \$700,000 in your budget?

**Ryan Rauschenberger:** To get to the 123, we absolutely would. We would fund positions but likely reclassify and fill in the compliance and audit area to work on things like online sales tax. They were more administratively focused before and not compliance and audit – revenue generating functions. We would absolutely fill them.

**Chairman Holmberg:** If you found that money was in your budget, would you go to hire those folks or would you do the 2% the 2<sup>nd</sup> year of the biennium for the employees that are already there? Or do you want to think about it? (chuckle) Those are the kind of choices we have to make.

**Ryan Rauschenberger:** I hadn't necessarily thought about that, but that would be a tough choice. In our recommendation, we're supportive of the governor's 123. I may have to come back and refine this answer, but focus on salaries. Employees going without salary increases for two years should have our focus.

**Chairman Holmberg:** I want to give our tax commissioner a shout out for being honest and up front when pressed in Grand Forks as to why our sales tax revenue keeps dropping and the word Macys was finally announced. You were up front on that.

**Ryan Rauschenberger:** There have been a lot of questions from the Grand Forks area about the retail base. In the last year, we've had a lot of big box stores go by the way. It's in all the big cities.

**Chairman Holmberg:** Are there any other questions or folks that will speak on this budget. The subcommittee will be **Senators Wanzek, Bekkedahl and Mathern.**

**Mike Chaussee, AARP ND – Testimony Attached # 2**  
Wanted to show support for the Homestead Tax Credit. It helps vulnerable North Dakotans stay in their homes and AARP is all for supporting that.

**Chairman Holmberg:** Closed the hearing on SB 2006.



# 2019 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

SB 2006  
1/22/2019  
Job # 31193

- Subcommittee  
 Conference Committee

Committee Clerk: Rose Laning / Marne Johnson

### 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 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 salary of the state tax commissioner; to provide for a transfer; and to declare an emergency.

### Minutes:

No Attachments

Legislative Council: Alex Cronquist  
OMB: Larry Martin

The Senate Appropriations Committee met to discuss the agency bills and others that have been presented thus far and wanted to get input from the whole committee on what should be the focus of each sub-committee.

Chairman Holmberg said that we're not going thru salaries at this time.

SB 2001 – Governor (sub-committee: Hogue, Lee, Mathern)

- The 10% movement of moving money between line items. Have a standard response for them.
- Discuss the governor's salary - this reduces salary just short of \$200,000 & what happens to the rest of it. They took their 5% cut. (Language needs to be revisited)
- Council said by putting it in a line item, then it couldn't get spent in other areas.
- Transfer language - limited it to 10% before going to emergency commission

SB 2002 – Secretary of State (sub-committee: Hogue, Oehlke, Grabinger)

- Voting equipment – replacing voting machines (matching requirement by state)
- Emergency clause should be there.
- 10% line item transfers

SB 2003 – Attorney General (sub-committee: Sorvaag, Bekkedahl, Mathern)

- Litigation authority
- Amount of money for Litigation
- Joining in with other states suing the federal government
- New line in OMB to tap into litigation pool
- Human trafficking grants added to AG bill

SB 2004 – State Auditor (sub-committee: Oehlke, Dever, Mathern)

- Looking at number of FTE requests
- FTEs between University system and Auditor's office
- ITD FTEs.

SB 2005 – State Treasurer (sub-committee: Bekkedahl, Dever, Robinson)

- Investments of the Veterans Post War Trust Fund (low interest)
- Treasurer's salary

SB 2006 – Tax Commissioner (sub-committee: Wanzek, Bekkedahl, Mathern)

- Discovery of compliance of businesses with no physical sales tax.
- Concern about staffing – many retirees and loss of senior staff.
- Authority for line item transfers between the Homestead Tax Credit and Disabled Veteran's Credit programs.
- Litigation funds – or funds in litigation pool.

SB 2007 – Labor & Human Rights (sub-committee: Poolman, Sorvaag, Robinson)

- Salary of Commissioner as she will be in charge of Dept of Labor and Human Rights as well as the Dept. of Commerce.

SB 2008 – Public Service Commissioner (sub-committee: Lee, Wanzek, Grabinger)

- Wanting additional staff for indemnity issues
- Additional staff
- \$100,000 increase in budget

### **JOB # 31232 -**

SB 2009 – Agriculture Commissioner (sub-committee: Wanzek, Erbele, Grabinger)

- Want to move APUC and Trade Office to his office.
- 2 less FTEs
- Ag bio-science program – an appropriation bill. Should it be added to the budget or let it a stand-alone bill.

SB 2010 – Insurance Commissioner (sub-committee: Oehlke, Erbele, Grabinger)

- Moving the Fire & Tornado fund over to the ND Insurance Reserve Fund
- Boiler inspection program

- Fire Departments & Sheriff's tax on insurance

SB 2011 – Securities Commission (sub-committee: Krebsbach)

- Money for a FINTECH position
- Section 3 appropriation of any income from federal funds (14:17)

**Larry Martin:** Like the transfer language, we added a lot of the language to spend additional federal or other funds to the cabinet agencies. Again, some of them receive money from outside sources, so we wanted them to have the ability to pay out. Job Service has similar language currently because they do get additional federal money so they have to be able to spend it out. We added that language to all the cabinet bills.

SB 2012 – Human Services (sub-committee: Dever, Erbele, Mathern)

- Provider rates. Governor 1-1. They want 3-3-3.
- Medicaid – reauthorization of the expansion. Do we reimburse?
- Behavioral Health
- State Hospital – support the move from New England for the women? Justification for the state hospital – a study?
- Policy and how its structured – for whole department. \$182M
- Nursing Homes
- Study the 36 Critical Access Hospitals - Commercial rates vs. traditional rates
- Study resolution of medical care in the future for the state
- 1915(i) needs support.
- Commercial vs. traditional rates

SB 2013 – Public Instruction; Library, Blind & Deaf (sub-committee: Holmberg, Poolman, Robinson)

- Will have some meetings but need to wait for Education Committee to complete policy. Governor's school information is confusing.
- 1 FTE reinstated.
- Adult education.
- FTEs at school at Devils' Lake
- Governor moved pre-school money from Commerce to DPI (where is the money?)
- Transportation grants

SB 2014 – Protection & Advocacy (sub-committee: Sorvaag, Krebsbach, Grabinger)

- Adding of one employee
- Additional operating expenses
- Transferring guardianship programs to P & A.

SB 2015 – Office of Management & Budget (sub-committee: Holmberg, Bekkedahl, Robinson)

- Transferring money – \$1B of oil revenue to general funds.  
If we put \$1B in and oil prices go down and we have less money in the general fund, we might have a risk with allotments.  
Do we want to expose ourselves more in the general fund by putting \$1B in the general fund from direct oil revenue?
- Fees or dues for several organizations. Last session we reduced dues by 10%.
- WICHE (Western Interstate Commission for Higher Ed) dues were in OMB and Commission was placed under Higher Ed. Did the \$15,000 get transferred?

SB 2016 – Office of Adjutant General (sub-committee: Hogue, Holmberg, Grabinger)

- Land Acquisition - Proposed 6,000 acres of land in south Camp Grafton. Want to ask the adjutant, you have \$15M set aside to acquire 6000 continuous acres and will not exercise the power of eminent domain. How much will they pay an acre?  
How did they come up with \$15M?
- \$15M set aside to gain land - long term leases. Be wary of setting precedent for cost/acre.
- Locals are not on board?

SB 2017 – Game & Fish (sub-committee: Oehlke, Wanzek, Grabinger)

- Section 5 on green sheet – additional amounts appropriated to Game & Fish Dept. There is appropriated additional income from the feds from other funds to that agency. Would the federal funds go to their agency first?
- If they're receiving monies from federal, they can spend them out.
- Section 6 - Require them to hang onto \$15M unless we have a budget section meeting and have an exception for some emergency. They have to invest it and its not making money where its being invested. They'd like it to be invested by the state investment board.
- Sportsman's clubs – raise the fishing licenses; boat tax/gas tax.

# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006  
2/6/2019  
JOB #32309

Subcommittee  
 Conference Committee

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| Committee Clerk Signature    Alice Delzer / Florence Mayer |
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## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

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| Attachment #1 - 2 |
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**Senator Wanzek:** Called the sub-committee to order on SB 2006 at 4:00 pm in the Harvest Room. Senators Bekkedahl and Robinson were also present. Chris Kadrmas, Legislative Council and Becky J. Keller, OMB were also present. Asked for a quick summary to refresh their memory of what was needed.

**Ryan Rauschenberger, State Tax Commissioner:** Provided Attachment #1, budget overview. Speaking off of original testimony pages 5-7 & 11. (Attachment #2 pages 1-3 for this subcommittee.)

**(7:02) Senator Bekkedahl:** You basically spent \$16M this biennium. Staying at \$16M for a program that is increasing, you are only adding \$200,000. You are being judicious in my mind.

**Ryan Rauschenberger:** The \$16m was a holdover. We cut that number back to save money in this biennium. The current practice of always planning for a potential deficiency is the possible way to go forward.

**Senator Bekkedahl:** I don't understand the deficiency. If it occurs, you have to make those payments to the counties. How are you making them now? Are you making them with other funds internally? Or are we giving the money in time to make the payments?

**Ryan Rauschenberger:** We barely have the data right now; to know what the deficiency is. It is forecasted for the May/June timeframe.

**Senator Bekkedahl:** You are meeting the window for the counties to get their money? (Correct.) How are bills currently going through session going to impact the homestead tax

credit or the disabled veterans tax credit? One from the tax dealt with special assessments being covered by the homestead tax credit as well. Can you speak to the numbers that might generate?

**Ryan Rauschenberger:** That was pretty minor, the numbers we were looking at are pretty small. I can have Linda get that to you. She can clarify the number if she feels the number we submitted might be a little too low. We are basically at that number, if it continues to grow, what the expected deficiency might be.

**Senator Bekkedahl:** I am comfortable with the number they provided. Even though the special assessment number might be low this session, a lot of recipients of that live in old neighborhoods that are going through some rehabilitations now.

**Senator Robinson:** Was the thought just to go with this figure and plan on having another deficiency in 2 years?

**Becky J. Keller, OMB:** The thought was when we asked how they based that number, they said history. We wanted to put a number in, but we thought we would have more information by the time of session.

**Senator Robinson:** Is it preferential that we bump this up and fund it at a better number? Or plan on another deficiency?

**Becky J. Keller, OMB:** I would have preferred to bump it up. I don't think the Governor's office would have a problem with that. We just didn't know where we thought it would be.

**V. Chairman Wanzek:** Why would you not do it, if we're anticipating it. You talked about promotion. You've been spending \$30,000-40,000 in promotion, but it mostly came out of operating funds? Now you're requesting the \$45,000 come out of the homestead and disabled veterans credit line item?

**Ryan Rauschenberger:** I believe we know more after crossover. During conference committee we might have a better opportunity to adjust the homestead and veterans tax numbers. To the point concerning expenditures, we are requesting \$40,000 from homestead tax credit line item and \$5,000 be dedicated to promotion. We do use our own operating budget. We back off on postage, travel, printing, all of those types of items, to create our savings. But we continue to hold steady and spend significant dollars on promoting these programs. This is application based, and we believe it is important. It does come directly out of our general fund operating line.

**V. Chairman Wanzek:** You would rather see it come out of these lines rather than your operating? If we feel it's necessary, what if we increased the operating?

**Ryan Rauschenberger:** Either would be agreeable. We have to shave down printing, and make efficiencies in other areas. We have always spent advertising dollars out our general operating. I think we'd be fine with having that in operating. We thought it might be cleaning in the future, if those dollars came directly out of those funding line items, limited to those specific amounts.

**V. Chairman Wanzek:** I am concerned it is designated to be used for that purpose. I haven't made my mind up on that yet. This budget, with the executive recommendations, is fully funding 123 FTEs now? (That was confirmed.) And the executive budget restored the \$1.13M to bring the gen tax up to level 3. What you are saying is you are in agreement with what the recommendations are, except taking the taking the promotional money out of the Homestead credit? (That was confirmed.)

**(17:16) Senator Bekkedahl:** From what I see here, the total base level funding changes are a little over \$3M. The vast majority of that is all in base payroll changes, salary increases, health increases, retirement contribution increases, and funding homestead and disabled veterans tax credits with the gen tax. You are fine with all of those, I think you have done a nice job. The bulk of his expenditure above the base level funding are related to employee costs and health insurance.

**Ryan Rauschenberger:** The increased cost you see are because costs of increase, costs to continue for the 123 employees.

**V. Chairman Wanzek:** We're are the point where we could rubber stamp the executive budget is what you're saying? It was \$200,000 more for homestead tax credit? How much for the disabled veterans?

**Senator Bekkedahl:** I've done the math of the disabled veterans and we'd have to add \$589,800 above and beyond what the Governor recommended.

**(19:31) Senator Bekkedahl:** Explain the section 3 motor vehicle fuel tax revenue transfer. Does that normally happen now or is it a new request?

**Ryan Rauschenberger:** That is something we calculate every biennium, it's basically in statute. It's basically a compensation to the general fund. We don't get it, just goes straight from the collections to the general fund.

**V. Chairman Wanzek:** It goes to the general fund, and it is offsetting the general fund expenditures in your office. Is it determined by a formula or percentage?

**Ryan Rauschenberger:** It is. We have to go through all the expenses per line item, and break it down into line item expenses. Basically it's our estimate of the costs.

**V. Chairman Wanzek:** That's been law for a long time. We aren't recreating the wheel here.

**Ryan Rauschenberger:** It's been around for 40 years. We don't keep any of that amount. It goes into general fund, there's no special authority for us to retain that for any purpose.

**V. Chairman Wanzek:** The authorization to transfer funds between the homestead and the disabled veterans credit, has that always been done before? I feel like we've done that in the past.

**Ryan Rauschenberger:** We had it in 2013 for two sessions. We starting requesting that when we had a surplus in one and a deficiency in the other. Lately that hasn't been the case, both have been slightly under funded. They are both general fund, sort of sister programs. If one is short, the other has the surplus, we don't have to go to the emergency commission, we can transfer between the two. We would request the amended language in our bill.

**V. Chairman Wanzek:** The commissioner's salary, the same 2 and 3 as well? (That was confirmed.)

**Senator Robinson:** If we have consensus on those issues, I think we are ready to roll here. Depending on what we want to do with the \$200,000 and if we fund it.

**Senator Bekkedahl:** I would agree that we take the veterans and homestead tax credits up to the amounts recommended by the commissioner. Which were \$16M and \$9M.

**Senator Robinson: Moved To Adopt Amendment.**

**Senator Bekkedahl: Seconded.**

**All Were in Favor.**

**V. Chairman Wanzek:** We are basically rubber stamping the budget, and then the 2 and 3 language.

**Senator Bekkedahl:** We assumed we are going to do the 1% and 1%. I don't know if Chairman Holmberg has made that a policy for you guys to follow yet. It may be impacted by Senator Dever's subcommittee as well.

**V. Chairman Wanzek:** I am not sure I am comfortable with understanding that. We should visit with the leader of the committee and bring me up to speed. The next time we meet, it would just be a matter of passing the amendment. We will adjourn the subcommittee on SB 2006 for now.



# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006  
2/8/2019  
JOB # 32426

Subcommittee  
 Conference Committee

|                               |
|-------------------------------|
| Committee Clerk: Alice Delzer |
|-------------------------------|

## **Explanation or reason for introduction of bill/resolution:**

A Subcommittee hearing for the Department of the Tax Commissioner.

## **Minutes:**

|                                       |
|---------------------------------------|
| 1. Proposed Amendment # 19.0219.01001 |
|---------------------------------------|

**Chairman Wanzek** called the Subcommittee to order on SB 2006. Let the record show that all members were present; Chairman Wanzek, Senator Robinson and Senator Bekkedahl. Larry Martin, OMB and Adam Mathiak, Legislative Council were also present.

**Chairman Wanzek** submitted Attachment # 1, Amendment # 19.0219.01001 and explained the amendment.

**Senator Robinson:** moved the amendment. 2<sup>nd</sup> by **Senator Bekkedahl**.

**A voice vote was called. Yea: 3; Nay: 0; Absent: 0. It carried.**

the subcommittee hearing on SB 2006 was closed.

# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006  
2/8/2019  
JOB # 32433

- Subcommittee  
 Conference Committee

|                               |
|-------------------------------|
| Committee Clerk: Alice Delzer |
|-------------------------------|

## **Explanation or reason for introduction of bill/resolution:**

A BILL for an Act to defray the expenses of the tax commissioner

## **Minutes:**

|  |
|--|
| 1. Proposed Amendment # 19. 0219.01001 |
|--|

Chairman Holmberg: opened the hearing on SB 2006. All committee members were present except Senator Gary Lee. Adam Mathiak, Legislative Council and Larry Martin, OMB were also present.

**V. Chairman Wanzek:** submitted Attachment # 1. Amendment 19.0219.01001 and explained the Amendment.

**V. Chairman Wanzek: Moved the Amendment. 2<sup>nd</sup> Senator Robinson.**

A voice vote was called for. It carried.

**Senator Robinson: Moved a Do Pass as Amended. 2<sup>nd</sup> by V. Chairman Wanzek.**

**Chairman Holmberg:** Call the roll on a Do Pass as Amended on SB 2006.

**A Roll Call vote was taken. Yea: 13; Nay: 0; Absent: 1. V. Chairman Wanzek will carry the bill.**

The hearing was closed on SB 2006.

*Handwritten initials and number: CW 1003*

PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 1, line 3, after the semicolon insert "to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the salary of the state tax commissioner;"

Page 1, replace lines 12 through 22 with:

| "                              | <u>Base Level</u> | <u>Adjustments or<br/>Enhancements</u> | <u>Appropriation</u> |
|--------------------------------|-------------------|--|----------------------|
| Salaries and wages             | \$21,724,004      | \$1,214,180                            | \$22,938,184         |
| Operating expenses             | 6,749,295         | 363,165                                | 7,112,460            |
| Capital assets                 | 6,000             | 0                                      | 6,000                |
| Homestead tax credit           | 14,800,000        | 1,000,000                              | 15,800,000           |
| Disabled veterans' tax credit  | <u>8,110,200</u>  | <u>300,000</u>                         | <u>8,410,200</u>     |
| Total all funds                | \$51,389,499      | \$2,877,345                            | \$54,266,844         |
| Less estimated income          | <u>125,000</u>    | <u>0</u>                               | <u>125,000</u>       |
| Total general fund             | \$51,264,499      | \$2,877,345                            | \$54,141,844         |
| Full-time equivalent positions | 133.00            | (10.00)                                | 123.00               |

**SECTION 2. LINE ITEM TRANSFERS.** The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 4, insert:

**"SECTION 4. AMENDMENT.** Section 57-01-04 of the North Dakota Century Code is amended and reenacted as follows:

**57-01-04. Salary.**

The annual salary of the state tax commissioner is ~~one hundred eleven thousand four hundred forty eight dollars through June 30, 2016, and one hundred fourteen thousand seven hundred ninety one dollars thereafter~~ one hundred seventeen thousand eighty-seven dollars through June 30, 2020, and one hundred twenty thousand six hundred dollars thereafter."

Re-number accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

|                           | <u>Base<br/>Budget</u> | <u>Senate<br/>Changes</u> | <u>Senate<br/>Version</u> |
|---------------------------|------------------------|---------------------------|---------------------------|
| Salaries and wages        | \$21,724,004           | \$1,214,180               | \$22,938,184              |
| Operating expenses        | 6,749,295              | 363,165                   | 7,112,460                 |
| Capital assets            | 6,000                  |                           | 6,000                     |
| Homestead tax credit      | 14,800,000             | 1,000,000                 | 15,800,000                |
| Disabled veterans' credit | <u>8,110,200</u>       | <u>300,000</u>            | <u>8,410,200</u>          |
| Total all funds           | \$51,389,499           | \$2,877,345               | \$54,266,844              |
| Less estimated income     | 125,000                | 0                         | 125,000                   |

2003

|              |              |             |              |
|--------------|--------------|-------------|--------------|
| General fund | \$51,264,499 | \$2,877,345 | \$54,141,844 |
| FTE          | 133.00       | 10.00       | 123.00       |

**Department 127 - State Tax Commissioner - Detail of Senate Changes**

|                           | Adjusts Funding for Base Payroll Changes <sup>1</sup> | Adds Funding for Salary and Benefit Increases <sup>2</sup> | Adds Funding for an Auditor Position <sup>3</sup> | Removes Unfunded Vacant FTE Positions <sup>4</sup> | Underfunds Salaries and Wages <sup>5</sup> | Increases Funding for GenTax Software Support <sup>6</sup> |
|---------------------------|---|--|---|--|--|--|
| Salaries and wages        | \$711,232   | \$1,200,200  | \$75,000  |  | (\$772,252)                                |  |
| Operating expenses        |   |  |   |  |  | \$300,589  |
| Capital assets            |   |  |   |  |  |  |
| Homestead tax credit      |   |  |   |  |  |  |
| Disabled veterans' credit |   |  |   |  |  |  |
| <b>Total all funds</b>    | <b>\$711,232</b>                                      | <b>\$1,200,200</b>   | <b>\$75,000</b>                                   | <b>\$0</b>   | <b>(\$772,252)</b>                         | <b>\$300,589</b>   |
| Less estimated income     | 0   | 0  | 0   | 0  | 0  | 0  |
| <b>General fund</b>       | <b>\$711,232</b>                                      | <b>\$1,200,200</b>   | <b>\$75,000</b>                                   | <b>\$0</b>   | <b>(\$772,252)</b>                         | <b>\$300,589</b>   |
| FTE                       | 0.00  | 0.00   | 0.00  | (10.00)  | 0.00                                       | 0.00   |

|                           | Adds Funding for Microsoft Office 365 Licensing <sup>7</sup> | Increases Funding for Tax Credit Programs <sup>8</sup> | Total Senate Changes |
|---------------------------|--|--|----------------------|
| Salaries and wages        |  |  | \$1,214,180          |
| Operating expenses        | \$62,576   |  | 363,165              |
| Capital assets            |  |  |                      |
| Homestead tax credit      |  | \$1,000,000  | 1,000,000            |
| Disabled veterans' credit |  | 300,000  | 300,000              |
| <b>Total all funds</b>    | <b>\$62,576</b>  | <b>\$1,300,000</b>                                     | <b>\$2,877,345</b>   |
| Less estimated income     | 0  | 0  | 0                    |
| <b>General fund</b>       | <b>\$62,576</b>  | <b>\$1,300,000</b>                                     | <b>\$2,877,345</b>   |
| FTE                       | 0.00   | 0.00   | (10.00)              |

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

|                           | General Fund       |
|---------------------------|--------------------|
| Salary increase           | \$633,516          |
| Health insurance increase | 566,684            |
| <b>Total</b>              | <b>\$1,200,200</b> |

<sup>3</sup> Funding is added for an auditor position that was partially funded during the 2017-19 biennium to provide a total of \$150,000.

<sup>4</sup> Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions.

<sup>5</sup> Funding for salaries and wages is reduced for anticipated savings from vacant positions and employee turnover.

<sup>6</sup> Funding is increased for GenTax information technology support to provide total funding of \$3,630,000.

<sup>7</sup> Funding is added for Microsoft Office 365 licensing expenses.

<sup>8</sup> Funding for the homestead tax credit program is increased by \$1,000,000, from \$14,800,000 to \$15,800,000. Funding for the disabled veterans' tax credit program is increased by \$300,000, from \$8,110,200 to \$8,410,200.

This amendment also adds sections to:

- \* Authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' tax credit line item for the 2019-21 biennium.

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- Provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

Date: 2-6-19  
 Roll Call Vote #: 1

**2019 SENATE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 2006**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: take Veterans & Homestead tax credits up to amount recommended by tax Commissioner

- 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 Sen. Robinson    Seconded By Sen. Bekkedahl

| Senators          | Yes | No | Senators          | Yes | No |
|-------------------|-----|----|-------------------|-----|----|
| Senator Holmberg  |     |    | Senator Mathern   |     |    |
| Senator Krebsbach |     |    | Senator Grabinger |     |    |
| Senator Wanzek    | ✓   |    | Senator Robinson  | ✓   |    |
| Senator Erbele    |     |    |                   |     |    |
| Senator Poolman   |     |    |                   |     |    |
| Senator Bekkedahl | ✓   |    |                   |     |    |
| Senator G. Lee    |     |    |                   |     |    |
| Senator Dever     |     |    |                   |     |    |
| Senator Sorvaag   |     |    |                   |     |    |
| Senator Oehlke    |     |    |                   |     |    |
| Senator Hogue     |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |

Total (Yes) 3 No 0

Absent 0

Floor Assignment \_\_\_\_\_

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

Date: 2-8-19  
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2006

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: 19.0219.01001

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

Motion Made By Robinson    Seconded By Bekkedahl

| Senators          | Yes | No | Senators          | Yes | No |
|-------------------|-----|----|-------------------|-----|----|
| Senator Holmberg  |     |    | Senator Mathern   |     |    |
| Senator Krebsbach |     |    | Senator Grabinger |     |    |
| Senator Wanzek    | ✓   |    | Senator Robinson  | ✓   |    |
| Senator Erbele    |     |    |                   |     |    |
| Senator Poolman   |     |    |                   |     |    |
| Senator Bekkedahl | ✓   |    |                   |     |    |
| Senator G. Lee    |     |    |                   |     |    |
| Senator Dever     |     |    |                   |     |    |
| Senator Sorvaag   |     |    |                   |     |    |
| Senator Oehlke    |     |    |                   |     |    |
| Senator Hogue     |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |

Total (Yes) 3    No 0

Absent 0

Floor Assignment \_\_\_\_\_

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

*voice vote.*

Date: 2-8-2019  
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2006

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: 19.0219.01001

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

Motion Made By Wanzek    Seconded By Robinson

| Senators          | Yes | No | Senators          | Yes | No |
|-------------------|-----|----|-------------------|-----|----|
| Senator Holmberg  |     |    | Senator Mathern   |     |    |
| Senator Krebsbach |     |    | Senator Grabinger |     |    |
| Senator Wanzek    |     |    | Senator Robinson  |     |    |
| Senator Erbele    |     |    |                   |     |    |
| Senator Poolman   |     |    |                   |     |    |
| Senator Bekkedahl |     |    |                   |     |    |
| Senator G. Lee    |     |    |                   |     |    |
| Senator Dever     |     |    |                   |     |    |
| Senator Sorvaag   |     |    |                   |     |    |
| Senator Oehlke    |     |    |                   |     |    |
| Senator Hogue     |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Voice Vote Carried*



Date: 2-8-2019  
Roll Call Vote #: 2

2019 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 Robinson Seconded By Wanzek

| Senators          | Yes | No | Senators          | Yes | No |
|-------------------|-----|----|-------------------|-----|----|
| Senator Holmberg  | ✓   |    | Senator Mathern   | ✓   |    |
| Senator Krebsbach | ✓   |    | Senator Grabinger | ✓   |    |
| Senator Wanzek    | ✓   |    | Senator Robinson  | ✓   |    |
| Senator Erbele    | ✓   |    |                   |     |    |
| Senator Poolman   | ✓   |    |                   |     |    |
| Senator Bekkedahl | ✓   |    |                   |     |    |
| Senator G. Lee    | A   |    |                   |     |    |
| Senator Dever     | ✓   |    |                   |     |    |
| Senator Sorvaag   | ✓   |    |                   |     |    |
| Senator Oehlke    | ✓   |    |                   |     |    |
| Senator Hogue     | ✓   |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |
|                   |     |    |                   |     |    |

Total (Yes) 13 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** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2006 was placed on the Sixth order on the calendar.

Page 1, line 3, after the semicolon insert "to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the salary of the state tax commissioner;"

Page 1, replace lines 12 through 22 with:

|                                | <u>Base Level</u> | <u>Adjustments or Enhancements</u> | <u>Appropriation</u> |
|--------------------------------|-------------------|------------------------------------|----------------------|
| Salaries and wages             | \$21,724,004      | \$1,214,180                        | \$22,938,184         |
| Operating expenses             | 6,749,295         | 363,165                            | 7,112,460            |
| Capital assets                 | 6,000             | 0                                  | 6,000                |
| Homestead tax credit           | 14,800,000        | 1,000,000                          | 15,800,000           |
| Disabled veterans' tax credit  | <u>8,110,200</u>  | <u>300,000</u>                     | <u>8,410,200</u>     |
| Total all funds                | \$51,389,499      | \$2,877,345                        | \$54,266,844         |
| Less estimated income          | <u>125,000</u>    | <u>0</u>                           | <u>125,000</u>       |
| Total general fund             | \$51,264,499      | \$2,877,345                        | \$54,141,844         |
| Full-time equivalent positions | 133.00            | (10.00)                            | 123.00               |

**SECTION 2. LINE ITEM TRANSFERS.** The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 4, insert:

**"SECTION 4. AMENDMENT.** Section 57-01-04 of the North Dakota Century Code is amended and reenacted as follows:

**57-01-04. Salary.**

The annual salary of the state tax commissioner is ~~one hundred eleven thousand four hundred forty eight dollars through June 30, 2016, and one hundred fourteen thousand seven hundred ninety one dollars thereafter~~ one hundred seventeen thousand eighty-seven dollars through June 30, 2020, and one hundred twenty thousand six hundred dollars thereafter."

ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

|                           | <u>Base Budget</u> | <u>Senate Changes</u> | <u>Senate Version</u> |
|---------------------------|--------------------|-----------------------|-----------------------|
| Salaries and wages        | \$21,724,004       | \$1,214,180           | \$22,938,184          |
| Operating expenses        | 6,749,295          | 363,165               | 7,112,460             |
| Capital assets            | 6,000              | 0                     | 6,000                 |
| Homestead tax credit      | 14,800,000         | 1,000,000             | 15,800,000            |
| Disabled veterans' credit | <u>8,110,200</u>   | <u>300,000</u>        | <u>8,410,200</u>      |
| Total all funds           | \$51,389,499       | \$2,877,345           | \$54,266,844          |
| Less estimated income     | <u>125,000</u>     | <u>0</u>              | <u>125,000</u>        |
| General fund              | \$51,264,499       | \$2,877,345           | \$54,141,844          |
| FTE                       | 133.00             | (10.00)               | 123.00                |

Department 127 - State Tax Commissioner - Detail of Senate Changes

|                           | Adjusts<br>Funding for<br>Base Payroll<br>Changes <sup>1</sup> | Adds<br>Funding for<br>Salary and<br>Benefit<br>Increases <sup>2</sup> | Adds<br>Funding for<br>an Auditor<br>Position <sup>3</sup> | Removes<br>Unfunded<br>Vacant FTE<br>Positions <sup>4</sup> | Underfunds<br>Salaries and<br>Wages <sup>5</sup> | Increases<br>Funding for<br>GenTax<br>Software<br>Support <sup>6</sup> |
|---------------------------|--|--|--|---|--|--|
| Salaries and wages        | \$711,232  | \$1,200,200  | \$75,000   |   | (\$772,252)                                      |  |
| Operating expenses        |  |  |  |   |  | \$300,589  |
| Capital assets            |  |  |  |   |  |  |
| Homestead tax credit      |  |  |  |   |  |  |
| Disabled veterans' credit |  |  |  |   |  |  |
| Total all funds           | \$711,232  | \$1,200,200  | \$75,000   | \$0   | (\$772,252)                                      | \$300,589  |
| Less estimated income     | 0  | 0  | 0  | 0   | 0  | 0  |
| General fund              | \$711,232  | \$1,200,200  | \$75,000   | \$0   | (\$772,252)                                      | \$300,589  |
| FTE                       | 0.00   | 0.00   | 0.00   | (10.00)   | 0.00   | 0.00   |

|                           | Adds Funding for<br>Microsoft Office 365<br>Licensing <sup>7</sup> | Increases Funding for<br>Tax Credit Programs <sup>8</sup> | Total Senate Changes |
|---------------------------|--|---|----------------------|
| Salaries and wages        |  |   | \$1,214,180          |
| Operating expenses        | \$62,576   |   | 363,165              |
| Capital assets            |  |   |                      |
| Homestead tax credit      |  | \$1,000,000   | 1,000,000            |
| Disabled veterans' credit |  | 300,000   | 300,000              |
| Total all funds           | \$62,576   | \$1,300,000   | \$2,877,345          |
| Less estimated income     | 0  | 0   | 0                    |
| General fund              | \$62,576   | \$1,300,000   | \$2,877,345          |
| FTE                       |  | 0.00  | (10.00)              |

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

|                           | General Fund |
|---------------------------|--------------|
| Salary increase           | \$633,516    |
| Health insurance increase | 566,684      |
| Total                     | \$1,200,200  |

<sup>3</sup> Funding is added for an auditor position that was partially funded during the 2017-19 biennium to provide a total of \$150,000.

<sup>4</sup> Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions.

<sup>5</sup> Funding for salaries and wages is reduced for anticipated savings from vacant positions and employee turnover.

<sup>6</sup> Funding is increased for GenTax information technology support to provide total funding of \$3,630,000.

<sup>7</sup> Funding is added for Microsoft Office 365 licensing expenses.

<sup>8</sup> Funding for the homestead tax credit program is increased by \$1,000,000, from \$14,800,000 to \$15,800,000. Funding for the disabled veterans' tax credit program is increased by \$300,000, from \$8,110,200 to \$8,410,200.

This amendment also adds sections to:

- Authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' tax credit line item for the 2019-21 biennium.
- Provide the statutory changes necessary to increase the Tax Commissioner's salary

from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

**2019 HOUSE APPROPRIATIONS**

**SB 2006**

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

SB2006  
2/28/2019  
Recording Job# 32968

- Subcommittee  
 Conference Committee

Committee Clerk: Sheri Lewis

## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

Attachment A

**Chairman Vigesaa:** Opened the hearing on SB2006.

## Roll Call taken.

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

**Vice Chairman Brandenburg:** The 127 FTE's are funded and you have 6 FTE's that are not funded. Are there targets or projections where you need these other FTE's?

**Ryan Rauschenberger:** When we left last session, those positions had been open for quite some time. They were not removed; but, we did not plan on filling them this biennium. We don't plan on filling them and are not asking for them back.

Ryan Rauschenberger continued with his testimony.

**Representative Kempenich:** How do you handle it when GenTax is upgraded? Some tax payers have run into a "404" error. Is there an automatic switch on it?

**Ryan Rauschenberger:** That's likely a web browser or link error; not necessarily the system itself. The system acts very well.

**Representative Kempenich:** When you do change it, how do you notify people?

**Ryan Rauschenberger:** The easiest solution is that we get calls.

Ryan Rauschenberger continued with his testimony.

**Representative Kempenich:** You have 24 FTE's open, most of them are auditor positions. Do you have a priority list of how you'd like to see those filled?

**Ryan Rauschenberger:** We can get that to you.

Ryan Rauschenberger continued with his testimony.

**Representative Kempenich:** How many people from Fast work here?

**Ryan Rauschenberger:** We have eleven people.

**Representative Kempenich:** That's what these service contracts do?

**Ryan Rauschenberger:** Part of it is onsite support; and part of it is what we call service packs. Upgrades are done every other year.

**Representative Kempenich:** Do you keep a cost benefit analysis?

**Ryan Rauschenberger:** Every year we have meetings and discussions with the heads of Fast Enterprises to talk about a cost structure; and looking at the benefits.

**Representative Kempenich:** The 20 states that don't, do they put their own system together? How do they go about operating?

**Ryan Rauschenberger:** There are many other systems that states have a choice to choose from.

**Vice Chairman Brandenburg:** Where do you identify that bucket for wind tax revenue?

**Ryan Rauschenberger:** That's a good point. When you have one that's much larger than the others it might be best to start breaking that out.

**Vice Chairman Brandenburg:** I'm saying that it's something you can do internally, not legislatively.

**Chairman Vigesaa:** If someone asks today how much revenue is generated by wind, can you identify it?

**Ryan Rauschenberger:** We can. There are different methodologies for wind; it isn't taxed just one way.

Ryan Rauschenberger continued with his testimony.

**Vice Chairman Brandenburg:** Coal and wind are very close and not that far apart.

**Ryan Rauschenberger:** We'll do our best for coming up with those answers for the interim committees.

**Representative Kempenich:** Even for the companies, the way it's set up is a local tax.

**Vice Chairman Brandenburg:** One-third will roll into the state coffers.

**Representative Kempenich:** I think what you need to have is a central area you can go to for this information.

**Ryan Rauschenberger:** The mills vary school district to school district.

Ryan Rauschenberger continued with his testimony.

**Chairman Vigesaa:** That 1.2 million is in the OMB bill at this point for your department?

Ryan Rauschenberger: Yes.

Chairman Vigesaa: That isn't segregated by departments.

**Ryan Rauschenberger:** No.

**Vice Chairman Brandenburg:** There was \$4 million in that OMB budget for litigation money. Lynn's asked for \$1.5 million, you've asked for \$1.2 million and the ag commissioner is looking for \$1 million. How much is left?

**Becky Keller, Budget Analyst, ND Office of Management and Budget:** We had initially put \$4 million in the bill. We had \$2.8 million spoken for; and then the Senate reduced it to \$2.5 million.

**Vice Chairman Brandenburg:** There's \$1.5 million left?

**Becky Keller:** That they didn't give. We had \$2.8 million in budgets that we pulled out and put into the pool; then we added extra in case there were additional agencies that wanted in on it. The Senate reduced it from the \$4 million to the \$2.5 million.

**Vice Chairman Brandenburg:** There's only \$2.5 million in there?

**Becky Keller:** Correct.

**Vice Chairman Brandenburg:** \$1.5 million and \$1.2 million equals \$2.7 million.

**Becky Keller:** We had the industrial commission in at \$1.5 million, tax at \$1.2 million and PSC at \$100,000.00; we didn't have ag in there at all.

**Vice Chairman Brandenburg:** They pulled \$1 million out of the agriculture budget and they get nothing back.

**Chairman Vigesaa:** This potential litigation, is that just against one or two companies or individuals?



**Ryan Rauschenberger:** In total between corporate income tax and sales it would potentially be a number of companies.

Ryan Rauschenberger continued with his testimony.

**Vice Chairman Brandenburg:** There's a bill that passed the House for retired veterans and I think it has a \$3 million fiscal note in it. They're saying we're going to lose our air bases if we don't give them this tax credit.

**Ryan Rauschenberger:** We haven't made any adjustments for any other bill's impact. There are a lot of unknowns; but, we haven't built in any growth in this line item.

Ryan Rauschenberger continued with his testimony.

**Representative Kempenich:** What are you basing your numbers on for the homestead tax credit?

**Linda Ledbetter, Supervisor of Assessments, ND Office of State Tax Commissioner:** The 2018 payments were based off of 8,373 homestead credit applicants; for the disabled veterans credit we had 3,434 applicants. The dollar amount for the homestead tax credit was just over \$7 million and just over \$4 million for the disabled veterans credit.

**Chairman Vigesaa:** Did we reduce those funding levels because of the budget situation?

**Linda Ledbetter:** I think it was both.

**Chairman Vigesaa:** Did the usage increase over what we estimated or did we go in knowing we'd probably have to ask for a deficiency payment?

**Linda Ledbetter:** We went as low as we felt we possibly could. The applications are filed at the local level; and there may be someone that identifies that they're eligible. It's a moving target.

**Chairman Vigesaa:** The department does education on both of those programs?

**Ryan Rauschenberger:** Correct.

**Representative Beadle:** In your testimony you stated that you're not doing as much advertising. When you scaled back some of that, did you see either the counties do an uptick in making sure that their people knew that this eligible for people that were complaining about property tax issues within those counties or did you see a corresponding drop in new applicants?

**Linda Ledbetter:** We did not see a reduction in the applicants. I do believe that the counties did pick up a lot of the changes.

**Representative Beadle:** During the interim we looked through a lot of the tax credits that are out there. One of the things we learned is that if it's not being marketed, it's not being utilized.

**Linda Ledbetter:** I do think that this is such a large program that there are so many people that are aware of it; that when property tax is discussed, I think it did.

**Chairman Vigesaa:** I think the younger veterans are somewhat hesitant to join service organizations and seek out their county veteran's service officers to find out what benefits are available to them. Is there any special program targeted at our younger veteran's?

**Ryan Rauschenberger:** To my knowledge, unless the local veteran's services offices are promoting from their angle, I'm not aware of any specific program.

**Representative Kempenich:** Didn't we increase this program?

**Ryan Rauschenberger:** The last time major change was made to this program was in 2013; the homestead tax program was expanded.

**Representative Kempenich:** Where are the top 10 counties?

**Linda Ledbetter:** We look at population and the numbers; Burleigh county had 923 applicants, Cass county had 931, Grand Forks had 675, Morton county had 502 applicants for the homestead tax credit. For the disabled veterans credit, Burleigh had 455, Cass had 652, Grand Forks had 417 applicants.

**Vice Chairman Brandenburg:** It would be in the bigger centers because it's not only the tax property; but, it's also the specials.

**Chairman Vigesaa:** When you try to calculate what the need might be for veterans, do you look at the number of veterans in the state?

**Linda Ledbetter:** We have seen those numbers growing.

Ryan Rauschenberger continued with his testimony.

**Chairman Vigesaa:** Can you explain section 3 of the bill?

**Ryan Rauschenberger:** Explained section 3 of the bill.

**Representative Kempenich:** When I look at the salaries of some of your positions, do you have any compression issues?

**Ryan Rauschenberger:** We do deal with compression issues; sometimes it's worse than others.

**Chairman Vigesaa:** Closed the hearing.

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

SB2006  
3/6/2019  
Recording Job# 33328

- Subcommittee  
 Conference Committee

Committee Clerk: Sheri Lewis

## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

Attachment A

**Chairman Vigesaa:** Opened the discussion on SB2006.

**Ryan Rauschenberger, Commissioner, ND Office of State Tax:** Discussed attachment A.

**Chairman Vigesaa:** What is in your operating?

**Ryan Rauschenberger:** The \$363,000.00 additional would represent the increased contract expenditure for GenTax.

**Chairman Vigesaa:** There was something about the FTE's?

**Ryan Rauschenberger:** There was \$75,000.00 added back in for the operating expense associated with the FTE's.

**Representative Howe:** The \$363,165.00 is the total of the GenTax and Microsoft 365.

**Chairman Vigesaa:** With regard to the 10 FTE's those were unfunded; but you still had the authorization for 10 FTE's. The governor's recommendation was just to remove those?

**Ryan Rauschenberger:** There were 6 FTE's in this budget that were authorized but didn't have any funding. The 4 FTE's had funding that's the 123 FTE's.

**Chairman Vigesaa:** The \$772,000.00 is that the funding for the other 4 FTE's?

**Ryan Rauschenberger:** That is representative of 4 FTE's unfunded; it's more than the 4 we've identified. It's for technically higher paid FTE's than what we've identified as those four.

**Chairman Vigesaa:** Discussed the green sheet.

**Chairman Vigesaa:** The homestead tax credit is to align more with what the usage is going forward?

**Ryan Rauschenberger:** That's correct. The amount funded by the Senate would more closely represent what the current appropriation is plus the deficiency request. It would basically fully fund this biennium.

**Representative Bellew:** Why are those going up like that? I'm more concerned about the disabled veterans because some of those get a pretty good retirement check. I think that's something we need to look at again.

**Ryan Rauschenberger:** We have more applicants than in previous years.

**Representative Bellew:** This is not just retired veterans, it's all veterans? If you have a service related disability, you can get a veteran's tax credit. Is that correct?

**Ryan Rauschenberger:** That's correct. A disability is a primary qualifier on that program.

**Vice Chairman Brandenburg:** There's a certain percentage level you have to be for a disabled veteran.

**Ryan Rauschenberger:** You have to be 50% or more.

**Vice Chairman Brandenburg:** What I'm hearing is that a lot of these veterans from Vietnam are now getting old enough that they're not of working age.

**Representative Bellew:** Can a Vietnam veteran who is 65 get the disabled veteran credit and the homestead tax credit at the same time?

**Linda Ledbetter, Supervisor of Assessments, ND Office of State Tax:** Yes. The individual who is eligible for a disabled veterans credit can then also be eligible for the homestead credit. The homestead credit is based on income. We do recommend that they apply for the disabled veterans credit calculation first because it's a higher taxable value that's available to the veteran. We tell them to calculate it both ways.

**Vice Chairman Brandenburg:** With the litigation contingency fund, the \$1.2 million; where you notify OMB and legislative council that you need a transfer. You need to have some language in your bill in order to receive the money from OMB for litigation funds. Is this the language?

**Ryan Rauschenberger:** We don't have anything in this bill.

**Vice Chairman Brandenburg:** How do you get the money out of OMB for litigation?

**Ryan Rauschenberger:** I would have to ask how the litigation funding bill is structured. I'm not quite sure of the answer to that.

**Chairman Vigesaa:** Is there litigation money designated for the tax commissioner?

**Ryan Rauschenberger:** In that budget bill there is \$2.4 million total. We are not specifically identified in the bill; even though that number is based on us and the industrial commission. We'd be \$1.2 million of that and the remainder would be the industrial commission.

Ryan Rauschenberger continued with the worksheet.

**Vice Chairman Brandenburg:** Are you checking motor fuel?

**Ryan Rauschenberger:** We don't do it as much as we used to; but, we do. We do that when they're doing weight checks; we're able to check along with them.

**Vice Chairman Brandenburg:** When they call you out there you work together. You're not running your own program, you're just part of the program.

**Ryan Rauschenberger:** That's correct.

**Chairman Vigesaa:** Your personnel is on site to do the test? You don't just contract with highway patrol for them to do it?

**Ryan Rauschenberger:** They have their own personnel doing weight checks and they prefer us to be out there and doing the dyed fuels enforcement.

**Vice Chairman Brandenburg:** Everybody tries to abide by the rules and there are big fines if you get caught.

**Chairman Vigesaa:** What is the fine?

**Ryan Rauschenberger:** It's \$500.00 for the first fine and \$1,000.00 for the second; it doubles each offense.

**Chris Kadrmas, Fiscal Analyst, ND Legislative Council:** Section 6 of SB2015 authorizes a transfer from the litigation funding pool to the agency. That authorization is the appropriation transfer.

**Vice Chairman Brandenburg:** The ag commissioner needs \$250,000.00. We're going to have to have some language in OMB to do that.

**Chris Kadrmas:** It does say to eligible state agencies for litigation expenses. It doesn't have a definition of eligible agencies.

**Chairman Vigesaa:** I couldn't imagine why they would be if there were funds remaining. That number could be changed in the budget.

**Vice Chairman Brandenburg:** There was litigation money; it was \$4 million and now it's \$2.5 million.

**Chris Kadrmas:** At this point, there would be no agencies that would be ineligible. If the ag commissioner requested \$250,000.00; at that point OMB would be able to transfer that \$250,000.00 and authority out of the \$2.5 million.

**Vice Chairman Brandenburg:** There was \$4 million but the commitment is already the \$1.2 million for the tax commissioner and the industrial commission is \$1.5 million and there is another \$100,000.00 committed for a different agency.

**Chris Kadrmas:** The way it's written it's \$2.5 million and it's up to OMB how it's divided. As the bill sits, it's not specifically carved out for any particular agency. It's at the discretion of the office of management and budget.

**Vice Chairman Brandenburg:** I visited about this with the ag commissioner yesterday. What they have left isn't going to cover all of the expenses. There are still bills coming in from Waters of the USA and also commitments for the studies from the endangered and invasive species; it's probably not in the governor's recommendation because they never went to him and asked for it.

**Chairman Vigesaa:** Are you in a lawsuit or is it something that may end up in litigation?

**Ryan Rauschenberger:** We are not in any litigation right now. This is just in case we do end up in that litigation.

**Chairman Vigesaa:** There's a case going on right now that you're investigating?

**Ryan Rauschenberger:** Yes.

**Representative Bellew:** Do you collect individual income taxes and keep it in a fund and then give out the refunds? The report that we get from OMB for income taxes collected; is that the amount collected minus the refunds or is that just the amount collected?

**Ryan Rauschenberger:** When we collect individual income taxes it's general fund, we have a separate account called refund reserve; because we do need an account set aside. We do remove a certain amount depending on what month it is to be able to pay out of that fund individual income tax. The OMB revenue reports, depending on which month it is, that's net of what we have set aside to write out checks for refunds. At the end of every fiscal year, it all evens out; because the refund checks have been written and it's zeroed out.

**Chairman Vigesaa:** When refund checks are unclaimed, do they go into the unclaimed property? Is there ever a time when those come back to you?

**Ryan Rauschenberger:** They stay in the unclaimed property.

**Chairman Vigesaa:** Is there any way to know how many dollars you have sitting out there unclaimed?

**Ryan Rauschenberger:** We can run a report.

**Chairman Vigesaa:** Closed the discussion.

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

SB2006  
3/13/2019  
Recording Job# 33662

- Subcommittee  
 Conference Committee

Committee Clerk: Sheri Lewis

## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

**Chairman Vigesaa:** Opened the discussion on SB2006.

**Chairman Vigesaa:** Discussed the worksheet.

**Chairman Vigesaa:** That position must have been added part way through the biennium, so this just completes the funding for that one position?

**Becky Keller, Budget Analyst, ND Office of Management and Budget:** You did only fund that position partial for the 2017-2019 biennium; so for them to continue, we had to give them the rest to fully fund it.

**Chairman Vigesaa:** Was that a position that was added part way through the biennium?

**Becky Keller:** Yes.

**Chairman Vigesaa:** Is the underfunding also part of their budget submission?

**Becky Keller:** To meet the 10% reduction, they had six unfunded positions this biennium; the remaining four that we removed correlates to the \$772,000.00 underfunded salaries that we did.

Chairman Vigesaa continued with the worksheet.

**Chairman Vigesaa:** If it stays level, they'll be all right with the funding there?

**Becky Keller:** Yes.



Chairman Vigesaa continued discussing the worksheet.

**Representative Bellew:** I still don't understand the base payroll changes.

**Becky Keller:** Explained how base payroll adjustments come about.

**Representative Bellew:** Do you have that broken down as to what that \$700,000.00 is?

**Becky Keller:** It's because of those higher salaries that they gave and they were able to give some pay raises and we have to carry them forward; they have had to increase their temp's salaries because they don't have as many FTE's now.

**Chairman Vigesaa:** It the cost to continue in some regards.

**Becky Keller:** Several of the agencies including legislative council did that.

**Chairman Vigesaa:** Closed the discussion.

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

SB2006  
3/20/2019  
Recording Job# 34056

- Subcommittee  
 Conference Committee

Committee Clerk: Sheri Lewis

## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

**Chairman Vigesaa:** Opened the discussion on SB2006.

**Representative Beadle:** Discussed the green sheet.

**Chairman Vigesaa:** It looks like it's a 3% increase overall less the homestead tax credits. It's 10 FTE's but the money coming out is for how many, was it four FTE's?

**Representative Beadle:** I think it's 14 FTE's. There were 6 FTE's authorized with no funding; and that reduction is \$772,000.00. It's the remaining four FTE's weren't funded last biennium.

**Chairman Vigesaa:** But the authorization for 10 FTE's is removed?

**Representative Beadle:** Yes.

**Chairman Vigesaa:** Section 2 is the transfer between those lines and that's something that's been traditional?

**Chris Kadrmas, Fiscal Analyst, ND Legislative Council:** Yes.

**Chairman Vigesaa:** Went through the sections on the green sheet.

Representative Beadle continued with his explanation.

**Representative Bellew:** Did the tax commissioner tell us why the Homestead tax credit and the veteran credit are going up like that?

**Representative Beadle:** It's that there are more people aging into that threshold to be eligible. They're also recognizing that a number of people that qualify for one, qualify for the other.

**Chairman Vigesaa:** This is a similar amount to what the deficiency appropriation was.

**Representative Bellew:** Did you ask the commissioner about the base payroll changes and what that \$711,000.00 is?

**Representative Beadle:** Some of their staff as they move up through tier system, just naturally moved up to different positions?

Representative Bellew: Did they give you a break out of that?

**Representative Beadle:** I can get a break out for that just so we have it.

Representative Beadle continued with his explanation.

**Chairman Vigesaa:** It's just the cost to continue.

**Becky Keller, Budget Analyst, ND Office of Management and Budget:** We have it broken out by permanent salaries; there's \$333,000.00 of that, temp salaries are \$115,000.00 and the benefits that have to go along with those is \$263,000.00 of that \$711,000.00.

**Chairman Vigesaa:** What are they utilizing for temporary employees?

**Chris Kadrmas:** Their temporary employees are heavily used during tax season.

**Vice Chairman Brandenburg:** There's \$1.9 million in fuel tax revenue and I'm just wondering if that's being done right.

**Chris Kadrmas:** There's a calculation that's made for the administrative portion of collecting those taxes that is repaid to the general fund for collecting and administering those taxes and distributing to the DOT and all the various entities that receive that allocation.

**Chairman Vigesaa:** That \$1.991 million is going into the general fund?

**Becky Keller:** Right. That number is reduced from the current biennium.

**Vice Chairman Brandenburg:** How come?

**Becky Keller:** It doesn't take them as much.

Representative Beadle continued with his explanation.

**Representative Bellew:** Made a motion to remove the temporary salaries of \$115,000.00.

**Chairman Vigesaa:** Does it outline how many temporaries?

**Chris Kadrmas:** Most likely it's just a dollar amount for salaries. They don't indicate how many individuals.

**Representative Bellew:** If that doesn't go, \$75,000.00 for funding in that auditor position could go.

**Chairman Vigesaa:** That was a person that was hired part way through the last biennium. This is to bring his salary up to the full biennium's amount.

**Becky Keller:** The temporary salary dollar amount for the 2019-2021 recommendation is \$649,320.00.

**Chairman Vigesaa:** They always have a certain amount built in for temporaries because they use them every year.

**Becky Keller:** Yes, they rely on them.

**Chairman Vigesaa:** Closed the discussion.

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

SB2006  
3/21/2019  
Recording Job# 34118

- Subcommittee  
 Conference Committee

Committee Clerk: Sheri Lewis

## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

**Chairman Vigesaa:** Opened the discussion on SB2006.

**Representative Beadle:** Went through the green sheet.

**Chairman Vigesaa:** Did the commissioner offer any areas where he could reduce further?

**Representative Beadle:** He did not offer any information at all.

Representative Beadle continued with his explanation.

**Chairman Vigesaa:** You have no suggestions for any amendments?

**Representative Beadle:** We could for discussions sake reduce some of the temporary employees. We could underfund the salaries also.

**Chairman Vigesaa:** Did you have the number for the tax time?

**Representative Beadle:** It's \$260,000.00.

**Chairman Vigesaa:** The rest of the temp was?

**Representative Beadle:** It was \$390,000.00.

**Chairman Vigesaa:** If we reduce their salaries and operating expenses by the portion that's not related to tax time, that would be something we can do?

**Representative Beadle:** Yes.

**Vice Chairman Brandenburg:** In section 3 where they get that \$1.9 million, what are they spending to get that \$1.9 million?

**Alex Cronquist, Fiscal Analyst, ND Legislative Council:** I don't have that information.

**Chairman Vigesaa:** That \$1.99 million goes to the department for the administration. Is that correct?

**Alex Cronquist:** The funds would go to the general fund but it's to reimburse the general fund for money that's being spent from the general fund on administration by the tax department.

**Chairman Vigesaa:** Section 3 in a couple of previous bienniums if we could see if that number has been growing?

**Alex Cronquist:** In 2015-2017 that amount was over \$2 million; in 2013-2015 it was about \$1.78 million.

**Chairman Vigesaa:** How is that calculated? Is it a percentage of what's collected? If we were to reduce the temp salaries by that \$300,000.00, would we just add that to the underfund salaries and wages line?

**Alex Cronquist:** That would be an option or we could just add another line saying to reduce funding for temporary salaries.

**Stephanie Gullickson, Budget Analyst, ND Office of Management and Budget:** It's for administering the motor fuel tax and it goes right to the general fund. Instead of appropriating that money to the tax department to pay for their expenses it goes to the general fund because they're appropriated out of the general fund. The tax department goes through a process and calculates how much their expenses are to administer this program and that's the amount that's put into that particular line.

**Chairman Vigesaa:** Do you know if the commissioner has a turn back expected this biennium?

**Alex Cronquist:** It looks like the most recent estimate was about \$1.1 million.

**Chairman Vigesaa:** We should reduce that temporary salary line by what's utilized off the tax time.

**Vice Chairman Brandenburg:** Made a motion to underfund salaries by \$390,786.00.

**Representative Beadle:** Seconded the motion.

**Voice Vote made.**

**Motion Carried.**

**Vice Chairman Brandenburg:** Made a motion to remove \$500,000.00 from the motor fuel tax.

**Representative Beadle:** Seconded the motion.

**Chairman Vigesaa:** Does that have any effect? Does it change anything with regard to the general fund?

**Alex Cronquist:** Unless we reduce the general fund appropriation as well, this would just be a reduction in revenue to the general fund and an increase in funds available for the highway fund. It wouldn't impact the tax commissioner's budget; it would just reduce revenue for the general fund.

**Representative Howe:** Before I can support this motion, I need to see a breakdown of what they're actually spending this \$1.9 million on.

**Representative Beadle:** I just sent an email to the tax commissioner's office asking for that specific breakdown.

**Vice Chairman Brandenburg:** Withdrew his motion.

**Representative Beadle:** Withdrew his second.

**Chairman Vigesaa:** Closed the discussion.

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

SB2006  
4/4/2019  
Recording Job# 34508

- Subcommittee  
 Conference Committee

Committee Clerk: Sheri Lewis

## Explanation or reason for introduction of bill/resolution:

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

## Minutes:

Attachment A

**Chairman Vigesaa:** Opened the discussion on SB2006.

**Chairman Vigesaa:** See amendment 19.0219.02002. Attachment A.

**Vice Chairman Brandenburg:** Made a motion to adopt amendment 19.0219.02002.

**Representative Beadle:** Seconded the motion.

**Representative Kempenich:** I told leadership two weeks ago that putting these things on budget bills doesn't work. I wouldn't be surprised if the Senate doesn't kill the whole bill and then we redo it again.

**Representative Bellew:** Maybe more people should be in on the conversation.

**Chairman Vigesaa:** There will be more conversation in the full committee.

**Representative Bellew:** My objection to this is the two-year delay.

**Representative Kempenich:** It needs to be a two-year delay because there's no money to back fill the income tax. They didn't even pretend to like it in the Senate.

**Representative Howe:** I know we want to have the conversation again, but is it really worth having the conversation again?

**Chairman Vigesaa:** It's a valid argument.

**Representative Mock:** I am going to resist this motion. The House made its position and the Senate defeated it overwhelmingly. I don't disagree there's a role that earnings could



play in reducing tax liability. I hope if we go forward with this, that part of the conversation is centered around what our intention is for earnings that do transfer over; how those should be used in general. I would be more willing to support it if this were revised. If it was not just focused on tax reduction; but of how we use those legacy fund earnings that do transfer to the general fund.

**Representative Beadle:** I think if we have this on there, that that will be a significant part of the conversation within conference committee.

**Representative Bellew:** If we put this on the budget, he won't be on the conference committee will he?

**Chairman Vigesaa:** Chairman Delzer will select the conferees and he could be on that conference committee. It isn't unheard of putting a policy member on the committee.

**Chairman Delzer:** It happens when we have an issue that deals with policy.

**Representative Kempenich:** We really do need to get some longer term thinking on this legacy fund.

**Chairman Delzer:** I think you should put it on and go ahead and go to conference on it. It's one way that you could return some of that legacy fund money to the citizens of North Dakota. I came down to ask that when you do some work on SB2015 to consider that amendment I handed out about the budgeting side of the legacy fund. I think it would solve a number of our budgeting problems with the legacy fund.

**Chairman Vigesaa:** I have not shared that with the committee yet.

**Chairman Delzer:** We handed that out in the full committee.

**Representative Bellew:** Would you explain the effect of that amendment?

**Chairman Delzer:** The effect of that amendment would mean that for budgeting purposes the money that comes in at the end of the biennium would not be recognized until the next biennium; so that it's cash on hand. There's a law on the books that says you're not supposed to spend next time's SIIF money and this would put the same thing in for the legacy fund.

**Representative Mock:** To your knowledge, the legislature's spending of earnings before they're realized and transferred; does that have any effect on the state's credit rating or standing with any financial institution?

**Chairman Delzer:** I don't know if that question has been asked. I have certainly heard about issues with the cash flow; because we're spending money that's not there. If we were consistently in the red with our cash flow, that would cause some real consternation with everything. I think they look more at the budget stabilization fund for bond ratings.

**Representative Mock:** Is that a question that we can have asked or see if there are potential implications? I think that would be helpful in considering your amendment.

**Chairman Delzer:** I'm sure we can have council look into that.

**Voice Vote made.**

**Motion Carried.**

**Representative Beadle:** For the other amendment we were looking at reducing the salary item by \$390,786.00; that would be the equivalent of the temp employees they have that are not directly associated with tax season. In section 3, the motor vehicle fuel revenue tax collections, it's the transfer of money to the general fund for the expenses to it. That transfer doesn't do anything to take away from the cost they use for the program; it just takes away from the transfer to the general fund from the other fund.

**Representative Beadle:** Made a motion to reduce the salary line item by \$390,786.00.

**Vice Chairman Brandenburg:** Seconded the motion.

**Representative Howe:** I'm going to resist this motion. I don't think it's necessary to reduce the temp salary for these people.

**Chairman Vigesaa:** We had divided out the tax temporaries?

**Representative Beadle:** This is the temporary employees for the remainder of the time.

**Voice Vote made.**

**Motion Carried.**

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

**Representative Kempenich:** Seconded the motion.

**Roll Call Vote:** 6 Yeas 1 Nay 0 Absent.

**Motion Carried.**

**Chairman Vigesaa:** Closed the discussion.

# 2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee  
Roughrider Room, State Capitol

SB 2006  
4/5/2019  
34574

- Subcommittee  
 Conference Committee

Committee Clerk: Risa Bergquist

## Explanation or reason for introduction of bill/resolution:

Relating to the salary of the state tax commissioner; and to provide for a transfer.

## Minutes:

**2:10 Chairman Delzer:** Called the meeting to order for SB 2006.

**Representative Beadle:** Tax commissioner's budget came over fairly clean it was a reduction of 10 FTEs, statement of purpose of amendment you'll see in the salaries and wages line a reduction of 333. We did give the employees their compensation pay raise but we also did a reduction of 359 thousand dollars for temp employees. We didn't make any adjustment to the budget itself. The only other change is the addition of section 4, Legacy income tax reduction fund, to make sure that we have a good conversation with the senate. I will make a **Motion to amend with 19.0219.02003**

**Representative Howe: Second**

**Chairman Delzer:** Any further discussion on the motion to amend? The income tax deal is that doesn't take effect until the taxable year 2022?

**Representative Beadle:** Correct, this is very similar to HB 1530 which passed the House earlier this session. However, we did add a delayed effective date to it.

**Chairman Delzer:** If you look at the budget status report for today it shows us going up 50 million, that's because of this, and that's the issue of how we look at the Legacy earnings because they come in the last day of the biennium. Government opts adopted that section that was handed out earlier for 2015 that says for budgeting purposes we would recognize Legacy earnings the biennium after instead of the last day of the biennium. Further discussion? **Voice vote, All in favor, Motion carries.** Further amendments to come before us on 2006?

**Representative Beadle:** The adjustments on the bill itself from last biennium to this biennium, there's a reduction of 10FTEs. Last time the assembly had underfunded 6 of them, they were all vacant so we removed those as well as 4 additional ones. We also did a 300-

thousand-dollar funding addition to fully restore the GENETEC software. Over the next 5 biennia this will save us between 7 and 9 million dollars. With that we had the Office 365 licensing and then there was 1.3 million, 1 million for the homestead tax credits and 300 thousand for disabled veterans tax credits. The department believes that this money will make it so they won't have a deficiency next biennium.

**Chairman Delzer:** This takes that into account, why did this only show 1 million dollar increase? The emergency appropriation was more than that? Or is that a million from the senate?

**Representative Beadle:** The deficiency appropriation took us up to just under 16 million total for the two credit combined, this one puts us as 15.8 total, we won't be too far off.

**Chairman Delzer:** Questions by the committee?

**Representative Beadle: I will move a Do Pass as Amended**

**Representative Howe: Second**

**Representative Beadle:** Once you remove the adjustment for the two tax credits, the budget itself is about a 5% increase over the course of the biennium however once you reduce the tax credits it's only a 2.4% increase and this is a total general fund agency.

**Chairman Delzer:** We are still funding the tax department to go out and check diesel? What kind of findings have they found?

**Representative Beadle:** We do have all of the costs associated with what they do, we can assure you they are not acquiring any trucks. They were able to justify down to the dollar for their funding amount. It was generating more revenue than we are expending.

**Chairman Delzer:** Is that a requirement from the feds or is that something we are just doing?

**Representative Kempenich:** When that got brought up a few sessions ago I think it was a federal initiative.

**Chairman Delzer:** It was an initiative but was it a requirement?

**Representative Schobinger:** I just wanted to explain, back in 98 I introduced a bill to eliminate the income taxes in North Dakota, at that time the tax commissioner took a position on it and I didn't appreciate that position because I think it's his job to carry out the policy that we make here. This kind of does the same thing, it's forcing him to take a position on their budget based on some kind of change of policy.

**Representative Schmidt:** I think earlier this session I carried a deficiency bill to cover the loss to the homestead credit and the disabled veterans and with discussion with the chairman this bill should prevent any deficiencies?

**Chairman Delzer:** That was the discussion we have had. Any further discussion on the motion for a Do Pass as Amended? Seeing none we will call the roll.

**A Roll Call vote was taken. Yea: 13 Nay: 5 Absent: 3**

**Motion Carries, Representative Beadle will carry the bill**

**Chairman Delzer:** With that we will close this meeting.

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 3, after the semicolon insert "to create and enact a new section to chapter 54-11 and a new section to chapter 54-27 of the North Dakota Century Code, relating to an income tax rate reduction fund and the transfer of legacy fund earnings;"

Page 1, line 4, replace "and" with "to provide a continuing appropriation;"

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

Page 2, after line 11, insert:

"**SECTION 4.** A new section to chapter 54-11 of the North Dakota Century Code is created and enacted as follows:

**Legacy income tax rate reduction fund - State treasurer - Tax commissioner - Income tax rate adjustment - Transfers to the general fund - Continuing appropriation.**

1. There is created in the state treasury the legacy income tax rate reduction fund. The fund consists of all moneys deposited in the fund pursuant to section 5 of this Act. All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of providing transfers to the general fund to reduce the individual income tax imposed under section 57-38-30.3 and the corporate income tax imposed under section 57-38-30.
2. If money is transferred into the fund pursuant to section 5 of this Act, the tax commissioner shall publish reduced individual and corporate income tax rates and notify taxpayers of the reduced rates by November first of the first fiscal year of the biennium. The tax commissioner may determine the form and manner for publishing the reduced rates and notifying taxpayers, including any notification that taxpayers are not required to file returns or pay taxes. The tax commissioner shall reduce the individual income tax rates and the corporate income tax rates based on the following:
  - a. The percentage reduction to the individual and corporate income tax rates is equal to the rate reduction amount divided by the total estimated tax collections, including both the individual tax collections and corporate income tax collections, for the second year of the biennium.
  - b. Any reductions to the individual income tax rates and the corporate income tax rates apply to tax years after December 31, 2021.
  - c. The reductions to the individual income tax rates and the corporate income tax rates must be proportional to the estimated tax collections for each tax relative to the combined total estimated tax collections for both taxes.
  - d. The reductions to the individual income tax rates and the corporate income tax rates must be applied equally to all tax brackets for each tax.

- e. The reduced individual income tax rates and corporate income tax rates must be rounded to the nearest one-hundredth of a percent.
3. If no money is transferred to the fund pursuant to section 5 of this Act, the tax commissioner may not reduce the individual and corporate income tax rates currently in effect.
4.
  - a. If the income tax rate reduction results in a disproportionate amount of tax to be deducted and withheld under section 57-38-59, the tax commissioner may adjust the percentage that, when withheld, will as closely as possible pay the income tax liability imposed.
  - b. This section does not limit or suspend any provision in chapter 57-38 which is not in conflict with this section, including provisions for assessment and refund under sections 57-38-34.4, 57-38-38, and 57-38-40.
5. In April of each year, the state treasurer shall transfer the amounts certified by the tax commissioner from the legacy fund income tax reduction fund to the general fund. The amount transferred to the general fund each year may not be less than the rate reduction amount determined for the current biennium plus the rate reduction amount determined for each preceding biennium.
6. For purposes of this section:
  - a. "Base funding amount" means the total amount transferred from the legacy income tax rate reduction fund to the general fund in the preceding biennium.
  - b. "Estimated tax collections" means the income tax collection amounts included in the revenue forecast of the current biennial state budget as approved by the most recently adjourned special or regular session of the legislative assembly.
  - c. "Rate reduction amount" means one-third of any legacy fund earnings deposited in the legacy income tax rate reduction fund exceeding the base funding amount.

**SECTION 5.** A new section to chapter 54-27 of the North Dakota Century Code is created and enacted as follows:

**Transfer of legacy fund earnings - Limitations.**

Fifty percent of any legacy fund earnings transferred to the general fund at the end of each biennium in accordance with section 26 of article X of the Constitution of North Dakota must be transferred immediately by the state treasurer to the legacy income tax rate reduction fund. The state treasurer may not transfer legacy fund earnings to the income tax rate reduction fund if the amount of legacy fund earnings to be transferred to the legacy income tax rate reduction fund is less than fifty million dollars."

Page 2, after line 18, insert:

**"SECTION 7. EFFECTIVE DATE.** Sections 4 and 5 of this Act become effective on June 1, 2021."

Renumber accordingly





20 4/3/19  
1 of 4

Fiscal No. 1

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 3, after the semicolon insert "to create and enact a new section to chapter 54-11 and a new section to chapter 54-27 of the North Dakota Century Code, relating to an income tax rate reduction fund and the transfer of legacy fund earnings;"

Page 1, line 4, replace "and" with "to provide a continuing appropriation;"

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

Page 1, replace lines 15 through 22 with:

|                               |                  |                |                  |
|-------------------------------|------------------|----------------|------------------|
| "Salaries and wages           | \$21,724,004     | \$880,914      | \$22,604,918     |
| Operating expenses            | 6,749,295        | 363,165        | 7,112,460        |
| Capital assets                | 6,000            | 0              | 6,000            |
| Homestead tax credit          | 14,800,000       | 1,000,000      | 15,800,000       |
| Disabled veterans' tax credit | <u>8,110,200</u> | <u>300,000</u> | <u>8,410,200</u> |
| Total all funds               | \$51,389,499     | \$2,544,079    | \$53,933,578     |
| Less estimated income         | <u>125,000</u>   | <u>0</u>       | <u>125,000</u>   |
| Total general fund            | \$51,264,499     | \$2,544,079    | \$53,808,578"    |

Page 2, after line 11, insert:

"SECTION 4. A new section to chapter 54-11 of the North Dakota Century Code is created and enacted as follows:

**Legacy income tax rate reduction fund - State treasurer - Tax commissioner - Income tax rate adjustment - Transfers to the general fund - Continuing appropriation.**

1. There is created in the state treasury the legacy income tax rate reduction fund. The fund consists of all moneys deposited in the fund pursuant to section 5 of this Act. All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of providing transfers to the general fund to reduce the individual income tax imposed under section 57-38-30.3 and the corporate income tax imposed under section 57-38-30.
2. If money is transferred into the fund pursuant to section 5 of this Act, the tax commissioner shall publish reduced individual and corporate income tax rates and notify taxpayers of the reduced rates by November first of the first fiscal year of the biennium. The tax commissioner may determine the form and manner for publishing the reduced rates and notifying taxpayers, including any notification that taxpayers are not required to file returns or pay taxes. The tax commissioner shall reduce the individual income tax rates and the corporate income tax rates based on the following:
  - a. The percentage reduction to the individual and corporate income tax rates is equal to the rate reduction amount divided by the total estimated tax collections, including both the individual tax collections and corporate income tax collections, for the second year of the biennium.

DE 4/3/19  
2 of 4

- b. Any reductions to the individual income tax rates and the corporate income tax rates apply to tax years after December 31, 2021.
- c. The reductions to the individual income tax rates and the corporate income tax rates must be proportional to the estimated tax collections for each tax relative to the combined total estimated tax collections for both taxes.
- d. The reductions to the individual income tax rates and the corporate income tax rates must be applied equally to all tax brackets for each tax.
- e. The reduced individual income tax rates and corporate income tax rates must be rounded to the nearest one-hundredth of a percent.
- 3. If no money is transferred to the fund pursuant to section 5 of this Act, the tax commissioner may not reduce the individual and corporate income tax rates currently in effect.
- 4. a. If the income tax rate reduction results in a disproportionate amount of tax to be deducted and withheld under section 57-38-59, the tax commissioner may adjust the percentage that, when withheld, will as closely as possible pay the income tax liability imposed.  
b. This section does not limit or suspend any provision in chapter 57-38 which is not in conflict with this section, including provisions for assessment and refund under sections 57-38-34.4, 57-38-38, and 57-38-40.
- 5. In April of each year, the state treasurer shall transfer the amounts certified by the tax commissioner from the legacy fund income tax reduction fund to the general fund. The amount transferred to the general fund each year may not be less than the rate reduction amount determined for the current biennium plus the rate reduction amount determined for each preceding biennium.
- 6. For purposes of this section:
  - a. "Base funding amount" means the total amount transferred from the legacy income tax rate reduction fund to the general fund in the preceding biennium.
  - b. "Estimated tax collections" means the income tax collection amounts included in the revenue forecast of the current biennial state budget as approved by the most recently adjourned special or regular session of the legislative assembly.
  - c. "Rate reduction amount" means one-third of any legacy fund earnings deposited in the legacy income tax rate reduction fund exceeding the base funding amount.

**SECTION 5.** A new section to chapter 54-27 of the North Dakota Century Code is created and enacted as follows:

DE 4/3/11  
3 of 4

**Transfer of legacy fund earnings - Limitations.**

Fifty percent of any legacy fund earnings transferred to the general fund at the end of each biennium in accordance with section 26 of article X of the Constitution of North Dakota must be transferred immediately by the state treasurer to the legacy income tax rate reduction fund. The state treasurer may not transfer legacy fund earnings to the income tax rate reduction fund if the amount of legacy fund earnings to be transferred to the legacy income tax rate reduction fund is less than fifty million dollars."

Page 2, line 18, replace "one hundred twenty thousand six hundred" with "one hundred twenty thousand fourteen"

Page 2, after line 18, insert:

**"SECTION 7. EFFECTIVE DATE.** Sections 4 and 5 of this Act become effective on June 1, 2021."

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        | \$21,724,004        | \$22,938,184        | (\$333,266)        | \$22,604,918        |
| Operating expenses        | 6,749,295           | 7,112,460           |                    | 7,112,460           |
| Capital assets            | 6,000               | 6,000               |                    | 6,000               |
| Homestead tax credit      | 14,800,000          | 15,800,000          |                    | 15,800,000          |
| Disabled veterans' credit | 8,110,200           | 8,410,200           |                    | 8,410,200           |
| <b>Total all funds</b>    | <b>\$51,389,499</b> | <b>\$54,266,844</b> | <b>(\$333,266)</b> | <b>\$53,933,578</b> |
| Less estimated income     | 125,000             | 125,000             | 0                  | 125,000             |
| General fund              | \$51,264,499        | \$54,141,844        | (\$333,266)        | \$53,808,578        |
| FTE                       | 133.00              | 123.00              | 0.00               | 123.00              |

**Department 127 - State Tax Commissioner - Detail of House Changes**

|                           | Adjusts Funding for Salary Increases <sup>1</sup> | Reduces Funding for Temporary Employees <sup>2</sup> | Total House Changes |
|---------------------------|---|--|---------------------|
| Salaries and wages        | \$57,520  | (\$390,786)  | (\$333,266)         |
| Operating expenses        |   |  |                     |
| Capital assets            |   |  |                     |
| Homestead tax credit      |   |  |                     |
| Disabled veterans' credit |   |  |                     |
| <b>Total all funds</b>    | <b>\$57,520</b>                                   | <b>(\$390,786)</b>                                   | <b>(\$333,266)</b>  |
| Less estimated income     | 0   | 0  | 0                   |
| General fund              | \$57,520  | (\$390,786)  | (\$333,266)         |
| FTE                       | 0.00  | 0.00   | 0.00                |

<sup>1</sup> Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and a 2.5 percent salary increase on July 1, 2020. The Senate provided funding for salary increases of 2 percent on July 1, 2019, and 3 percent on July 1, 2020.

<sup>2</sup> Funding for temporary employees is reduced by \$390,786 to provide total funding of \$258,534. The Senate provided \$649,320.

This amendment also:

DA 8/5/19  
8087

- Adds three new sections to create a legacy income tax rate reduction fund; to transfer 50 percent of the legacy fund earnings at the end of the biennium to the newly created fund; and to provide an effective date of June 1, 2021. The Senate did not include these provisions. The transfer of legacy fund earnings to the legacy income tax rate reduction fund will reduce general fund revenues in the 2019-21 biennium.
- Includes a section to provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021. The Senate included statutory changes necessary to increase the Tax Commissioner's salary by 2 percent in fiscal year 2020 and by 3 percent in fiscal year 2021.

**2019 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 Vice Chairman Brandenburg    Seconded By Representative Beadle

| Representatives           | Yes | No | Representatives     | Yes | No |
|---------------------------|-----|----|---------------------|-----|----|
| Chairman Vigesaa          |     |    | Representative Mock |     |    |
| Vice Chairman Brandenburg |     |    |                     |     |    |
| Representative Beadle     |     |    |                     |     |    |
| Representative Bellew     |     |    |                     |     |    |
| Representative Howe       |     |    |                     |     |    |
| Representative Kempenich  |     |    |                     |     |    |
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Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:  
A motion to underfund temporary salaries by \$390,786.00  
Motion Carried.

**2019 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. SB2006**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: 19.0219.02002

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 Vice Chairman Brandenburg Seconded By Representative Beadle

| Representatives           | Yes | No | Representatives     | Yes | No |
|---------------------------|-----|----|---------------------|-----|----|
| Chairman Vigesaa          |     |    | Representative Mock |     |    |
| Vice Chairman Brandenburg |     |    |                     |     |    |
| Representative Beadle     |     |    |                     |     |    |
| Representative Bellew     |     |    |                     |     |    |
| Representative Howe       |     |    |                     |     |    |
| Representative Kempenich  |     |    |                     |     |    |
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Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:  
A motion to adopt the amendment.  
Motion Carried.

**2019 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 Representative Beadle    Vice Chairman  
 Seconded By Brandenburg

| Representatives           | Yes | No | Representatives     | Yes | No |
|---------------------------|-----|----|---------------------|-----|----|
| Chairman Vigesaa          |     |    | Representative Mock |     |    |
| Vice Chairman Brandenburg |     |    |                     |     |    |
| Representative Beadle     |     |    |                     |     |    |
| Representative Bellew     |     |    |                     |     |    |
| Representative Howe       |     |    |                     |     |    |
| Representative Kempenich  |     |    |                     |     |    |
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Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:  
 A motion to reduce the salary line item by \$390,786.00.  
 Motion Carried.

**2019 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 Representative Beadle    Seconded By Representative Kempenich

| Representatives           | Yes | No | Representatives     | Yes | No |
|---------------------------|-----|----|---------------------|-----|----|
| Chairman Vigesaa          | X   |    | Representative Mock |     | X  |
| Vice Chairman Brandenburg | X   |    |                     |     |    |
| Representative Beadle     | X   |    |                     |     |    |
| Representative Bellew     | X   |    |                     |     |    |
| Representative Howe       | X   |    |                     |     |    |
| Representative Kempenich  | X   |    |                     |     |    |
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Total    (Yes) 6    No 1

Absent 0

Floor Assignment Representative Beadle

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



Date: 4/5/2019  
 Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. SB 2006**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: 19.0219.02003

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 Beadle    Seconded By Representative Howe

| Representatives            | Yes | No | Representatives           | Yes | No |
|----------------------------|-----|----|---------------------------|-----|----|
| Chairman Delzer            |     |    |                           |     |    |
| Representative Kempenich   |     |    |                           |     |    |
| Representative Anderson    |     |    | Representative Schobinger |     |    |
| Representative Beadle      |     |    | Representative Vigesaa    |     |    |
| Representative Bellew      |     |    |                           |     |    |
| Representative Brandenburg |     |    |                           |     |    |
| Representative Howe        |     |    | Representative Boe        |     |    |
| Representative Kreidt      |     |    | Representative Holman     |     |    |
| Representative Martinson   |     |    | Representative Mock       |     |    |
| Representative Meier       |     |    |                           |     |    |
| Representative Monson      |     |    |                           |     |    |
| Representative Nathe       |     |    |                           |     |    |
| Representative J. Nelson   |     |    |                           |     |    |
| Representative Sanford     |     |    |                           |     |    |
| Representative Schatz      |     |    |                           |     |    |
| Representative Schmidt     |     |    |                           |     |    |
|                            |     |    |                           |     |    |

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

**Voice Vote/Motion Carries**

Date: 4/5/2019  
 Roll Call Vote #: 2

**2019 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. SB 2006**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

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

Motion Made By Representative Beadle Seconded By Representative Howe

| Representatives            | Yes | No | Representatives           | Yes | No |
|----------------------------|-----|----|---------------------------|-----|----|
| Chairman Delzer            | X   |    |                           |     |    |
| Representative Kempenich   | X   |    |                           |     |    |
| Representative Anderson    |     | X  | Representative Schobinger | X   |    |
| Representative Beadle      | X   |    | Representative Vigesaa    | X   |    |
| Representative Bellew      | X   |    |                           |     |    |
| Representative Brandenburg | A   |    |                           |     |    |
| Representative Howe        | X   |    | Representative Boe        |     | X  |
| Representative Kreidt      | X   |    | Representative Holman     |     | X  |
| Representative Martinson   | X   |    | Representative Mock       | A   |    |
| Representative Meier       | X   |    |                           |     |    |
| Representative Monson      |     | X  |                           |     |    |
| Representative Nathe       | X   |    |                           |     |    |
| Representative J. Nelson   |     | X  |                           |     |    |
| Representative Sanford     | A   |    |                           |     |    |
| Representative Schatz      | X   |    |                           |     |    |
| Representative Schmidt     | X   |    |                           |     |    |
|                            |     |    |                           |     |    |

Total (Yes) 13 No 5

Absent 3

Floor Assignment Representative Beadle

**REPORT OF STANDING COMMITTEE**

**SB 2006, as engrossed: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 5 NAYS, 3 ABSENT AND NOT VOTING). Engrossed SB 2006 was placed on the Sixth order on the calendar.

Page 1, line 3, after the semicolon insert "to create and enact a new section to chapter 54-11 and a new section to chapter 54-27 of the North Dakota Century Code, relating to an income tax rate reduction fund and the transfer of legacy fund earnings;"

Page 1, line 4, replace "and" with "to provide a continuing appropriation;"

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

Page 1, replace lines 15 through 22 with:

|                               |                  |                |                  |
|-------------------------------|------------------|----------------|------------------|
| "Salaries and wages           | \$21,724,004     | \$880,914      | \$22,604,918     |
| Operating expenses            | 6,749,295        | 363,165        | 7,112,460        |
| Capital assets                | 6,000            | 0              | 6,000            |
| Homestead tax credit          | 14,800,000       | 1,000,000      | 15,800,000       |
| Disabled veterans' tax credit | <u>8,110,200</u> | <u>300,000</u> | <u>8,410,200</u> |
| Total all funds               | \$51,389,499     | \$2,544,079    | \$53,933,578     |
| Less estimated income         | <u>125,000</u>   | <u>0</u>       | <u>125,000</u>   |
| Total general fund            | \$51,264,499     | \$2,544,079    | \$53,808,578"    |

Page 2, after line 11, insert:

**"SECTION 4.** A new section to chapter 54-11 of the North Dakota Century Code is created and enacted as follows:

**Legacy income tax rate reduction fund - State treasurer - Tax commissioner - Income tax rate adjustment - Transfers to the general fund - Continuing appropriation.**

1. There is created in the state treasury the legacy income tax rate reduction fund. The fund consists of all moneys deposited in the fund pursuant to section 5 of this Act. All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of providing transfers to the general fund to reduce the individual income tax imposed under section 57-38-30.3 and the corporate income tax imposed under section 57-38-30.
2. If money is transferred into the fund pursuant to section 5 of this Act, the tax commissioner shall publish reduced individual and corporate income tax rates and notify taxpayers of the reduced rates by November first of the first fiscal year of the biennium. The tax commissioner may determine the form and manner for publishing the reduced rates and notifying taxpayers, including any notification that taxpayers are not required to file returns or pay taxes. The tax commissioner shall reduce the individual income tax rates and the corporate income tax rates based on the following:
  - a. The percentage reduction to the individual and corporate income tax rates is equal to the rate reduction amount divided by the total estimated tax collections, including both the individual tax collections and corporate income tax collections, for the second year of the biennium.
  - b. Any reductions to the individual income tax rates and the corporate income tax rates apply to tax years after December 31, 2021.

- c. The reductions to the individual income tax rates and the corporate income tax rates must be proportional to the estimated tax collections for each tax relative to the combined total estimated tax collections for both taxes.
  - d. The reductions to the individual income tax rates and the corporate income tax rates must be applied equally to all tax brackets for each tax.
  - e. The reduced individual income tax rates and corporate income tax rates must be rounded to the nearest one-hundredth of a percent.
3. If no money is transferred to the fund pursuant to section 5 of this Act, the tax commissioner may not reduce the individual and corporate income tax rates currently in effect.
  4.
    - a. If the income tax rate reduction results in a disproportionate amount of tax to be deducted and withheld under section 57-38-59, the tax commissioner may adjust the percentage that, when withheld, will as closely as possible pay the income tax liability imposed.
    - b. This section does not limit or suspend any provision in chapter 57-38 which is not in conflict with this section, including provisions for assessment and refund under sections 57-38-34.4, 57-38-38, and 57-38-40.
  5. In April of each year, the state treasurer shall transfer the amounts certified by the tax commissioner from the legacy fund income tax reduction fund to the general fund. The amount transferred to the general fund each year may not be less than the rate reduction amount determined for the current biennium plus the rate reduction amount determined for each preceding biennium.
  6. For purposes of this section:
    - a. "Base funding amount" means the total amount transferred from the legacy income tax rate reduction fund to the general fund in the preceding biennium.
    - b. "Estimated tax collections" means the income tax collection amounts included in the revenue forecast of the current biennial state budget as approved by the most recently adjourned special or regular session of the legislative assembly.
    - c. "Rate reduction amount" means one-third of any legacy fund earnings deposited in the legacy income tax rate reduction fund exceeding the base funding amount.

**SECTION 5.** A new section to chapter 54-27 of the North Dakota Century Code is created and enacted as follows:

**Transfer of legacy fund earnings - Limitations.**

Fifty percent of any legacy fund earnings transferred to the general fund at the end of each biennium in accordance with section 26 of article X of the Constitution of North Dakota must be transferred immediately by the state treasurer to the legacy income tax rate reduction fund. The state treasurer may not transfer legacy fund earnings to the income tax rate reduction fund if the amount of legacy fund earnings to be transferred to the legacy income tax rate reduction fund is less than fifty million dollars."

Page 2, line 18, replace "one hundred twenty thousand six hundred" with "one hundred twenty thousand fourteen"

Page 2, after line 18, insert:

**"SECTION 7. EFFECTIVE DATE.** Sections 4 and 5 of this Act become effective on June 1, 2021."

Re-number 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        | \$21,724,004        | \$22,938,184        | (\$333,266)        | \$22,604,918        |
| Operating expenses        | 6,749,295           | 7,112,460           |                    | 7,112,460           |
| Capital assets            | 6,000               | 6,000               |                    | 6,000               |
| Homestead tax credit      | 14,800,000          | 15,800,000          |                    | 15,800,000          |
| Disabled veterans' credit | 8,110,200           | 8,410,200           |                    | 8,410,200           |
| <b>Total all funds</b>    | <b>\$51,389,499</b> | <b>\$54,266,844</b> | <b>(\$333,266)</b> | <b>\$53,933,578</b> |
| Less estimated income     | 125,000             | 125,000             | 0                  | 125,000             |
| General fund              | \$51,264,499        | \$54,141,844        | (\$333,266)        | \$53,808,578        |
| FTE                       | 133.00              | 123.00              | 0.00               | 123.00              |

**Department 127 - State Tax Commissioner - Detail of House Changes**

|                           | Adjusts Funding for Salary Increases <sup>1</sup> | Reduces Funding for Temporary Employees <sup>2</sup> | Total House Changes |
|---------------------------|---|--|---------------------|
| Salaries and wages        | \$57,520  | (\$390,786)  | (\$333,266)         |
| Operating expenses        |   |  |                     |
| Capital assets            |   |  |                     |
| Homestead tax credit      |   |  |                     |
| Disabled veterans' credit |   |  |                     |
| <b>Total all funds</b>    | <b>\$57,520</b>                                   | <b>(\$390,786)</b>                                   | <b>(\$333,266)</b>  |
| Less estimated income     | 0   | 0  | 0                   |
| General fund              | \$57,520  | (\$390,786)  | (\$333,266)         |
| FTE                       | 0.00  | 0.00   | 0.00                |

<sup>1</sup> Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and a 2.5 percent salary increase on July 1, 2020. The Senate provided funding for salary increases of 2 percent on July 1, 2019, and 3 percent on July 1, 2020.

<sup>2</sup> Funding for temporary employees is reduced by \$390,786 to provide total funding of \$258,534. The Senate provided \$649,320.

This amendment also:

- Adds three new sections to create a legacy income tax rate reduction fund; to transfer 50 percent of the legacy fund earnings at the end of the biennium to the newly created fund; and to provide an effective date of June 1, 2021. The Senate did not include these provisions. The transfer of legacy fund earnings to the legacy income tax rate reduction fund will reduce general fund revenues in the 2019-21 biennium.
- Includes a section to provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021. The Senate included statutory changes necessary to increase the Tax Commissioner's salary by 2 percent in fiscal year 2020 and by 3 percent in fiscal year 2021.

**2019 CONFERENCE COMMITTEE**

**SB 2006**

# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006

4/16/2019

Job # 34785

Subcommittee

Conference Committee

|                              |
|------------------------------|
| Committee Clerk: Rose Laning |
|------------------------------|

## **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.

## **Minutes:**

|                   |
|-------------------|
| Testimony # 1 - 2 |
|-------------------|

**Legislative Council: Adam Mathiak**

**OMB: Becky Keller**

Conferees:

**Senator Wanzek, Senator Bekkedahl and Senator Robinson**

**Representative Beadle, Representative Headland, Representative Mock**

**Adam Mathiak** handed out:

Base Level Funding Changes – Attached # 1.

Statement of Purpose of Amendment – Attached # 2.

**Senator Wanzek** called the conference committee to order on SB 2006. Roll call was taken. He asked the House to explain their changes.

**Representative Beadle:** We didn't do too many adjustments to this budget. For the most part, we felt that you did pretty good work on it in the first half. In large part, thanks to a fantastic recommendation coming from the agency at the start of session. The changes we did make were the \$57,520 increase on the salary increase line. That's the salary pay package as was determined by both chambers. We underfunded or reduced funding for temporary employees by the amount of \$390,786. We were looking for some areas to get us to conference because at that time, we didn't have the pay package fully determined. This would account for 100% of their temporary employee budget right now for anyone not utilized during tax season. There are \$649,282 is the total temporary employee request. Of that, \$258,496 is the processing. It's really some of the hourly ones used during tax season. \$390,786 is tax and research support. That's some of the expertise, the compliance people they have throughout the course of the year as well as some senior staff that might retire or transition but then will be back on a temporary basis. That would be the reduction of salaries that we've done there.

Outside of that, we kept the increased funding for GenTax, we kept the increased funding for disabled veteran's tax credits feeling that it would help us avoid any deficiency appropriation for the next biennium. We kept the transfer of the money for the motor vehicle fuel tax – even though there was quite a bit of discussion on our side. We additionally added Section 4 which is the income tax rate reduction fund – and utilizing the interest coming off of the Legacy Fund earnings to go towards helping to lower income tax in the state.

From the House perspective, we were looking at the various proposals that were out there from the Legacy Fund and realize that most of the good ideas we sent over there were being defeated. We didn't have a whole lot of vehicles left in the House side in which we felt there were good proposals that had come across from the Senate, so we wanted to make sure we had a more substantial discussion on this as well as looking at how we want to come out of this session planning for the Legacy Fund. That would be the summation of the House changes. I can have Representative Headland go through a little more detail on the language in section 4 because it is a little different from what had been on 1530, as it had passed out and was over in the Senate for consideration.

**Senator Wanzek:** asked Representative Headland to explain in detail.

**Representative Headland:** The change we made in how 1530 was passed over in that bill to what we have on this bill is that we just delayed the implementation until the end of the 19-21 biennium. Instead of starting at the end of this biennium, we delayed the action.

I'm not sure if you want to go through exactly how everything flows, but with a transfer at the end of the biennium for \$100M – whatever that number may be. At a minimum, it would be \$100M to cover both years of the biennium so you would have \$50M available for rate reduction the first year and to sustain that into the second year of the biennium, you use the other \$50M. For the committee to really understand the flowage of it, it might be nice to have Joe Becker explain how the dollars flow.

**Senator Bekkedahl:** I have a question for Adam. When I look at the fiscal updates that we get from Legislative Council, there is \$50M appropriation attached to this request. I've never understood the 50% of Legacy Fund earnings. It's estimated that the fiscal impact is \$50M/year which doesn't equate to half of the Legacy Fund earnings. Can you explain that better so I understand why one language says "transfers 50% of Legacy Fund earnings exceeding \$100M." to this fund. I'm just thinking that number is bigger than \$50M. Then as just explained by Representative Headland, the \$50M number is \$50M per year and it's only active for the second year of the biennium. Please explain that difference to me.

**Adam Mathiak:** The way the amendment went into the bill, it's a \$50M minimum, but it's 50% of the Legacy Fund earnings. Right now it's based on the March 2019 revised revenue forecast, there's an estimate of \$100M so that would be \$50M which happens to align with the minimum. If the actual earnings were \$200M, then it would be 50% of that \$200M and \$100M would be transferred. The basic concept of the bill is that if there's \$50M transferred into that fund, that \$50M would get divided by three. Two thirds of that would be used to pay the rate reductions during the next biennium. That way there would be one third of the money left to help with the next biennium and account for any fluctuations that may occur in the Legacy Fund earnings and provide some cushion for the general fund.



That \$50M, divided by three, two thirds of that would be used to calculate the rate reduction, so one third in the first year of the subsequent biennium and one third of that amount in the second year of the biennium with the last third carried over to the biennium even after that. Those rates would be calculated by the tax department. They'd be applied proportionally equally to individual and corporate income taxes. Then they would publish those new rates and so after that transfer would occur on June 30, 2021, then it would be for the subsequent tax year when that first rate reduction would take place.

Then the Legacy Fund earnings that were transferred into this Legacy income tax rate reduction fund which is really just a holding tank. So the money would be transferred to the general fund to make the general fund whole for those rate reductions so it's an equal amount of dollars transferred to try to offset the fiscal impact.

**Senator Bekkedahl:** Thank you, but it is confusing. If I could ask the House side a question – I live in the county and my city is the county seat of that county and I think by most statistics, we have the highest level of median income in the state within my district. I'm asking this from the policy side, but I have honestly in all my years of city government, 30 years there and now 5<sup>th</sup> year here, I have absolutely never heard anybody in my community ever complain about income tax rates in North Dakota. Am I missing something that other districts are aware of because from the policy side, I'd like to hear that discussion.

**Representative Beadle:** My quick question on that is, have you ever had anyone ask for an income tax credit on any legislation because when you start talking about the income tax, and say no one has ever complained about it. Well, if we've ever had people that have asked for credits to help incentivize behavior one way or another, that would be someone saying that lower income tax helps them make more decisions.

**Senator Bekkedahl:** I've never had anybody ask for those either. In fact, when I have had those discussions, the concern has been that our income tax rates are so low now that tax credits don't really work in our environment either.

**Senator Robinson:** In my 30 years out here, never once have I had anyone ask about the income tax issue. We are very low. North Dakotans in 2008 voted 2-1 to leave it alone. If we go down this road, we're going to see a spike in property tax. I hear all the time from folks concerned about property tax. For our farmers, when you have a crop, paying income tax is one thing. When you don't, paying property tax is quite another thing. In the House today, we heard some of your colleagues spoke of the three legged stool. To the extent we keep that three legged stool in place, we're going to be far better off in the long run. I think back to last session and where we would've been if we were working without the income tax. I look at the issue of stability. If you make a lot of money, the income tax is there, and you pay. It's arguably the most progressive tax we have. Families with several children are certainly going to pay a lot of sales tax, but we have a lot of farmers and others that have a lot of property. There is an increasing concern, and certainly in the farming economy we're in now, we have a forum in our district every weekend. I can't say at every forum, but 90% of them, the concern over property tax comes up and they're saying "No more property tax!" But I don't hear anyone concerned about our income tax. I think that's understandable, we're very, very low.

**Representative Headland:** As a longtime member of the House Tax committee, I see session after session for requests for tax credits. I had the tax department take a look and in the last three bienniums, the House has voted on over a hundred special interest tax credits. We've defeated most of those so the Senate hasn't had to look at them in the same way we've looked at them. Regarding the 3 legged stool, we don't have a 3 legged stool that stands today. Sales tax collections are more than double the collections that we get with both individual and corporate income taxes. In the past, for three bienniums in a row, we reduced income taxes. Prior to those reductions, we were at a level of receipts with income both individual and corporate that is similar today after we cut individual rates in half. The point is that income tax is the most punitive tax when it comes to a growing economy. The record is clear that by reducing taxes, not immediately do you see the revenues restored to a growing economy, but you will eventually.

If you go back to 2008 and we cracked the code on fracking, and all of a sudden, we had an abundance of revenue flowing. If you look to see what happened in that time period in 2008, North Dakota and South Dakota had similar budgets; different revenue from different sources, and similar spending. Since that time, with our doubling of revenues, our spending has doubled as well. The idea is that you can provide tax relief that is exclusive to the state.

We've tried to provide property tax in the past, but we've seen that with all the dynamics that occur with property tax, it doesn't end up in the hands of the taxpayer. We have since moved away from that because of the costs. We don't control property taxes. The idea behind moving toward elimination or suspension of income tax. This would be a way to reduce the tax burden for the tax payer and at the same time, replacing revenue that would be lost with Legacy Fund earnings and tying up those earnings so they wouldn't be used to help aid what happened with a new source of revenue into the general fund in the past.

You can accomplish all of that by doing it and at the same time getting rid of a punitive tax to economic growth. The other thing is our need for workforce in our state. Census numbers prove that people are moving from high tax states to low or no tax states. If it would encourage any movement to North Dakota, it's a win-win. There's more we could get into but I think you're getting the picture why the House believes this is the right way to go.

We understand the need for Legacy projects with those earnings. That's why we went with using only half of the earnings. I don't think we're tied to any certain percentage.

**Senator Robinson:** I appreciate that, but we're obviously on different pages here. After the 2008 vote to leave income tax alone, the legislature for four separate sessions reduced both corporate and individual. We know that on the corporate side, 85% goes out of state. One of those years, when the Governor signed the bill, \$1M went to Bentonville, Arkansas and Ramsey County borrowed \$1M for roads. I don't know how you justify that.

I've talked to corporate people who believe in the need to pay their way. We need good roads and bridges, schools, police departments, fire departments. There's a price tag for that. In DOT, we're leaving this session upside down. We're number ten in the number of bridges out there that are less than safe. We have to ask ourselves the question, what kind of state do we want. We can move to Mississippi and get by rather cheaply, but sometimes the greater cost is not doing these things, not investing in our state, in our system, in our schools. We've done a lot of things to focus on Workforce development and encouraging firms and corporate America to come to North Dakota. I think we have to switch our focus to employees. What's the image of our state out there? Are we an exciting state to come into or do we have a lot of road blocks or a fence around ND? These all cost money. The greater

cost is not investing in our people. I think that three legged stool that we had, we've been whittling away at that. If it's not a three legged stool anymore, it's because of this legislature. I could be wrong, but we're competing with other states. There's also the case that some states have higher taxes, but I don't know if they're driving people away. The perception is that they have a quality of life. On the senate side, there is little, if any, support for this right now. We have a different philosophy on where we want to be and how we're going to get there.

**Representative Headland:** I certainly understand that point of view. It's not that the Senate is completely against reducing taxes. The Commerce bill came over with a tax credit for the unmanned aircraft service in that budget so they believe reducing the tax burden for them would be helpful to them. The House believes that reducing the tax burden for everybody would probably have the same type of effect. They're not in line begging for us to eliminate their income tax, but I think if they had a chance to see it is, if the average tax burden in this state was \$893, put that in their pocket and ask them if they are pleased with that. If it helps encourage a growing economy at a quicker pace than you do with punitive taxation, why would we not take a greater look at that?

**Senator Wanzek:** We've gotten an email on the veteran's disability in the Homestead tax credit. We'll have to bring that up next time. This is going to be an interesting conference committee.

**Senator Bekkedahl:** I want to compliment the House for bringing that information of the policy committee. We obviously don't get that. I'll be looking at that and asking some questions. I would also appreciate to some degree, the rationale for taking all of the temporary employees away from an agency and only giving them during tax season. If you've done that in other budgets, I'm not aware of that, but would like to hear of that as well.

**Senator Wanzek:** Adjourned the hearing.

# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006  
4/18/2019  
Job #34856

Subcommittee  
 Conference Committee

|   |
|---|
| Committee Clerk: Rose Laning and Alicia Larsgaard |
|---|

## **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.

## **Minutes:**

|                   |
|-------------------|
| Testimony # 1 - 4 |
|-------------------|

**Legislative Council: Adam Mathiak**

**OMB: Becky Keller**

## **Conferees:**

**Senator Wanzek, Senator Bekkedahl, Senator Robinson**

**Representative Beadle, Representative Headland, Representative Mock**

**Senator Wanzek:** Called the conference committee to order on SB 2006.

Just so we make a little progress today, let's have Sandy come up and propose the actual numbers for the current biennium and what we need to adjust them by and also for the new budget on the next biennium on the disabled veterans and the homestead tax credits.

Information emailed by the tax department to committee members:

Deficiency Request SB 2006 – Homestead & Disabled Veteran's Tax Credit – Attached #1.

Proposed Amendments to Engrossed SB 2006 – Attached # 2.

Office of State Tax Commissioner - Attached # 3.

## **Sandy McMerty, Deputy Commissioner, Tax Department**

Referred to Attachment #1.

Based on the final reports that were due in March, we ended up with a deficiency, even with SB 2024 which addressed the deficiency that we had already anticipated. Based on final applications, we're looking at a deficiency of about \$586,644 between the two programs.

Overall, in the Homestead Tax credit program, valuations went up and the applications went down. We were up about \$360,000 in that program. Disabled veterans went up about 15% in applications so we had an additional 446 applications this year. That is an additional 639,000 in that. With the two amounts, that was a deficiency in Homestead, of about \$40,613 over what we had received in SB 2024. In Disabled Veteran's, there was a deficiency of

\$546,031 for that total of \$586,644. Based on the fact that you have given us some authority to do some transferring between those funds in the bill for the coming year, the two suggested amounts we are giving are about a 10% increase over where we would be in the appropriation right now.

Currently, Homestead Tax credit's appropriation in our bill is \$15.8M. The new estimate there is \$17.3M. On the Disabled Veteran's credit side, right now the current appropriation is \$8,410,200. We are estimating \$10.9M for that program based on the response this year. Knowing that if the Disabled Veterans credit would continue at that 15% rate, since there is ability to transfer funds, we are assuming that 10% increase for both will cover that deficiency.

**Senator Wanzek:** So, \$586,644 is the deficiency even with the deficiency bill for this biennium. You are looking at \$17.3M for Homestead Tax credit next biennium and \$10.9M for Disabled Vets tax credit and the ability to shift those numbers around, you feel provides you the wiggle room?

**Sandy McMerty:** We think that would provide us that flexibility. Like we said, there is about a 15% increase in Disabled Veterans. If that would continue, there would be about a 10% increase in Homestead from that valuation. Based on growth, we are hoping the 10% average will meet both of those.

**Senator Wanzek:** As I understand it, these are programs we offer. There is not much negotiating on those numbers.

**Sandy McMerty:** We have to make payments to replace those dollars. We did a good job and the counties did a good job of promoting.

**Representative Beadle:** At the last meeting, as we were discussing the amendment with regards to the income tax rate reduction fund language, we asked the Tax Commissioner's Office if they would be able to provide us with a breakdown that shows how that works so we have a better understanding. I think they had Joe ready to walk us through that for this meeting.

**Joe Becker, Auditor of Individual Income Tax, Tax Department**  
Income Tax Rate Reduction Using Legacy Fund Earnings – **Attached # 4.**

He explained the attachment. **All numbers are hypothetical.**

This is a diagram we used to describe HB 1530. We have revised it to reflect what is in SB 2006. I will give you the short version. The concept is that at the end of the 2001 biennium, out of the Legacy Fund earnings, 50% would be placed in a Legacy income tax rate reduction fund. Continued by explaining page 1 of attachment # 4.

**Senator Wanzek:** The remaining \$50M in the Income Tax Rate Reduction Fund would carry over then?

**Joe Becker:** Yes. If I can hold that question, there is a page that is going to show you what will happen there. The \$50M will be there, but if the legislature in 2023 doesn't do anything,

then that will fund the 2026 tax year rate reduction. The money that will be left is intended to sustain the reduction for 3 years.

**Joe Becker:** Explained **Page 2 of Attachment #4.**  
The cycle will just repeat itself.

**(11:31) Senator Bekkedahl:** If I'm seeing the sequencing right, when you get to the 2025-2027 biennium, the base funding amount to continue this tax relief for the prior two biennia would become \$200M.

**Joe Becker:** That is correct. The base funding amount will always be the two payments that are made in the prior biennium to fund the relief in the prior biennium

**Senator Bekkedahl:** It seems like that gets larger than the amount in the Legacy Fund interest earnings we can use.

**Joe Becker:** Yes. You have the forecast of collections that are a factor. How is that going to vary? Is it going to go up or down? That will obviously effect the outcome. What are legacy fund earnings going to look like down the road.

Explained **Pages 3 and 4 of Attachment #4.**

This is a transaction timeline. I thought that would be useful so you can see where the legislative sessions show up in this process. You can see where the legislature would have an opportunity to stop this process or make whatever adjustments they would need. All of these numbers correspond to the charts we just went through.

Last page – is taking what I've said orally and putting it in writing.  
I will stand for questions.

**Senator Wanzek:** We're reading so much about the Legacy Fund and how it should be used. This is certainly an option. I am not sure whether we're to that point yet. I understand this would supplant the taxes. It won't eliminate those taxes. We will be using the Legacy earnings to make up for the reduction we give. If for some strange reason there was no earnings, there would be no tax reduction.

**Joe Becker:** Correct. It goes back to the earlier question. The Legacy Fund earnings need to be there to sustain this process.

**Senator Wanzek:** In my mind, I see the Legacy Fund providing stability in our commodity based market. Have we allowed that to grow enough to feel comfortable that it can succeed in doing that before we start extending that tax credits? I see some merit to this.

**Representative Beadle:** The House also sees some merit to this too.

**Representative Headland:** I have some thoughts. I myself, as long as we continue with oil production, cannot foresee any time there would be no earnings. The fund will continue to grow. Not to have any earnings, you would have to have some kind of catastrophic event that would impact earnings. How would that impact the fund? I don't see that scenario. I do

believe, that way this has been designed, it is sustainable. It's a slow and measured approach to tax relief. If something like that did occur, the legislature would have to be there and allow the reduction that occurred to continue and they would have to adjust the spending accordingly. The money then wouldn't be there to supplant what has been reduced. It's entirely workable.

**Senator Bekkedahl:** I would like to point out that the Senate hog housed the HCR 3055 and put a study which will involve the chairs of both tax committees if it is passed through the House as it left the Senate. There will be discussion in the measure that is passed. It does reference tax relief initiatives. There are some areas that look more at the property tax relief than income tax relief. I would guess, by the language, that both would be in play for the discussions of that study. I'd like to see that study weigh out. It's going to take more than just input from legislators. It will be a lot of public hearings to see what the public wants of legacy fund earnings. I commend the House for bringing this forward but I think it might be a little early in the process. If that is going to play out, I think we should let it play out for another biennium with the study. It will involve the Appropriations chairs and the Tax committee chairs from both chambers as well. What is being established as future uses of Legacy Fund interest or some plan to do that.

**Senator Wanzek:** This is the issue that will keep us here for another meeting or two or settle. I wanted to ask about the temporary employees. You guys took the \$398,000. We talked about that last time. Maybe Adam can explain what the temporary employees are again.

**Adam Mathiak:** It is a reduction to the salary and wages line item. It is identified for that purpose. Once the agency has that funding, their full salaries and line item, they'll be able to budget according to their agency needs. If they need to move a little bit of funding around within the salaries and wages line item, the legislative assembly does not specifically appropriate by object code within the line item so they have flexibility within their line item to move things around as needed to make their budget work. It was related to temporary salaries and it was removing that funding for the temporary salaries and excluding the ones here for the tax season. They would have some flexibility. It is just identifying the purpose for the reduction to the salaries and wages line item. It does not restrict them from using other salaries and wages line items with money to hire temporary employees.

**Senator Robinson:** I understand the role and the need of temps. It is difficult to find them when we have low unemployment and people are looking for jobs with benefits. That has to be an uphill struggle and then you add to the needs of the agency in terms of the abilities these people bring to the table. I always thought that the fewer temporary employees we have, the better off we are for all the above. We invest in training and the recruitment. To me, that investment pays off if we can sustain that employment with that individual.

**Senator Bekkedahl:** Do you know the number that is left in the salary and wage line items for temporary salaries?

**Adam Mathiak:** \$258,000

**Representative Beadle:** The idea for reducing the temporary employee salary was as we were trying to find a number that would make sense in terms of reducing the salary line item.

The numbers we received from the tax department says the number of employees for processing, which tends to be the ones that are utilized during tax season, was estimated for this budget request of \$258,496 over the course of the biennium. The tax and research support, which is the other temporary employees, was \$390,786 for a total temporary employee salary of \$649,282 for the biennium.

Since this has passed the House, the ones that are not with the tax season often include the employees who are retired or from fulltime status but are still retained for their expertise. When we request tax information, that individual would be listed as a temporary employee. We might need to adjust that to make sure there is plenty of flexibility within the Tax Department so it's not just a reduction of temporary employees.

The temp employees are broken into two groups. There is the processing and research support with the overall numbers. The agency has their air resolution temp employees and their processing temp employees. The wages for these fluctuate from \$12.50 - \$14+ an hour. Some agencies have \$12 - \$17 per hour. The Tax Department is on the lower end for what they have for their temp employees. Some other departments go up to \$23 an hour for more specialized temp employees. They are probably not abusing their tax employees. We have no problem on the House side to make sure they have flexibility so they can use temp employees during non-tax peak time.

**Senator Wanzek:** Adjourned the conference committee on SB 2006.



# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006  
4/22/2019  
JOB # 34918

Subcommittee  
 Conference Committee

|   |
|---|
| Committee Clerk: Alice Delzer/Amy Crane |
|---|

## Explanation or reason for introduction of bill/resolution:

A Conference Committee hearing for the office of the tax commissioner

## Minutes:

|                        |
|------------------------|
| No testimony submitted |
|------------------------|

**SENATORS:** Terry Wanzek, Brad Bekkedahl, Larry Robinson.  
**REPRESENTATIVES:** Thomas Beadle, Craig Headland, Corey Mock

**Adam Mathiak, Legislative Council**  
**Becky J. Keller, OMB**

**Chairman Wanzek:** Called the Committee to order on SB 2006. Roll call was taken. All committee members were present.

**Chairman Wanzek:** It appears to me that the differences again were funding for temporary employees. Section 4 which creates the legacy income tax rate reduction fund and the income tax reductions to start June 1, of 2021.

**Representative Beadle:** Well we also need to make sure that we pay attention to the Homestead tax credit and the Disabled veteran tax credit as well. Those both have some adjustments in order to avoid deficiency corporation.

**Chairman Wanzek:** The numbers I have are \$586,644 additional deficiency and then new Homestead tax credit would be 17.3 and Disabled vet would be 10.9. So how hard and fast is the House on section 4? I think if we resolve section 4, it would be a great note to end the day on.

**Representative Beadle:** Let's do some of the changes and chunks individually and if you'd be willing I would make a motion to accept the adjustment of the homestead and veterans tax credits as well as the deficiency appropriation amount and add that to the final bill.

**Chairman Wanzek:** I'm thinking now maybe a question for Adam would be can we voice vote on that? and we'll include that in the final amendment which will take a roll call. The

motion to be would address, do we address the deficiency appropriation in this budget then? That was confirmed. And that would be at the numbers I referenced?

**Representative Beadle:** It's the 586 644 for the deficiency and then the estimates are 17.3 and 10.9 for the Homestead and Veteran's respectively. **I move that motion. 2<sup>nd</sup> by Senator Bekkedahl:**

**A voice vote was taken. The motion carried.**

**Chairman Wanzek:** We'll add that to the final amendment. Does anybody object if I ask Joe or somebody from the tax department to come up and explain or can you guys explain the \$390,786 in temporary employees that you guys have cut?

**Representative Beadle:** That conversation was in large part in our subcommittee discussion on the government ops committee, trying to find out ways in which we can 1) create some efficiencies, and 2) make some changes to what the Senate had sent us in order to get the budget over conference. At the time we had not adopted section 4. We were looking for some things to tweak in order to get on there. So in meeting with the tax commissioner's office, that's where we found the amount of the temp employees that are out there, of their total budget and their request of \$649,282. Of those used for tax time and processing, \$258,496 goes towards that and then the amount of their tax and research support, the people that they have during the rest of the year, as well as some of the retired or individuals who are no longer full time but are still transitioning and staying on to help the department. That amount was \$397,086. So while we knew we couldn't get rid of anything during the tax season, because that's a critical time and need for the agency, our committee took the stance of lowering their temp employees' salary that amount. We do understand that there would be some hardships created if we specifically left that as a reduction for temp employees specifically, but we would certainly be willing to adjust that so it was just under funding salaries, but make sure the department has flexibility in terms of how they can absorb that.

**Senator Bekkedahl:** Did the House take into consideration the cuts the agency took last biennium? In some of these employee areas and not just the FTEs but also the temporary salaries that they had out there and then in that consideration, driving efficiencies when we're increasing the population of the state, I think there is a limit to how far we can drive those efficiencies and I'm glad I'm not the agency head who has to deal with that. So by my estimation, I think we've over sought the amount of this reduction and I would look for a better number than what's on the table.

**Representative Beadle:** To answer Senator Bekkedahl's comments, we did take a look at the efficiencies and the cuts that this agency has made, and are greatly appreciative of the reductions that they've done in terms of the underfunding of the FTEs and salaries and how they've been able to work with and live within their means that way and we think they're certainly some very prudent guidance and administration within this department. So absolutely we respect that and take that into consideration. And as mentioned we would certainly be willing of the \$51M agency to make sure that they have the flexibility so that any further reduction wouldn't be directly limiting their ability to use temp employees.

**Chairman Wanzek:** So are you saying you would be willing to support putting the \$390 back or some number in between?

**Representative Beadle:** Certainly I'd be willing to entertain that and I don't know where my conferees on this side would end up being on there but at the very least I would be willing to look at taking that out of the temp line so it's not specific to there, where it would just be an underfunded of salaries itself so the department would have flexibility to deal with it.

**Chairman Wanzek:** so the \$772,252, you'd rather adjust that number and eliminate, I guess I'm not quite following what you're saying. Underfund salary and wages of \$772,000 both the Senate and the House.

**Representative Beadle:** It would be rather than having specific language, it would just be making sure it's not definitively being taken from temp salaries and limiting their ability to utilize temp employees.

**Senator Bekkedahl:** Just so I understand it, the Senate didn't change that, so the House underfunded the salaries and wages line item by \$772,252 and reduced the funding for temporary employees by \$390,785, so we're talking about over \$1.1M reduction in salaries and wages between the FTEs and the temporaries? And what percentage of that is their total wages and salaries? Has that been calculated.

**Adam Mathiak, Legislative Council:** Both the Senate and the House versions underfunded by \$772,000.

**Senator Bekkedahl:** Right. That's what I was bringing to light, between the two but it's over a million dollars - \$1.1M so on top of what the Senate and House already had in the budgets of \$772,000 we're taking another \$390,000. That was the question that I had in mind was, do we really want to take them down to \$1.1M when I'm guessing the \$772,000 and I don't remember this in testimony, but when we discussed that we must have had some agreement from the agency that they could incur that change in their budget or I don't think we would have moved it out that way. Doesn't that relate to the executive budget? To some recommendation they made as well?

**Representative Beadle:** For the 90% budget I believe.

**(0.11.01) Chairman Wanzek:** So we want to reinstate some of that \$390,000 but Representative Beadle, you've made the comment that you don't want that to reference temporary salaries, you want it to just?

**Representative Beadle:** After the House made their action in consultation with the department, they have some concerns and in talking with council since we don't specifically code the underfunded, I don't believe it would directly restrict their ability to utilize temp employees outside of tax season. But in talking with the department, they have concerns that it would. And so we just need to make sure that it's clarified that any further reduction would not impact or hold them solid to not being able to utilize any dollar whatsoever to go towards temp employees during the nontax time period. Since we had reduced it for the entirety of the amount for nontax time period temp employees then we want to just make sure that that's

clarified that they still do have the ability to use temp employees for the remainder of the year.

**Adam Mathiak, Legislative Council:** I can try to provide some clarification. If you look at the long sheet, (**Attachment # 1, Base Level Funding Changes**) that compares the House and Senate versions, its correct; both chambers reduced the salaries and wages line item or underfunded it by the \$772,000. In addition to that the House reduced that same line item the salaries and wages line item by \$390,000 dollars for related to temporary employees. So if the conference committee were to adjust that wording related to temporary salaries, essentially yes, the \$772,000 and the \$390,000 would be added together as just a total general underfunding of the salaries and wages line. If you agreed, yes.

**Chairman Wanzek:** That takes me back again to the number, I had asked before if the House is willing to put the \$390,000 back or basically remove it, any reference to it and stick with the \$722,000 or do you want to change that \$722,000 to something between the total of the two.

**Representative Beadle:** It's currently \$772,000. At this point I think the House would be more willing to find a number somewhere in between them and merge them together as opposed to just removing these \$390,000 all together. Just for reference to the combined amount between those two dollar figures would be an underfunded of \$1.163.

The conferees discussed among themselves regarding this issue.

**Chairman Wanzek:** I guess in visiting here, the Senate's position at the moment is that we reinstate the \$390,000 and we stick with the executive's position or \$772,000 reduction which underfunds salary and wages.

**Representative Beadle:** That's unfortunate.

**V. Chairman Wanzek:** Shall we end it now then? (there was further discussion)

**(0.17.10) Representative Beadle:** We would be willing to entertain amending the underfunded salaries and wages line to being a reduction of \$967,645, and then removing the reduction of \$390,000 for the temp employees, that amount would be half way between on the \$390,000.

**Chairman Wanzek:** Does everybody understand that?

**Senator Robinson:** So we reduce the \$390,000 by about 50% roughly?

**Representative Beadle:** Yeah, I took the \$397,086 and divided it in half and added that to the underfunded salaries. Or subtracted it so it increased the amount of the negative.

**Senator Robinson:** I just echo Senator Bekkedahl's earlier comment, although the governor had recommended the \$772,000 that's based on this budget. They are coming off a reduced budget so it compounds itself. I was hoping we could live with the \$772,000 and not go any further. So often I think we hire people to do a job and we need to give them the tools to get

the job done and we have a lot of turnover in agencies and even the salary increase that we are putting out is going to serve like more of a catch up than moving forward but that's just my opinion.

**Representative Beadle:** Just for conversation's sake as well, so looking at the – granted it's the January 2019 vacant employees within the department - so they have the 10 employees that were removed in the executive budget throughout this, and a number of employees that they were planning to fill but were currently vacant. Many of them were 10 plus months' worth of vacancy. In total the vacant salary positions equaled out to about \$2.7M. They certainly did remove a number of these ones from the executive budget but those were already zeroed out in the executive budget recommendation so there are certainly some vacant employees out there that they would be able to absorb this within the first year of the biennium.

**(0.20.18) Senator Bekkedahl:** I would be prepared to make a motion if the House would listen to it. **I would move that the House recede from their amendments and we further amend that we add the deficiency for veterans and Homestead credit in the amount of \$586,644; we further adjust the Homestead tax credit to \$17.3 million for the biennium, we adjust the Veteran's tax credit to \$10.9M for the biennium; we adjust the underfunded salary and wages to \$900,000 for the biennium, and we remove the funding that was reduced for temporary employment to a total of \$390,786.**

**2<sup>nd</sup> by Senator Robinson.**

**Chairman Wanzek:** Motion by Senator Bekkedahl, second by Senator Robinson and the motion again, I'll let Adam repeat it.

**Adam Mathiak, Legislative Council:** It would be taking off the House changes, and then adding back the 2 and 2 1/2% compensation package and then not including that \$390,000 reduction for the temporary employees so that would be back at the Senate's level of just the \$772,000 for the underfunding of the salaries and wages. Adding the, I guess we'll just round it off and do \$590,000 for the deficiency for the two programs rather than the specific dollar amount but \$590,000 for those two programs and then the additional amounts needed for this next budget cycle to bring it to the 17.3 and the 10.9 for those two programs and then I guess that would also remove the income tax reduction and fund items as well.

**Representative Beadle:** All of these changes sound good especially if it includes the section 4 with the income tax reduction language in there. That might be something we could vote in support of but without that language on there, I think we'll have a few no votes over on this side.

**Chairman Wanzek:** Is there any other further discussion on this motion. Hearing none, I'll ask Alice to take the roll call.

**Roll Call vote was taken. Yea: 3; Nay:0; Absent: 0.**

**Yes Vote:**  
**Senator Wanzek**  
**Senator Bekkedahl**  
**Senator Robinson**

**No vote:**  
**Representative Beadle**  
**Representative Headland**  
**Representative Mock**

**The motion fails.**

**Senator Wanzek:** We will adjourn. I'll reschedule the meeting as soon as we can. Our leadership has asked us to stay on top of it and pushed the meetings as far as we can so maybe it will be sometime tomorrow.

# 2019 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

SB 2006

4/24/2019

Job # 34975

Subcommittee  
 Conference Committee

|  |
|--|
| Committee Clerk: Rose Laning/Amy Crane |
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## **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.

## **Minutes:**

|                         |
|-------------------------|
| Amendment 19.0219.02006 |
|-------------------------|

**Legislative Council: Adam Mathiak**

**OMB: Stephanie Gullickson**

Conferees:

**Senator Wanzek, Senator Bekkedahl and Senator Robinson**

**Representative Beadle, Representative Headland, Representative Mock**

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

In the last meeting, we attempted a motion and I guess, I think the ball is in the House's court. Does the House have any alternative motions?

**Representative Beadle:** Handed out amendment # 19.0219.02006. The House firmly believes we need to do something with the Legacy Fund as a whole to make sure that we protect ourselves from potential ballet measures that could come in and do something similar to Alaska and cause some budget hamstrings. We trust our citizens but we just want to make sure they don't get misled by any outside sources and we felt that this was a good way to do that. In the conversations with leadership we recognize that the assembly might not be ready for a change at this time and so I'm passing around the current amendment that would be removing that section from the version of the bill. This amendment would ultimately be what we see as full compromise language. This follows through with the conversation we had in the last meeting. It removes the change that the House had made where we specifically underfunded the temp employees, where we had taken out the temp employee change for the \$390,786. It removed that, it maintained the salary and payroll increases, but then it extends the underfunded of salaries and wages from \$772,000 up to \$900,000, to help continue a little bit of reduction within the workforce. That way, it takes out roughly \$128,000 of the temp employees revenue without it being directly tied to the temp employees. The \$900,000 number was the number that was mentioned in our discussions las time as one of the proposals that had been offered by Senator Bekkedahl. So this language would include

that to do the underfunded at \$900,000. Take out the temp employees, take out section 4, but otherwise would be consistent with the majority of the Senate's amendments. If we want to look at that, I've run this by leadership, I think they are happy with it on our side. If we're interested in that, I'd be willing to make the motion but if we want to have discussion before that we certainly can.

**Senator Bekkedahl:** In our last discussion we also talked about adjusting the Homestead tax credit \$17.3M and the Veteran's tax credit to 10.9. I see the deficiency in there is for \$590,000. I don't see the change in here for that. Could you address that?

**Representative Beadle:** We recognize there is the need to do the deficiency appropriation this biennium to complete the '17-19 based on the current. We understand there is the discussion to be had to increase where we were at with those tax credits in order to avoid the need to come back with a deficiency appropriation the next biennium. Based on the actions of both the House and the Senate of the 1.3 increase, that certainly gets us a little way there but the feelings of leadership on the House side was that they would do the deficiency appropriation to fill it back up, however don't do the additional increase beyond that 1.3 that has already gone through both chambers and we can deal with that as a deficiency bill next session should the need arise. That way we can see what the actual requests for those tax credits would end up being first.

**Senator Bekkedahl:** I think we have reasonable testimony from the dept. that it is going to be needed. They've done the work and the effort in this to tell us they're going to need it so it puzzles me why we would not accept the recommendation from the agency that they're just going to be back for a deficient year when we can just fix this now. I'm of the mind that we should fix this now but if the committee wants to move forward with this, I'm not going to fight that battle.

**Senator Wanzek:** My thought is that they provided a rational reasonable number, it makes sense that we should include it but I think that we all understand, regardless of what the number is, we always have to meet the deficiency. It's not like we can say in law, provide a program and then say we're not going to fund it, we have to fund it one way or another, whether its appropriated right now or we're going to do it in a deficiency payment. It seems to make more sense to me to do it right now but maybe we're quibbling over minor stuff.

**Senator Bekkedahl:** I continue to contend that the way the finances are looking and I don't have the larger picture, that's negotiated above my pay grade but we absolutely have the money to listen to the agency to do this right now. And again it puzzles me why we have professionals in the department that bring us this information and then we chose to ignore it just so something can look better right now and then if there's a deficiency we'll have to deal with it again. Just doesn't seem the way we should be budgeting. Budgeting to me is you take the information and you make the most rational decision and you put that into the budget format. And I think we're ignoring some pretty good advice here.

**Senator Robinson:** I would echo the comments that Senator Bekkedahl made. We're sensitive about the legacy fund and by kicking the can down the road, all this does is fuel that discussion out there. They're sitting on a ton of money, they're underfunding programs, we're putting things off, defer, postpone, delay and I just think it's not good policy. But maybe



it is what it is, and we all want to go home but it would be better going home doing the best possible job we can and here's the situation. I think the department made their case, they're going to come back and give us the same information that they gave us this time about the numbers, the growth, based on patterns, based on history. So we know that information.

**Representative Beadle:** I certainly sympathize with those comments as well and we certainly brought it up with leadership on our side – this is the way they want us to proceed. Looking at the numbers, we do know that there has been growth and the numbers that were sent out for the disabled vets tax credit program and obviously property valuations we don't control that and all that stuff fluctuates. And I know Ward county has had 34% average increase this year and I know that's being protested by many. But for Disabled Veterans tax credits, 2015 they have 3111; 2016 it is 3329. And obviously that group due to multiple factors continues to have additional members that would qualify for that. 2017 the number increased about 250 from 3329 to 3571. And then it went up almost 500 in 2018. So we recognize that there was an increase there but we don't know how much of that was a onetime increase or how much of that is a percentage change that's likely to be consistently tracked. Similarly, with the Homestead tax credit, we did see a significant increase, it was about 8600; 8659 in 2015; 8621 in 2016. Had a pretty sizable jump in 2017 up to 9700 but then in 2018 again it backed off to 9399. So I think that by not expanding the deficiency beyond the 1.3 that we're already increasing that line item for right now, by not continuing to plan as if it's going to continue to grow at 10% year over year, that allows us to have the actual numbers before we come back and do the deficiencies next time.

**Senator Bekkedahl:** With the consent of the committee, I'd like to ask the tax commissioner one thing. My question is, \$15.8M in Homestead tax credit and \$8.4M in its budget going to \$17.3 as recommended and 10.9 is about a \$4M difference in total appropriation. How do you absorb that within your department because you obviously have to send these funds out before the deficiency is paid to you, don't you? Or do you delay the payments to the counties because of the deficiency?

**Ryan Rauschenberger, State Tax Commissioner:** I might defer that to Glenda. So right now we're delaying the checks to the counties right now until we get the deficiency and then those checks will go out. So like right now, basically they were due at the end of March. We certify the counties June 1, but the information we received was at the end of March. So whenever we get to a legislative session, it's always this critical, we don't have the information until almost the end of session and that's why we don't have that number at the beginning so we always end up with that deficiency right towards the end. So we don't have the data til now, but we'll delay sending out checks until later in the year.

**Senator Bekkedahl:** But operationally then, in the first year of the next biennium, you will cover all of the payments that come in, the deficiency comes in the 2<sup>nd</sup> year of the biennium payments? (That was confirmed.) And you have to hold the checks then? (Confirmed).

**Representative Beadle moved House recede from House amendment and amend with 19.0219.02006.**

**Representative Mock seconded the motion.**

**A Roll Call Vote Was Taken: 5 yeas, 1 nays, 0 absent.**

**Motion carried.**

**Senator Wanzek – Y  
Senator Bekkedahl – Y  
Senator Robinson – Y**

**Representative Beadle – Y  
Representative Headland – N  
Representative Mock – Y**

**Senator Wanzek:** Hearing adjourned.

*Handwritten:*  
 JANC  
 4/24/19  
 081

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

That the House recede from its amendments as printed on pages 1382-1385 of the Senate Journal and pages 1574-1577 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 declare an emergency"

Page 1, replace lines 15 through 22 with:

|                               |                  |                |                  |
|-------------------------------|------------------|----------------|------------------|
| "Salaries and wages           | \$21,724,004     | \$1,143,952    | \$22,867,956     |
| Operating expenses            | 6,749,295        | 363,165        | 7,112,460        |
| Capital assets                | 6,000            | 0              | 6,000            |
| Homestead tax credit          | 14,800,000       | 1,000,000      | 15,800,000       |
| Disabled veterans' tax credit | <u>8,110,200</u> | <u>300,000</u> | <u>8,410,200</u> |
| Total all funds               | \$51,389,499     | \$2,807,117    | \$54,196,616     |
| Less estimated income         | <u>125,000</u>   | <u>0</u>       | <u>125,000</u>   |
| Total general fund            | \$51,264,499     | \$2,807,117    | \$54,071,616"    |

Page 1, after line 23, insert:

**"SECTION 2. APPROPRIATION - 2017-19 BIENNIUM.** There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$590,000, or so much of the sum as may be necessary, to the tax commissioner for the homestead tax credit program and the disabled veterans' tax credit program, for the period beginning with the effective date of this Act, and ending June 30, 2019."

Page 2, line 18, replace "one hundred twenty thousand six hundred" with "one hundred twenty thousand fourteen"

Page 2, after line 18, insert:

**"SECTION 6. EMERGENCY.** Section 2 of this Act is declared to be an emergency measure."

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        | \$21,724,004     | \$22,938,184     | (\$70,228)                   | \$22,867,956                 | \$22,604,918     | \$263,038           |
| Operating expenses        | 6,749,295        | 7,112,460        |                              | 7,112,460                    | 7,112,460        |                     |
| Capital assets            | 6,000            | 6,000            |                              | 6,000                        | 6,000            |                     |
| Homestead tax credit      | 14,800,000       | 15,800,000       |                              | 15,800,000                   | 15,800,000       |                     |
| Disabled veterans' credit | <u>8,110,200</u> | <u>8,410,200</u> |                              | <u>8,410,200</u>             | <u>8,410,200</u> |                     |
| Total all funds           | \$51,389,499     | \$54,266,844     | (\$70,228)                   | \$54,196,616                 | \$53,933,578     | \$263,038           |
| Less estimated income     | <u>125,000</u>   | <u>125,000</u>   | 0                            | <u>125,000</u>               | <u>125,000</u>   | 0                   |
| General fund              | \$51,264,499     | \$54,141,844     | (\$70,228)                   | \$54,071,616                 | \$53,808,578     | \$263,038           |

FTE 133.00 123.00 0.00 123.00 123.00 0.00

2/2/20

**Department 127 - State Tax Commissioner - Detail of Conference Committee Changes**

|                           | Adjusts<br>Funding for<br>Salary<br>Increases <sup>1</sup> | Underfunds<br>Salaries and<br>Wages <sup>2</sup> | Total<br>Conference<br>Committee<br>Changes |
|---------------------------|--|--|---|
| Salaries and wages        | \$57,520   | (\$127,748)                                      | (\$70,228)                                  |
| Operating expenses        |  |  |   |
| Capital assets            |  |  |   |
| Homestead tax credit      |  |  |   |
| Disabled veterans' credit |  |  |   |
| <b>Total all funds</b>    | <b>\$57,520</b>  | <b>(\$127,748)</b>                               | <b>(\$70,228)</b>                           |
| Less estimated income     | 0  | 0  | 0   |
| General fund              | \$57,520   | (\$127,748)                                      | (\$70,228)                                  |
| FTE                       | 0.00   | 0.00   | 0.00  |

<sup>1</sup> Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and a 2.5 percent salary increase on July 1, 2020. The Senate provided funding for salary increases of 2 percent on July 1, 2019, and 3 percent on July 1, 2020.

<sup>2</sup> Funding for salaries and wages is reduced by \$127,748 for anticipated savings from vacant positions and employee turnover for total underfunding of \$900,000. The Senate underfunded salaries and wages by \$772,252. The House underfunded salaries and wages by \$772,252 and reduced funding for temporary employees by \$390,786 for a total reduction of \$1,163,038.

**This amendment:**

- Provides an appropriation of \$590,000 from the general fund for the 2017-19 biennium for the homestead tax credit program and the disabled veterans' tax credit program and includes an emergency clause related to the appropriation. Neither the Senate nor the House included this funding.
- Does not include three sections added by the House to create a legacy income tax rate reduction fund, to transfer 50 percent of the legacy fund earnings at the end of the biennium to the newly created fund, and to provide an effective date of June 1, 2021.
- Includes a section to provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021, the same as the House version. The Senate included statutory changes necessary to increase the Tax Commissioner's salary by 2 percent in fiscal year 2020 and by 3 percent in fiscal year 2021.

**2019 SENATE CONFERENCE COMMITTEE  
 ROLL CALL VOTES**

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

**Senate Appropriation 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          | 4/16 |  | 4/18 |  | 4/22 |  | Yes | No | Representatives         | 4/16 |  | 4/18 |  | 4/22 |  | Yes | No |
|-------------------|------|--|------|--|------|--|-----|----|-------------------------|------|--|------|--|------|--|-----|----|
|                   |      |  |      |  |      |  |     |    |                         |      |  |      |  |      |  |     |    |
| Senator Wanzek    | x    |  | x    |  | x    |  |     |    | Representative Beadle   | x    |  | x    |  | x    |  |     |    |
| Senator Bekkedahl | x    |  | x    |  | x    |  |     |    | Representative Headland | x    |  | x    |  | x    |  |     |    |
| Senator Robinson  | x    |  | x    |  | x    |  |     |    | Representative Mock     | x    |  | x    |  | 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

**2019 SENATE CONFERENCE COMMITTEE  
 ROLL CALL VOTES**

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

**Senate Appropriation 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: Senator Bekkedahl Seconded by: Senator Robinson

| Senators          |  |  |  | Yes | No | Representatives         |  |  |  | Yes | No |
|-------------------|--|--|--|-----|----|-------------------------|--|--|--|-----|----|
| Senator Wanzek    |  |  |  | X   |    | Representative Beadle   |  |  |  |     | X  |
| Senator Bekkedahl |  |  |  | X   |    | Representative Headland |  |  |  |     | X  |
| Senator Robinson  |  |  |  | X   |    | Representative Mock     |  |  |  |     | X  |
| Total Senate Vote |  |  |  | 3   | 0  | Total Rep. Vote         |  |  |  | 0   | 3  |

Vote Count      Yes:   3                        No:   3                        Absent:   0  

Senate Carrier \_\_\_\_\_ House Carrier \_\_\_\_\_

LC Number \_\_\_\_\_ of amendment

LC Number \_\_\_\_\_ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

*Failed*

**2019 SENATE CONFERENCE COMMITTEE  
 ROLL CALL VOTES**

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

**Senate Appropriation 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: Representative Beadle      Seconded by: Representative Mock

| Senators          | 4/24 | Yes | No | Representatives         | 4/24 | Yes | No |
|-------------------|------|-----|----|-------------------------|------|-----|----|
| Senator Wanzek    | x    | X   |    | Representative Beadle   | x    | X   |    |
| Senator Bekkedahl | x    | X   |    | Representative Headland | x    |     | X  |
| Senator Robinson  | x    | X   |    | Representative Mock     | x    | X   |    |
|                   |      |     |    |                         |      |     |    |
|                   |      |     |    |                         |      |     |    |
| Total Senate Vote |      | 3   | 0  | Total Rep. Vote         |      | 2   | 1  |

Vote Count      Yes: 5      No: 1      Absent: 0

Senate Carrier Senator Wanzek      House Carrier Representative Beadle

LC Number 19.0219 . 02006 of amendment

LC Number 19.0219 . 04000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Insert LC: 19.0219.02006  
 Senate Carrier: Wanzek  
 House Carrier: Beadle

**REPORT OF CONFERENCE COMMITTEE**

**SB 2006, as engrossed:** Your conference committee (Sens. Wanzek, Bekkedahl, Robinson and Reps. Beadle, Headland, Mock) recommends that the **HOUSE RECEDE** from the House amendments as printed on SJ pages 1382-1385, adopt amendments as follows, and place SB 2006 on the Seventh order:

That the House recede from its amendments as printed on pages 1382-1385 of the Senate Journal and pages 1574-1577 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 declare an emergency"

Page 1, replace lines 15 through 22 with:

|                               |              |             |               |
|-------------------------------|--------------|-------------|---------------|
| "Salaries and wages           | \$21,724,004 | \$1,143,952 | \$22,867,956  |
| Operating expenses            | 6,749,295    | 363,165     | 7,112,460     |
| Capital assets                | 6,000        | 0           | 6,000         |
| Homestead tax credit          | 14,800,000   | 1,000,000   | 15,800,000    |
| Disabled veterans' tax credit | 8,110,200    | 300,000     | 8,410,200     |
| Total all funds               | \$51,389,499 | \$2,807,117 | \$54,196,616  |
| Less estimated income         | 125,000      | 0           | 125,000       |
| Total general fund            | \$51,264,499 | \$2,807,117 | \$54,071,616" |

Page 1, after line 23, insert:

**"SECTION 2. APPROPRIATION - 2017-19 BIENNIUM.** There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$590,000, or so much of the sum as may be necessary, to the tax commissioner for the homestead tax credit program and the disabled veterans' tax credit program, for the period beginning with the effective date of this Act, and ending June 30, 2019."

Page 2, line 18, replace "one hundred twenty thousand six hundred" with "one hundred twenty thousand fourteen"

Page 2, after line 18, insert:

**"SECTION 6. EMERGENCY.** Section 2 of this Act is declared to be an emergency measure."

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        | \$21,724,004 | \$22,938,184   | (\$70,228)                   | \$22,867,956                 | \$22,604,918  | \$263,038           |
| Operating expenses        | 6,749,295    | 7,112,460      |                              | 7,112,460                    | 7,112,460     |                     |
| Capital assets            | 6,000        | 6,000          |                              | 6,000                        | 6,000         |                     |
| Homestead tax credit      | 14,800,000   | 15,800,000     |                              | 15,800,000                   | 15,800,000    |                     |
| Disabled veterans' credit | 8,110,200    | 8,410,200      |                              | 8,410,200                    | 8,410,200     |                     |
| Total all funds           | \$51,389,499 | \$54,266,844   | (\$70,228)                   | \$54,196,616                 | \$53,933,578  | \$263,038           |
| Less estimated income     | 125,000      | 125,000        | 0                            | 125,000                      | 125,000       | 0                   |
| General fund              | \$51,264,499 | \$54,141,844   | (\$70,228)                   | \$54,071,616                 | \$53,808,578  | \$263,038           |
| FTE                       | 133.00       | 123.00         | 0.00                         | 123.00                       | 123.00        | 0.00                |



**Department 127 - State Tax Commissioner - Detail of Conference Committee Changes**

|                           | Adjusts Funding for<br>Salary Increases <sup>1</sup> | Underfunds Salaries and<br>Wages <sup>2</sup> | Total Conference<br>Committee Changes |
|---------------------------|--|---|---------------------------------------|
| Salaries and wages        | \$57,520   | (\$127,748)                                   | (\$70,228)                            |
| Operating expenses        |  |   |                                       |
| Capital assets            |  |   |                                       |
| Homestead tax credit      |  |   |                                       |
| Disabled veterans' credit |  |   |                                       |
| <b>Total all funds</b>    | <b>\$57,520</b>                                      | <b>(\$127,748)</b>                            | <b>(\$70,228)</b>                     |
| Less estimated income     | 0  | 0   | 0                                     |
| General fund              | \$57,520   | (\$127,748)                                   | (\$70,228)                            |
| FTE                       | 0.00   | 0.00  | 0.00                                  |

<sup>1</sup> Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and a 2.5 percent salary increase on July 1, 2020. The Senate provided funding for salary increases of 2 percent on July 1, 2019, and 3 percent on July 1, 2020.

<sup>2</sup> Funding for salaries and wages is reduced by \$127,748 for anticipated savings from vacant positions and employee turnover for total underfunding of \$900,000. The Senate underfunded salaries and wages by \$772,252. The House underfunded salaries and wages by \$772,252 and reduced funding for temporary employees by \$390,786 for a total reduction of \$1,163,038.

This amendment:

- Provides an appropriation of \$590,000 from the general fund for the 2017-19 biennium for the homestead tax credit program and the disabled veterans' tax credit program and includes an emergency clause related to the appropriation. Neither the Senate nor the House included this funding.
- Does not include three sections added by the House to create a legacy income tax rate reduction fund, to transfer 50 percent of the legacy fund earnings at the end of the biennium to the newly created fund, and to provide an effective date of June 1, 2021.
- Includes a section to provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021, the same as the House version. The Senate included statutory changes necessary to increase the Tax Commissioner's salary by 2 percent in fiscal year 2020 and by 3 percent in fiscal year 2021.

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

**2019 TESTIMONY**

**SB 2006**

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

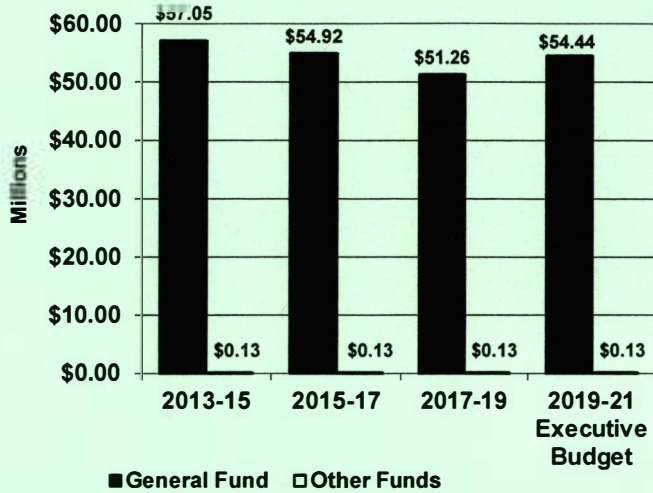
**Executive Budget Comparison to Prior Biennium Appropriations**

|                                    | FTE Positions | General Fund | Other Funds | Total        |
|------------------------------------|---------------|--------------|-------------|--------------|
| 2019-21 Executive Budget           | 123.00        | \$54,443,793 | \$125,000   | \$54,568,793 |
| 2017-19 Legislative Appropriations | 133.00        | 51,264,499   | 125,000     | 51,389,499   |
| Increase (Decrease)                | (10.00)       | \$3,179,294  | \$0         | \$3,179,294  |

**Ongoing and One-Time General Fund Appropriations**

|                                    | Ongoing General Fund Appropriation | One-Time General Fund Appropriation | Total General Fund Appropriation |
|------------------------------------|------------------------------------|-------------------------------------|----------------------------------|
| 2019-21 Executive Budget           | \$54,443,793                       | \$0                                 | \$54,443,793                     |
| 2017-19 Legislative Appropriations | 51,264,499                         | 0                                   | 51,264,499                       |
| Increase (Decrease)                | \$3,179,294                        | \$0                                 | \$3,179,294                      |

**Agency Funding**



**FTE Positions**



**Executive Budget Comparison to Base Level**

|                          | General Fund | Other Funds | Total        |
|--------------------------|--------------|-------------|--------------|
| 2019-21 Executive Budget | \$54,443,793 | \$125,000   | \$54,568,793 |
| 2019-21 Base Level       | 51,264,499   | 125,000     | 51,389,499   |
| Increase (Decrease)      | \$3,179,294  | \$0         | \$3,179,294  |

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 \$904,179 is for salary increases, \$479,935 is for health insurance increases, and \$118,035 is for retirement increases | \$1,502,149  | \$0         | \$1,502,149 |
| 2. Increases funding for 1 FTE auditor position that was partially funded for the 2017-19 biennium to provide a total of \$150,000   | \$75,000     | \$0         | \$75,000    |
| 3. Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions  | \$0          | \$0         | \$0         |
| 4. Underfunds salaries and wages   | (\$772,252)  | \$0         | (\$772,252) |
| 5. Increases funding for GenTax information technology software support  | \$300,589    | \$0         | \$300,589   |
| 6. Adds funding for Microsoft Office 365 licensing   | \$62,576     | \$0         | \$62,576    |

|   |             |     |             |
|---|-------------|-----|-------------|
| 7. Increases funding for the homestead tax credit program, from \$14,800,000 to \$15,800,000        | \$1,000,000 | \$0 | \$1,000,000 |
| 8. Increases funding for the disabled veterans' tax credit program, from \$8,110,200 to \$8,410,200 | \$300,000   | \$0 | \$300,000   |

**Other Sections Recommended to be Added in the Executive Budget  
(As Detailed in the Attached Appendix)**

**Line item transfers** - Section 2 would authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.

**Motor vehicle fuel tax revenue transfer** - Section 3 would provide for a transfer of \$1,991,024 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 would provide the statutory changes necessary to increase the Tax Commissioner's salary. The executive budget recommends a 4 percent increase effective July 1, 2019, and a 2 percent increase effective July 1, 2020. The Tax Commissioner's annual salary would increase from the current salary of \$114,791 to \$119,383 effective July 1, 2019, and to \$121,770 effective July 1, 2020.

**Deficiency Appropriation**

Senate Bill No. 2024 provides a deficiency appropriation of \$1,320,000 from the general fund for the homestead tax credit program (\$1,170,000) and the disabled veterans' tax credit program (\$150,000).

**Continuing Appropriations**

**Multistate tax audit fund** - North Dakota Century Code Section 57-01-20 - Collections from the Multistate Tax Commission and Nexus program.

**Significant Audit Findings**

The operational audit for the Tax Department conducted by the State Auditor's office during the 2017-18 interim identified no significant audit findings.

**Major Related Legislation**

**Senate Bill No. 2036** - Removes obsolete language related to an expired income tax credit for angel fund investments and automation tax credits.

**Senate Bill No. 2042** - Removes the requirement for oil-producing counties and school districts located in oil-producing counties to report to the Tax Department regarding the use of oil and gas tax revenue allocations.

**Senate Bill No. 2089** - Provides technical corrections for clarity and consistency relating to various reports received by the Tax Department and definitions for administering sales and use taxes.

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

**Executive Budget Recommendation**

|   | <b>FTE<br/>Position</b> | <b>General<br/>Fund</b> | <b>Other Funds</b> | <b>Total</b> |
|---|-------------------------|-------------------------|--------------------|--------------|
| <b>2019-21 Biennium Base Level</b>                                | 133.00                  | \$51,264,499            | \$125,000          | \$51,389,499 |
| <b>2019-21 Ongoing Funding Changes</b>                            |                         |                         |                    |              |
| Base payroll changes  |                         | \$711,232               |                    | \$711,232    |
| Salary increase   |                         | 904,179                 |                    | 904,179      |
| Health insurance increase   |                         | 479,935                 |                    | 479,935      |
| Retirement contribution increase                                  |                         | 118,035                 |                    | 118,035      |
| Adds funding for an auditor position (partial funding in 2017-19) |                         | 75,000                  |                    | 75,000       |
| Removes unfunded vacant FTE positions                             | (10.00)                 |                         |                    | 0            |
| Underfunds salaries and wages                                     |                         | (772,252)               |                    | (772,252)    |
| Adds funding for GenTax software support                          |                         | 300,589                 |                    | 300,589      |
| Adds funding for Microsoft Office 365 licensing                   |                         | 62,576                  |                    | 62,576       |
| Adds funding for homestead tax credits                            |                         | 1,000,000               |                    | 1,000,000    |
| Adds funding for disabled veterans' tax credits                   |                         | 300,000                 |                    | 300,000      |
| Total ongoing funding changes                                     | (10.00)                 | \$3,179,294             | \$0                | \$3,179,294  |
| <b>One-time funding items</b>                                     |                         |                         |                    |              |
| No one-time funding items   |                         |                         |                    | \$0          |
| Total one-time funding changes                                    | 0.00                    | \$0                     | \$0                | \$0          |
| <b>Total Changes to Base Level Funding</b>                        | (10.00)                 | \$3,179,294             | \$0                | \$3,179,294  |
| <b>2019-21 Total Funding</b>                                      | 123.00                  | \$54,443,793            | \$125,000          | \$54,568,793 |

**Other Sections for Tax Commissioner - Budget No. 127**

**Executive Budget Recommendation**

Line item transfers

Section 2 would authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.

Motor vehicle fuel tax revenue transfer

Section 3 would provide for a transfer of \$1,991,024 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

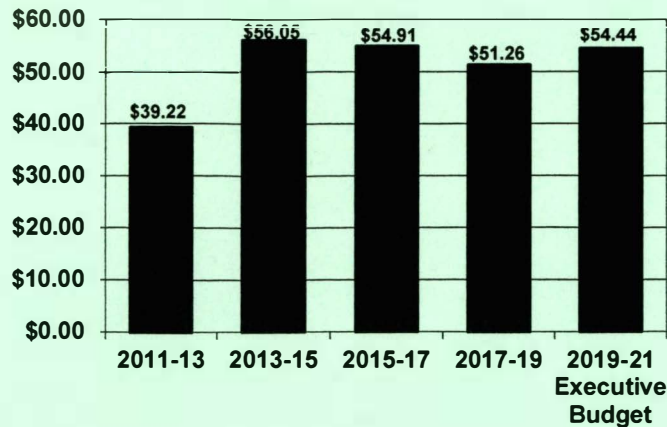
Section 4 would provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$119,383 (4 percent) in fiscal year 2020 and to \$121,770 (2 percent) in fiscal year 2021.

## Department 127 - State Tax Commissioner

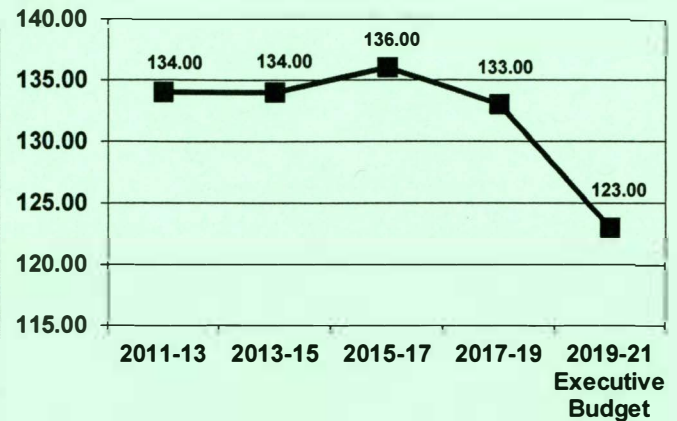
# Historical Appropriations Information

## Ongoing General Fund Appropriations Since 2011-13

Agency Funding (in Millions)



FTE Positions



| Ongoing General Fund Appropriations                             |              |              |               |               |                          |
|---|--------------|--------------|---------------|---------------|--------------------------|
|   | 2011-13      | 2013-15      | 2015-17       | 2017-19       | 2019-21 Executive Budget |
| Ongoing general fund appropriations                             | \$39,220,304 | \$56,054,140 | \$54,912,488  | \$51,264,499  | \$54,443,793             |
| Increase (decrease) from previous biennium                      | N/A          | \$16,833,836 | (\$1,141,652) | (\$3,647,989) | \$3,179,294              |
| Percentage increase (decrease) from previous biennium           | N/A          | 42.9%        | (2.0%)        | (6.6%)        | 6.2%                     |
| Cumulative percentage increase (decrease) from 2011-13 biennium | N/A          | 42.9%        | 40.0%         | 30.7%         | 38.8%                    |

### Major Increases (Decreases) in Ongoing General Fund Appropriations

#### 2013-15 Biennium

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

#### 2015-17 Biennium

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

#### 2017-19 Biennium

- Reduced funding for operating expenses, primarily related to professional services, postage, and office equipment and furniture (\$878,967)
- Reduced funding for the homestead tax credit program (\$3,890,000) and increased funding for the disabled veterans' tax credit program (\$935,109) (\$2,954,891)

#### 2019-21 Biennium (Executive Budget Recommendation)

- Provides funding for state employee salary and benefit increases of which \$904,179 is for salary increases, \$479,935 is for health insurance increases, and \$118,035 is for retirement increases \$1,502,149
- Adds funding for 1 FTE auditor position that was partially funded for the 2017-19 biennium \$75,000
- Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions and underfund FTE positions (\$772,252)
- Adds funding for GenTax information technology software support \$300,589
- Increases funding for the homestead tax credit program (\$1,000,000) and the disabled veterans' tax credit program (\$300,000) \$1,300,000

**GOVERNOR'S RECOMMENDATION FOR THE  
STATE TAX COMMISSIONER AS SUBMITTED  
BY THE OFFICE OF MANAGEMENT AND BUDGET**

**SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from special funds derived from federal funds and other income, to the tax commissioner for the purpose of defraying the expenses of the tax commissioner and paying the state reimbursement under the homestead tax credit and disabled veterans credit, for the biennium beginning July 1, 2019, and ending June 30, 2021, as follows:

|                                | <u>Base level</u> | <u>Adjustments or<br/>Enhancements</u> | <u>Appropriation</u> |
|--------------------------------|-------------------|--|----------------------|
| Salaries and wages             | \$21,724,004      | \$1,516,129                            | \$23,240,133         |
| Operating expenses             | 6,749,295         | 363,165                                | 7,112,460            |
| Capital assets                 | 6,000             | 0                                      | 6,000                |
| Homestead tax credit           | 14,800,000        | 1,000,000                              | 15,800,000           |
| Disabled veterans credit       | <u>8,110,200</u>  | <u>300,000</u>                         | <u>8,410,200</u>     |
| Total all funds                | \$51,389,499      | \$3,179,294                            | \$54,568,793         |
| Less estimated income          | <u>125,000</u>    | <u>0</u>                               | <u>125,000</u>       |
| Total general fund             | \$51,264,499      | \$3,179,294                            | \$54,443,793         |
| Full-time equivalent positions | 133.00            | (10.00)                                | 123.00               |

**SECTION 2. LINE ITEM TRANSFERS – 2019-21 BIENNIUM.** The state tax commissioner may transfer between the homestead tax credit and disabled veterans credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget of any transfers made pursuant to this section.

**SECTION 3. TRANSFER.** There is transferred to the general fund in the state treasury out of motor vehicle fuel tax revenue collected pursuant to section 57-43.1-02, the sum of \$1,991,024 for the purpose of reimbursing the general fund for expenses incurred in the collection of the motor vehicle fuels and special fuels taxes and the administration of these taxes for the biennium beginning July 1, 2019, and ending June 30, 2021.

**SECTION 4. AMENDMENT.** Section 57-01-04 of the North Dakota Century Code is amended and reenacted as follows:

**57-01-04. Salary.**

The annual salary of the state tax commissioner is ~~one hundred eleven thousand four hundred forty eight dollars through June 30, 2016, and one hundred nineteen thousand three hundred eighty-three dollars through June 30, 2020, and one hundred fourteen thousand seven hundred ninety-one dollars one hundred twenty-one thousand seven hundred seventy dollars thereafter.~~



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**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 exceptional service while enhancing compliance with the tax laws.

As you know, the Office of State Tax Commissioner is the primary revenue collection agency for the state. For the 2017-19 biennium, the agency will collect over 90 percent of all general fund revenue, excluding transfers. Total agency collections are expected to exceed \$8.2 billion. This includes over \$4 billion in oil tax revenues during the current biennium, based on the executive revenue forecast.

The Office of State Tax Commissioner collects and administers over 30 tax types, 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 agency provides education to help taxpayers understand their filing requirements, conducts discovery work to ensure compliance with the law, processes returns, 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 agency and the amounts collected in fiscal years 2010 and 2018. In many cases, the growth is not merely in the dollars collected, but is a reflection of the increase in the number of filers and returns processed by the agency.

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OFFICE OF STATE TAX COMMISSIONER  
STATEMENT OF COLLECTIONS DATA  
FISCAL YEARS 2010 AND 2018

| Description                     | FY 2010 Net Collections | FY 2018 Net Collections | Change                 |
|---------------------------------|-------------------------|-------------------------|------------------------|
| Sales & Use Tax                 | \$603,732,481           | \$912,480,709           | \$308,748,228          |
| Motor Vehicle Excise Tax(1)     | \$106,657               | \$310,002               | \$203,345              |
| City Occupancy Tax              | \$1,872,368             | \$2,996,871             | \$1,124,503            |
| City Sales Tax                  | \$119,411,810           | \$239,582,346           | \$120,170,536          |
| City Restaurant and Lodging Tax | \$4,289,399             | \$7,744,140             | \$3,454,741            |
| City Motor Vehicle Rental Tax   | \$110,557               | \$136,744               | \$26,187               |
| Individual Income Tax           | \$304,252,924           | \$366,321,257           | \$62,068,333           |
| Corporate Income Tax            | \$87,874,592            | \$92,872,214            | \$4,997,622            |
| Financial Institutions Tax      | \$10,451,319            | \$4,605                 | -\$10,446,714          |
| Cigarette Tax (Cities)          | \$1,353,442             | \$1,423,010             | \$69,568               |
| Cigarette Tax (Tribe)           | \$64,693                | \$79,441                | \$14,748               |
| Cigarette Tax (GF)              | \$18,454,355            | \$19,460,767            | \$1,006,412            |
| Tobacco Tax                     | \$3,976,398             | \$7,012,940             | \$3,036,542            |
| Oil & Gas Gross Production Tax  | \$302,099,211           | \$1,073,026,703         | \$770,927,492          |
| Oil Extraction Tax              | \$280,611,437           | \$1,003,828,719         | \$723,217,282          |
| Telecommunications Tax          | \$11,252,316            | \$9,682,446             | -\$1,569,870           |
| Wholesale Liquor/beer Tax       | \$7,411,422             | \$8,918,246             | \$1,506,824            |
| Estate Tax                      | \$9,174                 | \$0                     | -\$9,174               |
| Miscellaneous Remittances       | \$13,019                | \$18,770                | \$5,751                |
| Coal Severance Tax              | \$11,506,451            | \$11,654,559            | \$148,108              |
| Coal Conversion Tax             | \$26,154,150            | \$26,237,709            | \$83,559               |
| Electric Generation Tax         | \$442,604               | \$16,703,423            | \$16,260,819           |
| Music and Composition Tax       | \$155,923               | \$225,235               | \$69,312               |
| Sales & Use Tax Cash Bonds      | \$51,050                | -\$17,882               | -\$68,932              |
| Fuel Dealers & Inspection Fees  | \$0                     | \$322,288               | \$322,288              |
| Motor Vehicle Fuel Tax          | \$85,179,818            | \$101,440,286           | \$16,260,468           |
| Special Fuel Tax                | \$66,553,656            | \$95,316,356            | \$28,762,700           |
| Motor Fuel Tax - Cash Bond      | -\$2,000                | \$10,005                | \$12,005               |
| Nongame Wildlife Fund           | \$19,444                | \$29,369                | \$9,925                |
| Centennial Tree Trust Fund      | \$20,375                | \$34,189                | \$13,814               |
| Organ Transplant Support Fund   | \$11,950                | \$25,981                | \$14,031               |
| Airline Tax                     | \$202,399               | \$223,265               | \$20,866               |
| Aircraft Excise Tax             |                         | \$19,858                | \$19,858               |
| Prepd Wireless Emerg 911 Fee    | \$0                     | \$1,175,158             | \$1,175,158            |
| Provider Assessment             | \$4,094,197             | \$5,642,021             | \$1,547,824            |
| <b>Total Collections</b>        | <b>\$1,951,737,591</b>  | <b>\$4,004,941,748</b>  | <b>\$2,053,204,157</b> |

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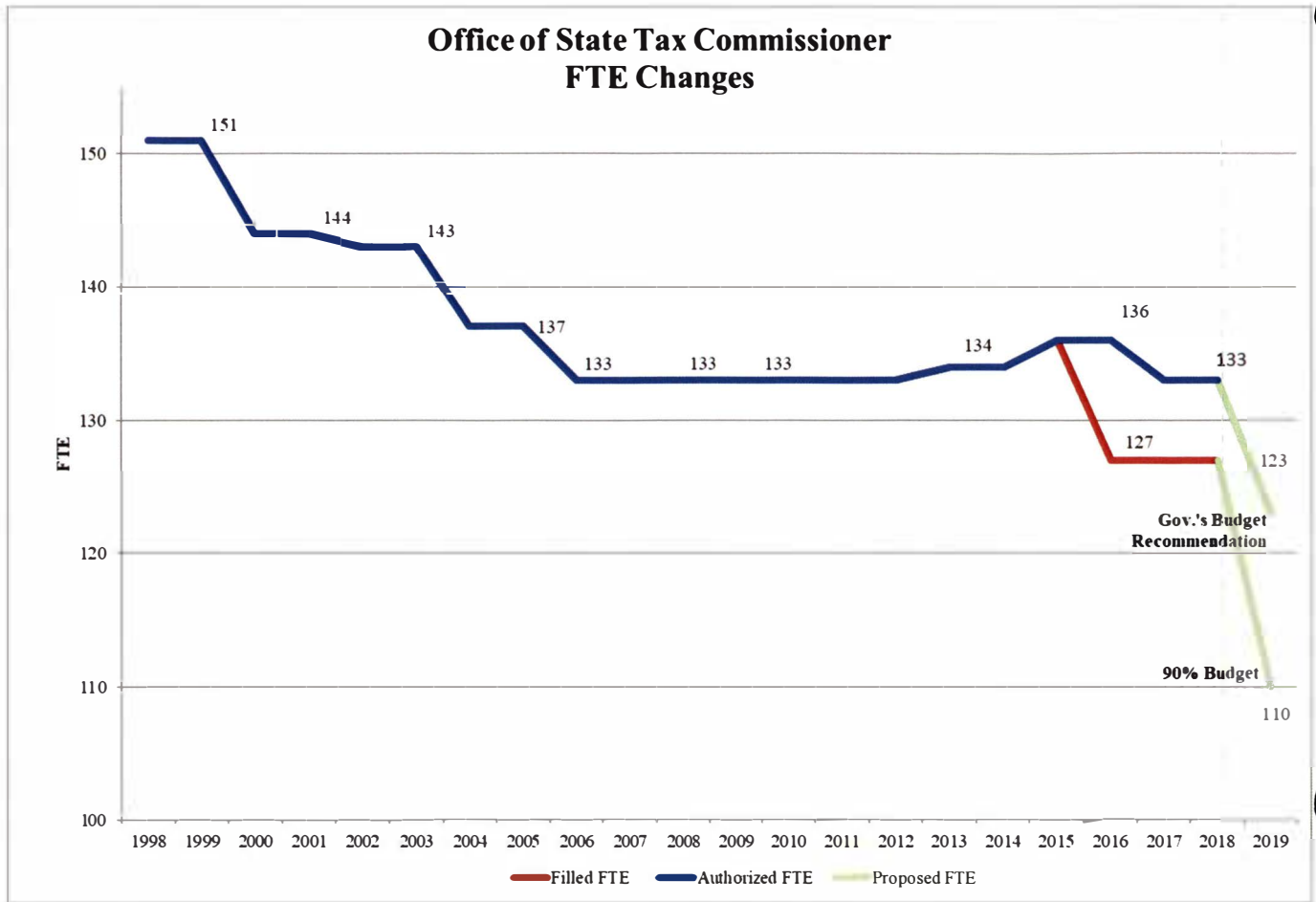
The economic growth of the state has resulted in a corresponding increase in the workload of the Office of State Tax Commissioner. Returns continue to remain at record levels in nearly all tax types. The following chart illustrates the growth in the Office of State Tax Commissioner’s workload since 2008:

|  | 2008    | 2014    | 2018    | 2008-2018 Increase | Percent Change |
|--|---------|---------|---------|--------------------|----------------|
| Sales tax – original returns filed   | 145,849 | 194,856 | 209,735 | 63,886             | 44%            |
| Individual income tax withholding - original returns filed   | 112,744 | 148,213 | 147,245 | 34,501             | 31%            |
| Individual income tax - original returns filed   | 354,623 | 480,903 | 471,006 | 116,383            | 33%            |
| Partnership and S Corp - original returns filed  | 23,348  | 38,835  | 43,223  | 19,875             | 85%            |
| Corporate income tax - original returns filed by out of state corporations   | 5,347   | 7,419   | 7,958   | 2,611              | 49%            |
| Canadian resident sales tax refund requests  | 15,537  | 25,022  | 9,421   | -6,116             | -39%           |
| Fraudulent Claims/ID Theft – Identification of over 1,400 fraudulent claims, totaling over \$2 million since 2015. |         |         |         |                    |                |

Despite workloads, the Office of State Tax Commissioner has kept several authorized positions unfilled in the current biennium to accommodate a 90 percent budget if needed through attrition. As of January 2019, we have 18 unfilled positions.

The number of positions authorized for the agency has declined significantly over the past twenty years, from 151 in 1998 to 133 in the current biennium. Reduction in staff has been made possible through continued efforts to gain efficiencies. Key technological advancements have created more efficient processes that can be executed with less staff, such as an increasing percentage of electronically filed returns, the implementation of web-file solutions for businesses – Taxpayer Access Point (TAP), and the implementation of an integrated tax system known as GenTax. However, continued growth of workload and continued staff reductions has put a strain on the agency’s ability to provide timely service. Tough decisions to prioritize and focus on critical tasks often limits other functions that should be done, many of which are in the best interest of the taxpayer and the state but are not required. The following chart shows a long-term history of the staffing level for the Office of State Tax Commissioner.

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

## AGENCY OPERATIONS BUDGET 2017-19 BIENNIUM BASE BUDGET

| Line Item          | 2017-19<br>Base Level<br>Appropriation | Carryover<br>Section 7,<br>HB 1006 | 2017-19<br>Appropriation<br>Total | Percent of<br>Total |
|--------------------|--|------------------------------------|-----------------------------------|---------------------|
| Salaries & Wages   | 21,724,004                             | 75,000                             | 21,799,004                        | 76.4%               |
| Operating Expenses | 6,749,295                              |                                    | 6,749,295                         | 23.6%               |
| Capital Assets     | 6,000                                  |                                    | 6,000                             | 0%                  |
| <b>Total</b>       | <b>28,479,299</b>                      | <b>75,000</b>                      | <b>28,554,299</b>                 | <b>100%</b>         |

As an agency that relies on staff to meet its statutory obligations and perform all of the work the legislature has directed us to do, we have a budget that consists primarily of salaries and wages. Approximately 76 percent of the current biennium operating budget is for salaries and wages. The appropriation for salaries and wages for the 2017-19 biennium was \$21.7 million.

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Although authorized for 133 full-time equivalent positions for the 2017-19 biennium, the base level budget provided funding for 127 FTEs and recognized expected savings due to staff turnover. In addition to not filling 6 positions, other positions were held open and hiring was delayed in order to generate savings. In some cases, long-tenured employees retired and positions were filled at lower salaries, which also contributed to budget savings.

Significant reductions were made to travel, postage, printing, IT equipment, office furniture and equipment, and advertising. This means our staff have had less training; there has been less printing and mailing of forms, booklets, guidelines and statements; and less has been spent to promote programs such as the Homestead Tax Credit.

### 2017-19 ESTIMATED SPENDING

The Office of State Tax Commissioner has analyzed estimated expenditures and due to steps taken to keep positions unfilled and reduce expenditures where possible, the following unspent amounts are anticipated. A detailed analysis is attached as Appendix B.

| Line Item                 | 2017-19<br>Base Level | Estimated<br>2017-19<br>Expenditures | Variance         |
|---------------------------|-----------------------|--------------------------------------|------------------|
| Salaries and Wages        | 21,724,004            | 20,724,004                           | 1,000,000        |
| Operating Expenses        | 6,749,295             | 6,649,295                            | 100,000          |
| Capital Assets            | 6,000                 | 0                                    | 6,000            |
| <b>Total</b>              | <b>28,479,199</b>     | <b>27,373,299</b>                    | <b>1,106,000</b> |
| Less Federal Funds        | (125,000)             | (25,000)                             | (100,000)        |
| <b>Total General Fund</b> | <b>28,354,199</b>     | <b>27,348,299</b>                    | <b>1,006,000</b> |

### 2019-21 BIENNIUM 90% BUDGET AND GOVERNOR'S RECOMMENDED BUDGET

| Line Item          | 2017-19<br>Base Level<br>Amount | Base<br>Budget<br>Adjustments | 2019-21<br>90% Budget<br>Amount | 90%<br>Budget<br>Adjustments | 2019-21<br>Governor's<br>Budget | Percent of<br>Total |
|--------------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|---------------------------------|---------------------|
| Salaries & Wages   | 21,724,004                      | (1,796,020)                   | 19,927,984                      | 3,312,149                    | 23,240,133                      | 76.5%               |
| Operating Expenses | 6,749,295                       | (904,411)                     | 5,844,884                       | 1,267,576                    | 7,112,460                       | 23.4%               |
| Capital Assets     | 6,000                           | 0                             | 6,000                           | 0                            | 6,000                           | 0%                  |
| <b>Total</b>       | <b>28,479,299</b>               | <b>(2,700,431)</b>            | <b>25,778,868</b>               | <b>4,579,725</b>             | <b>30,358,593</b>               | <b>100%</b>         |

To meet the 90 percent budget request for 2019-21, we followed a strategy of reducing salary expenditures by leaving positions vacant whenever possible and reducing operating expenses through efficiencies and work process changes, along with some reductions in critical services.

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The agency had 133 full-time equivalent positions for the 2017-19 biennium, with base level provided funding for 127 FTEs. A total of 6 FTEs, unfunded in the 2017-19 biennium, were put forward to meet the 5 percent staffing reduction request. To meet the 90 percent budget limit for 2019-21, salary and wages had to be unfunded with an estimated potential reduction down to 110 FTEs. The Office of State Tax Commissioner has hit the critical point where staffing needs and technology innovations are at a cross-roads. The work to reinvent and streamline processes has been occurring for two decades, and a dramatic reduction in staffing will have impacts to the timeliness and overall ROI of the agency. With this in mind, an optional request for the restoration of salaries from was submitted, and the Governor's executive budget recommendation proposes reducing staff by only an additional 4 FTEs (plus the 6 FTEs included in the 5 percent staffing reduction), bringing total staffing to 123 FTEs. The Governor's recommended budget restores \$1.81 million to the salaries and wages line and \$75,000 to the operating line for related expenses.

The 2019-21 base budget at 90 percent for operating expenses was \$5.8 million. The operating expenses line item includes a reduction in service on an ongoing contract with the provider of the state's integrated tax system, GenTax. This reduction of service limited the support available, as well as upgrades to the current system. An optional ask of \$1.13 million was submitted to restore service to its current level, which was included in the Governor's budget recommendation. GenTax support is the greatest portion of our operating expenses line at \$3.6 million. This period of budget reduction was again used as an opportunity to examine all aspects of operations and business processes to look for savings and efficiencies.

The following is a brief summary of the steps we have taken to reduce our budget:

- 6 FTEs unfunded in last session were eliminated to meet the 5% staffing reduction guideline.
- Positions have been left unfilled whenever possible to meet anticipated budget cuts, which resulted in additional work being distributed to other staff reducing timeliness, customer service and revenue collections.
- Temporary salary funding was reduced.
- Nearly \$2.582 million was "unfunded" from the salaries and wages line in anticipation of savings needed to achieve a 10% reduction, a portion of this was restored in the Governor's budget.
- Continued reductions were made to travel, postage, printing, IT equipment, office furniture and equipment, and advertising.
- Reduction in contracted service with our software vendor for GenTax was necessary to meet requirements. The Governor's budget restored funding to keep service at current levels, a long-term saving to the state as a break in service limits maintenance and advancements and adjusts prices negotiated in the 2016 allotment, grandfathered with a 4% discount if no reduction in services occurred.

Governor Burgum authorized the following additions to the budget to determine the 2019-21 biennium budget:

- \$1.13 million for continued GenTax support at current level
- \$1.81 million for salaries for the restoration of 13 FTEs
- \$75,000 for operating costs associated with the restoration of 13 FTEs
- \$62,576 to support Microsoft Office 365 implementation

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## FEDERAL FUNDING CHANGES

No changes in federal funding are expected for the 2019-21 biennium.

## 2019-21 BIENNIUM REQUESTED BUDGET

### PRIORITY 1 – SERVICE DELIVERY CONTINUITY – SALARY & STAFFING

The Office of State Tax Commissioner is at a critical point where staffing needs and technological innovations are at a cross-road. Current staffing levels are needed to manage the processes, tasks, and outputs of tax administration in a timely manner. In addition, the agency is facing increased workloads in two areas due to recent court actions that impact state revenues: 1) Wayfair vs. South Dakota and 2) Tobacco Master Settlement Agreement.

The Office of State Tax Commissioner seeks to restore funding for positions that help ensure the timeliness of tax administration. The executive budget recommendation includes the restoration of \$1.81 million to provide funding for 13 positions.

The highest priority for the agency is to restructure to allocate staffing to the discovery, compliance and audit of businesses with no physical presence who meet thresholds for sales tax compliance, as well as both corporate and individual income tax auditors, and needed staff to assist in the processes critical to the flow of tax administration. North Dakota is one of 45 states now able to collect sales tax from remote sellers, which could mean as much as \$20-\$50 million in revenues per year. In the long term, additional staff in this area also increase the number of audits and assessments that could potentially occur, ultimately increasing revenues for the state.

**The Office of State Tax Commissioner requests \$1.81 million and \$75,000 for related operating costs to restore 13 positions (same as Governor Burgum’s recommendation).**

### PRIORITY 2 – GEN TAX MAINTENANCE CONTRACT – SERVICE RESTORATION

The Office of State Tax Commissioner implemented GenTax in the 2005-07 biennium and has been grandfathered into the current pricing structure, which is below market rates. In 2017-19, the agency negotiated a 4 percent discount on the GenTax (Level 3) contract to accommodate budget shortfalls. As part of the 90 percent budgets, a reduction in GenTax service was necessary to meet requirements, but potentially could result in a \$7-\$9 million increase over 10 years for support. The executive budget provides \$1.13 million to restore current service levels for GenTax in the coming biennium. Investment at this service level has allowed implementation of such services as the Taxpayer Access Point and others at no additional cost to the agency.

**The Office of State Tax Commissioner requests \$1.13 million to continue GenTax service at the current level (same as Governor Burgum’s recommendation).**

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### PRIORITY 3 – LITIGATION CONTINGENCY FUNDS

The Office of State Tax Commissioner has a number of potential cases that may result in litigation. We initially asked for \$1.2 million in litigation contingency funding to support cases that could result in court action. The Governor’s budget recommends these funds become part of a contingency pool at the Office of Management and Budget as a number of agencies were seeking similar funds.

**The Office of State Tax Commissioner requests \$1.2 million be included for potential court action on tax related cases in the proposed litigation pool at OMB.**

### GRANT PROGRAMS BUDGET– HOMESTEAD TAX CREDIT AND DISABLED VETERAN’S CREDIT

#### 2017-19 BIENNIUM BASE LEVEL BUDGET AND 2019-21 BIENNIUM GOVERNOR’S RECOMMENDED BUDGET

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

The original appropriation for this line for the 2017-19 biennium was \$14.8 million. Expenditures during the first year of the biennium totaled slightly less than \$8 million. Although we won’t know fiscal year 2019 expenditures until close to the end of the biennium, we estimate that the remaining appropriation will not be sufficient to cover projected expenditures. Our best estimate at this time is for 2017-19 biennium expenditures to total approximately \$16 million, \$1,170,000 more than the appropriation. No statutory authority exists for the appropriation to be prorated.

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

The original appropriation for this line for the 2017-19 biennium was \$8.1 million. Expenditures during the first year of the biennium totaled just over \$4 million. Our best estimate for 2017-19 biennium expenditures is approximately \$8.3 million, \$150,000 more than the appropriation. No statutory authority exists for the appropriation to be prorated. After the credit is granted by counties to eligible tax payers, the county receives reimbursement from the state.

Deficiency funding requests for both the Homestead Tax Credit (\$1,170,000) and Disabled Veteran’s Credit (\$150,000) programs are included in SB 2024.

**For the required 90 percent budget, the Office of State Tax Commissioner requested \$14.8 million for the Homestead Tax Credit program and \$8.1 million for the Disabled Veteran’s Credit program. Governor Burgum provided additional funding in his recommendation of \$15.8 million for the Homestead Tax Credit program (6.8 percent increase), and \$8.4 million for the Disabled Veteran’s Credit program (3.7 percent increase).**

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## LINE ITEM TRANSFERS

Appropriations for the Homestead Tax Credit program and Disabled Veteran's Credit program are based on estimated program costs. Program costs are difficult to estimate and occasionally result in either a deficiency request or a turn back to the general fund. In the past two bienniums, line item transfer authority has been granted to allow for any shortfall situations. The Office of State Tax Commissioner requests consideration of the amendment language provided in Appendix E for Senate Bill 2006. This authority will allow the agency to continue to address any shortfalls and funding could only be transferred between these two lines and nowhere else within the Office of State Tax Commissioner budget.

## PROMOTION

In past bienniums, the Office of State Tax Commissioner has spent approximately \$30,000 to \$40,000 from its operating expense line to promote the Homestead Tax Credit and Disabled Veteran's Credit programs. However, no additional funding has ever been provided for this effort. Funding was made available in the past by reprioritizing funds from the appropriated budget. To meet allotments and reduced budgets, this amount was removed from the operating line in past bienniums.

In lieu of a specific appropriation for this amount, the Office of State Tax Commissioner requests your consideration of authority to use a small portion of these program line items to promote the respective programs. The requested authority is up to \$40,000 from the Homestead Tax Credit line item and up to \$5,000 from the Disabled Veteran's Credit line item.

## AUDIT FINDINGS

The operational audit for the Office of State Tax Commissioner conducted by the State Auditor's Office during the 2017-2018 interim identified no significant audit findings.

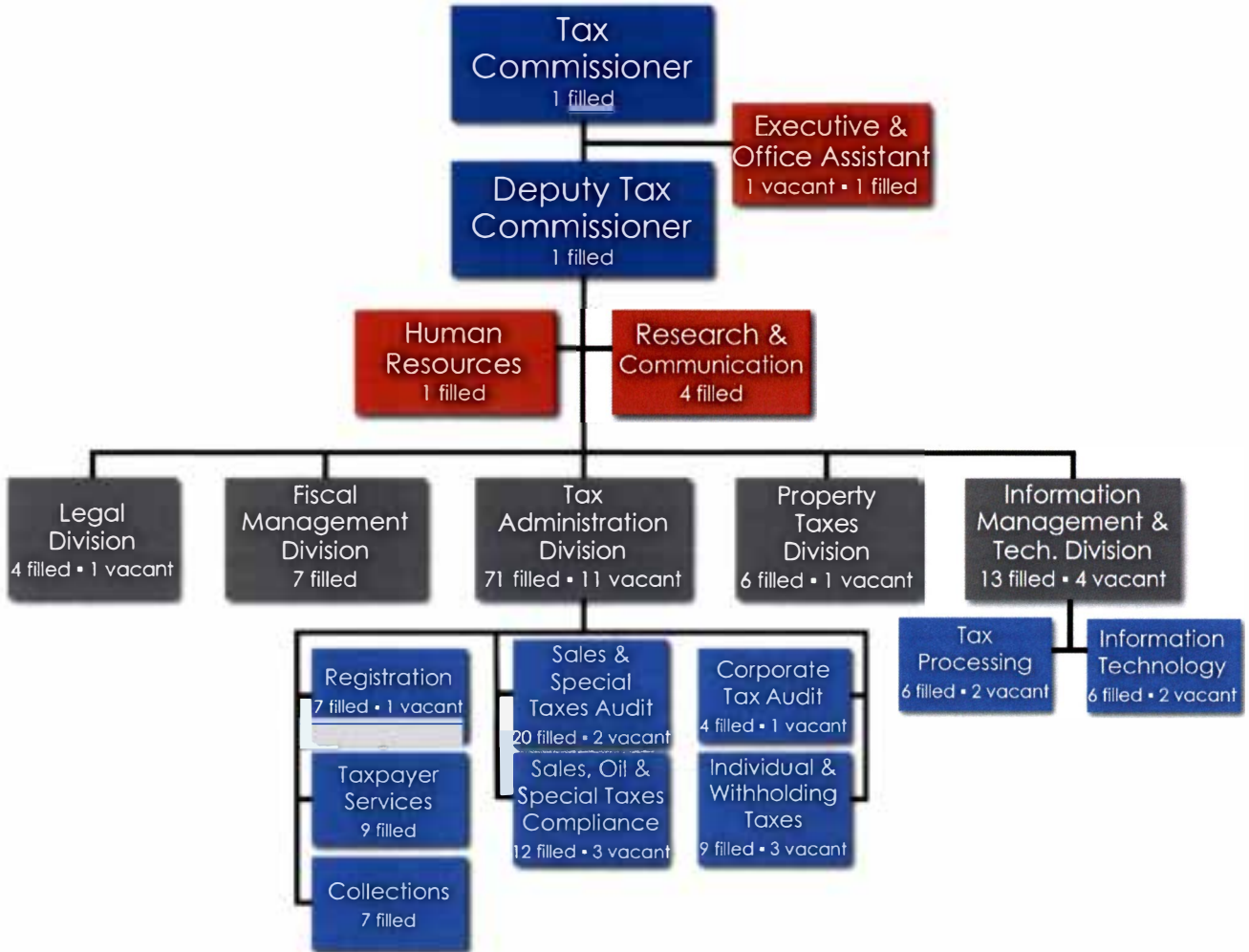
## ATTACHMENTS

- Appendix A – Organizational chart with filled/vacant positions shown by section.
- Appendix B – Estimated 2017-19 expenditures.
- Appendix C – Analysis of budget reductions proposed to meet 90% budget requirements.
- Appendix D – Comparison of optional budget asks and adjustments recommended by Governor Burgum.
- Appendix E – Proposed amendments for SB2006.



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OFFICE OF STATE TAX COMMISSIONER  
APPENDIX A - ORGANIZATIONAL CHART  
AS OF JANUARY 2, 2019 – 127 FUNDED FTES – DOES NOT REFLECT 6 UNFUNDED FTES



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OFFICE OF STATE TAX COMMISSIONER  
APPENDIX B - ESTIMATED 2017-2019 EXPENDITURES

| Line Item/<br>\$ Object<br>Description     | Appropriation<br>2017 - 2019 | Estimated<br>Expenses<br>2017 -<br>2019 | Variance           |     | Governor's<br>Recommended<br>2019 - 2021 | Inc/(Decr)<br>Recommended<br>over 17 - 19<br>Appropriation |
|--|------------------------------|---|--------------------|-----|--|--|
| Salaries & Wages                           | 21,724,004                   | 20,724,004                              | 1,000,000          | (1) | 23,240,133                               | 1,516,129 (3)  |
| Operating Expenses                         | 6,749,295                    | 6,649,295                               | 100,000            | (2) | 7,112,460                                | 363,165 (4)  |
| Capital Assets                             | 6,000                        | 0                                       | 6,000              |     | 6,000                                    | 0  |
| <b>Subtotal</b>                            | <b>28,479,299</b>            | <b>27,373,299</b>                       | <b>1,106,000</b>   |     | <b>30,358,593</b>                        | <b>1,879,294</b>   |
| % of Change                                |                              |   |                    |     |  | 6.6%   |
| Homestead Tax Credit<br>(General Fund)     | 14,800,000                   | 15,970,000                              | (1,170,000)        | (7) | 15,800,000                               | 1,000,000 (5)  |
| Disabled Veterans Credit<br>(General Fund) | 8,110,200                    | 8,260,200                               | (150,000)          | (7) | 8,410,200                                | 300,000 (6)  |
| <b>Total for Agency</b>                    | <b>\$51,389,499</b>          | <b>\$51,603,499</b>                     | <b>\$(214,000)</b> |     | <b>\$54,568,793</b>                      | <b>\$3,179,294</b>   |
| # FTE                                      | 133                          |   |                    |     | 123                                      | (10)   |
| <b>Total General Fund</b>                  | <b>51,264,499</b>            | <b>51,578,499</b>                       | <b>(314,000)</b>   |     | <b>54,443,793</b>                        | <b>3,179,294</b>   |
| <b>Total Special Fund</b>                  | <b>0</b>                     | <b>0</b>                                | <b>0</b>           |     | <b>0</b>                                 | <b>0</b>   |
| <b>Total Federal Fund</b>                  | <b>125,000</b>               | <b>25,000</b>                           | <b>100,000</b>     |     | <b>125,000</b>                           | <b>0</b>   |
| <b>Total Funding Source</b>                | <b>\$51,389,499</b>          | <b>\$51,603,499</b>                     | <b>(214,000)</b>   |     | <b>\$54,568,793</b>                      | <b>\$3,179,294</b>   |
| % of Change                                |                              |   |                    |     |  | 6.2%   |

<sup>1</sup> The projected underrun in Salaries is due to savings from vacancies and filling positions less than budgeted. As of 01/02/2019 the agency had 18 vacancies.

<sup>2</sup> The projected under-run in Operating Expenses is from unused federal grant funds (\$100,000).

<sup>3</sup> The increase in the 2019-2021 Salary line includes the removal of funding for 4 FTEs and 6 currently unfunded FTEs, the cost to fully fund the remaining 123 positions, and the proposed salary compensation package recommended by the Governor.

<sup>4</sup> The base budget request includes fully covering the contract for GenTax support services, Microsoft Office 365 service support, and restoration of a small portion of operating expenses (\$75,000).

<sup>5</sup> An additional \$1 million is included in the Governor's recommended budget to fund this program based on current program eligibility requirements. Amount required to fully fund program is \$16 million.

<sup>6</sup> The 2019-2021 increase for the Disabled Veteran's Credit program reflects the amount needed to fully fund this program based on current program eligibility requirements. Amount required to fully fund program is \$9 million.

<sup>7</sup> Deficiency appropriation requests to cover excess expected expenditures are included in SB2024.

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OFFICE OF STATE TAX COMMISSIONER  
APPENDIX C - ANALYSIS OF RECOMMENDED BUDGET –  
2019-21 BIENNIUM

| A  | B                                      | C   | D                        | (C+D)<br>E                                 | F                                |
|--|--|---|--------------------------|--|----------------------------------|
| Line Item/<br>Object Description           | 2017-2019<br>Original<br>Appropriation | Agency<br>Adjustments<br>For 90% Level<br>Request | Adjustments<br>by<br>OMB | Total<br>Adjustments<br>or<br>Enhancements | 2019-2021<br>Recommend<br>Budget |
| <b>1 Total Salaries and Wages</b>          | 21,724,004                             | (1,796,020)                                       | 3,312,149                | 1,516,129                                  | 23,240,133                       |
| FTE Employees                              | 133                                    | (6)   | (4)                      | (10)                                       | 123                              |
| <b>Operating Expenses</b>                  |  |   |                          |  |                                  |
| <b>2 Travel</b>                            | 299,397                                | (30,147)  | 75,000                   | 44,853                                     | 344,250                          |
| <b>3 Supplies - IT Software</b>            | 182,784                                | 7,226   | 62,576                   | 69,802                                     | 252,586                          |
| <b>4 Supply/Material-Professional</b>      | 69,965                                 | 2,740   | 0                        | 2,740                                      | 72,705                           |
| <b>5 Bldg, Ground, Maintenance</b>         | 0                                      | 0   | 0                        | 0  | 0                                |
| <b>6 Miscellaneous Supplies</b>            | 21,000                                 | (1,000)   | 5,000                    | 4,000                                      | 25,000                           |
| <b>7 Office supplies</b>                   | 95,372                                 | (15,372)  | 0                        | (15,372)                                   | 80,000                           |
| <b>8 Postage</b>                           | 824,035                                | (14,035)  | 0                        | (14,035)                                   | 810,000                          |
| <b>9 Printing</b>                          | 110,609                                | (609)   | 0                        | (609)                                      | 110,000                          |
| <b>10 IT Equipment under \$5,000</b>       | 58,483                                 | (28,483)  | 0                        | (28,483)                                   | 30,000                           |
| <b>11 Other Equip under \$5,000</b>        | 1,600                                  | (1,600)   | 0                        | (1,600)                                    | 0                                |
| <b>12 Office Equip &amp; Furn Supplies</b> | 75,000                                 | (50,000)  | 0                        | (50,000)                                   | 25,000                           |
| <b>13 Insurance</b>                        | 9,100                                  | 16,327  | 0                        | 16,327                                     | 25,427                           |
| <b>14 Leases/Rents - Equipment</b>         | 48,000                                 | 3,440   | 0                        | 3,440                                      | 51,440                           |
| <b>15 Leases/Rents - Buildings/Land</b>    | 109,368                                | 8,752   | 0                        | 8,752                                      | 118,120                          |
| <b>16 Repairs</b>                          | 86,168                                 | 3,832   | 0                        | 3,832                                      | 90,000                           |
| <b>17 IT - Data Processing</b>             | 1,020,800                              | (2,791)   | 0                        | (2,791)                                    | 1,018,009                        |
| <b>18 IT - Communications</b>              | 162,264                                | 0   | 0                        | 0  | 162,264                          |
| <b>19 IT Contractual Services</b>          | 3,281,855                              | (781,855)   | 1,130,000                | 348,145                                    | 3,630,000                        |
| <b>20 Professional Development</b>         | 197,070                                | 3,289   | (5,000)                  | (1,711)                                    | 195,359                          |
| <b>21 Operating Fees &amp; Services</b>    | 96,425                                 | (24,125)  | 0                        | (24,125)                                   | 72,300                           |
| <b>22 Professional Services</b>            | 0                                      | 0   | 0                        | 0  | 0                                |
| <b>23 Total Operating Expenses</b>         | 6,749,295                              | (904,411)   | 1,267,576                | 363,165                                    | 7,112,460                        |
| <b>24 Total Capital Asset</b>              | 6,000                                  | 0   | 0                        | 0  | 6,000                            |
| Subtotal General Fund                      | 28,354,299                             | (2,700,431)                                       | 4,579,725                | 1,879,294                                  | 30,233,593                       |
| Subtotal Federal Fund                      | 125,000                                | 0   | 0                        | 0  | 125,000                          |
| <b>25 Subtotal Tax Department</b>          | 28,479,299                             | (2,700,431)                                       | 4,579,725                | 1,879,294                                  | 30,358,593                       |
| <b>26 Homestead Tax Credit</b>             | 14,800,000                             | 0   | 1,000,000                | 1,000,000                                  | 15,800,000                       |
| <b>27 Disabled Veterans Credit</b>         | 8,110,200                              |   | 300,000                  | 300,000                                    | 8,410,200                        |
| <b>28 Total General Fund</b>               | 51,264,499                             | (2,700,431)                                       | 5,879,725                | 3,179,294                                  | 54,443,793                       |
| <b>29 Total Federal Fund</b>               | 125,000                                | 0   | 0                        | 0  | 125,000                          |
| <b>30 Total for Agency</b>                 | 51,389,499                             | (2,700,431)                                       | 5,879,725                | 3,179,294                                  | 54,568,793                       |

\*Equals 2017-19 final legislative appropriation before \$75,000 carryover adjustment (Section 7 of HB 1006).

# 1  
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1-7-2019

OFFICE OF STATE TAX COMMISSIONER  
APPENDIX D - COMPARISON OF OPTIONAL BUDGET ASKS AND  
GOVERNOR'S RECOMMENDED BUDGET

| Description                                       | Optional Requests | Optionals Not Included In 2019-21 Gov. Recomm. | Balance In 2019-2021 Recommended Budget | Comments  |
|---|-------------------|--|---|---|
| <b>Salary &amp; Wages</b>                         |                   |  |   |   |
| Reinvent package - funding for 17 FTEs            | 2,582,252         | 772,252  | 1,810,000                               | 4 in the recommended budget = 123)Restores a portion of request to fund equivalent of 17 FTEs. The reduction eliminates 4 FTEs for a total reduction to FTEs of 10 (133 - 6 in base and |
| <b>Total Salary and Wages Optional Requests</b>   | <b>2,582,252</b>  | <b>772,252</b>                                 | <b>1,810,000</b>                        |   |
| <b>Operating Expenses</b>                         |                   |  |   |   |
| Inflationary adjustments to Operating             | 45,606            | 45,606   | 0                                       | Eliminated all inflationary increases requested   |
| Gentax Support - Level 3                          | 1,130,000         | 0  | 1,130,000                               | Restores Gentax support to Level 3 (current level of support)   |
| Reinvent package - operating                      | 98,805            | (38,771)                                       | 137,576                                 | Restored 75,000 of 98,805 and added 62,576 for Microsoft Office 365   |
| Litigation contingency                            | 1,200,000         | 1,200,000                                      | 0                                       | Moved to litigation pool in OMBs appropriation bill   |
| <b>Total Operating Expenses Optional Requests</b> | <b>2,474,411</b>  | <b>1,206,835</b>                               | <b>1,267,576</b>                        |   |
| <b>Homestead Tax Credit</b>                       | <b>1,200,000</b>  | <b>200,000</b>                                 | <b>1,000,000</b>                        | Restored portion of request   |
| <b>Disabled Veterans Credit</b>                   | <b>889,800</b>    | <b>589,800</b>                                 | <b>300,000</b>                          | Restored portion of request   |
| <b>Subtotal of Adjustments - All General Fund</b> | <b>7,146,463</b>  | <b>2,768,887</b>                               | <b>4,377,576</b>                        |   |
| Governor's health ins & compensation package      |                   |  | 1,502,149                               |   |
| <b>Total All Adjustments</b>                      |                   |  | <b>5,879,725</b>                        |   |

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## OFFICE OF STATE TAX COMMISSIONER

### APPENDIX E - PROPOSED AMENDMENTS TO SB2006

The following proposed amendment would grant authority for line item transfers between the Homestead Tax Credit and Disabled Veteran's Credit programs.

1. Proposed New Section for SB2006:

**SECTION 3. LINE ITEM TRANSFERS – 2019-21 BIENNIUM.** The state tax commissioner may transfer between the homestead tax credit and disabled veteran's credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget of any transfers made pursuant to this section.

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The following proposed amendment would grant authority for up to \$40,000 from the Homestead Tax Credit line item and up to \$5,000 from the Disabled Veteran's Credit line item to be used to promote participation in the programs.

2. Proposed New Section for SB2006:

**SECTION 4. PROMOTIONAL EXPENSE – 2019-21 BIENNIUM.** The state tax commissioner may use funds up to \$40,000 from the homestead tax credit line item and up to \$5,000 from the disabled veteran's credit line item in section 1 of this Act to promote program participation.



Real Possibilities in

# North Dakota

#2  
SB 2006  
1-7-2019

ND Tax Department Budget  
January 7, 2019  
Senate Appropriations  
Mike Chaussee – AARP ND  
[mchaussee@aarp.org](mailto:mchaussee@aarp.org) or 701-390-0161

Chairman Holmberg and members of the Senate Appropriations Committee,

It is a priority for AARP North Dakota to support legislation and ideas that help older North Dakotans remain living in their homes and communities for as long as possible. Our surveys, and the surveys of others, show over and over again that people prefer to age in place.

We want to thank you and previous legislatures for the continued support of the Homestead Property Tax Credit. It's an important tax break provided to older North Dakotans who are the most financially vulnerable.

Property taxes are some of the most burdensome taxes for many low-income and older homeowners. Many of our older citizens have lived in their homes for a long time. As their property values have increased, so have their property taxes. But many do not have the income to afford the yearly increases in their property taxes while also meeting their basic needs for food, medicine and utilities.

Our most recent information (2014) shows almost a quarter (23.1%) of North Dakotans who collect Social Security benefits rely on it for 90 percent or more of their income. Nearly half (45%) rely on Social Security for more than 50 percent of their income. Considering, the average Social Security benefit in 2018 for North Dakotans was only about \$1340 a month, it makes sense that many would need a tax break like the Homestead Tax Credit to be able to afford to stay at home.

AARP policy supports efforts for property tax relief provided in an equitable manner to low- and moderate-income homeowners and renters. AARP supports "circuit breaker" measures, like the North Dakota Homestead Property Tax Credit. Circuit breaker programs offer property tax credits or homestead exemptions that decrease as income increases, resulting in a more progressive tax system. Therefore, lower-income households receive

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greater tax relief than higher-income households. Further, these programs are specifically targeted to low- and moderate-income households.

About 33 states and the District of Columbia offer circuit breaker programs. Most of these provide tax relief to both homeowners and renters. Most of them are targeted to older homeowners and renters or provide more generous benefits to older homeowners and renters. Most circuit breaker programs are state-financed.

The state allocated nearly \$15 million for the Homestead Tax Credit last biennium. We would support funding at least at that level this coming biennium.

Thank you,

Mike Chaussee  
AARP North Dakota

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

|   | Executive Budget Recommendation |              |             |              | Senate Version |              |             |              | Senate Changes to Executive Budget<br>Increase (Decrease) - Executive Budget |               |             |               |
|---|---------------------------------|--------------|-------------|--------------|----------------|--------------|-------------|--------------|--|---------------|-------------|---------------|
|   | FTE Positions                   | General Fund | Other Funds | Total        | FTE Positions  | General Fund | Other Funds | Total        | FTE Positions  | General Fund  | Other Funds | Total         |
| <b>2019-21 Biennium Base Level</b>                                | 133.00                          | \$51,264,499 | \$125,000   | \$51,389,499 | 133.00         | \$51,264,499 | \$125,000   | \$51,389,499 | 0.00   | \$0           | \$0         | \$0           |
| <b>2019-21 Ongoing Funding Changes</b>                            |                                 |              |             |              |                |              |             |              |  |               |             |               |
| Base payroll changes  |                                 | \$711,232    |             | \$711,232    |                | \$711,232    |             | \$711,232    |  |               |             | \$0           |
| Salary increase   |                                 | 904,179      |             | 904,179      |                | 633,516      |             | 633,516      |  | (270,663)     |             | (270,663)     |
| Health insurance increase   |                                 | 479,935      |             | 479,935      |                | 566,684      |             | 566,684      |  | 86,749        |             | 86,749        |
| Retirement contribution increase                                  |                                 | 118,035      |             | 118,035      |                |              |             | 0            |  | (118,035)     |             | (118,035)     |
| Adds funding for an auditor position (partial funding in 2017-19) |                                 | 75,000       |             | 75,000       |                |              |             | 0            |  | (75,000)      |             | (75,000)      |
| Removes unfunded vacant FTE positions                             | (10.00)                         |              |             | 0            |                |              |             | 0            | 10.00  |               |             | 0             |
| Underfunds salaries and wages                                     |                                 | (772,252)    |             | (772,252)    |                |              |             | 0            |  | 772,252       |             | 772,252       |
| Adds funding for GenTax software support                          |                                 | 300,589      |             | 300,589      |                |              |             | 0            |  | (300,589)     |             | (300,589)     |
| Adds funding for Microsoft Office 365 licensing                   |                                 | 62,576       |             | 62,576       |                |              |             | 0            |  | (62,576)      |             | (62,576)      |
| Adds funding for homestead tax credits                            |                                 | 1,000,000    |             | 1,000,000    |                |              |             | 0            |  | (1,000,000)   |             | (1,000,000)   |
| Adds funding for disabled veterans' tax credits                   |                                 | 300,000      |             | 300,000      |                |              |             | 0            |  | (300,000)     |             | (300,000)     |
| Total ongoing funding changes                                     | (10.00)                         | \$3,179,294  | \$0         | \$3,179,294  | 0.00           | \$1,911,432  | \$0         | \$1,911,432  | 10.00  | (\$1,267,862) | \$0         | (\$1,267,862) |
| <b>One-time funding items</b>                                     |                                 |              |             |              |                |              |             |              |  |               |             |               |
| 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           |
| <b>Total Changes to Base Level Funding</b>                        | (10.00)                         | \$3,179,294  | \$0         | \$3,179,294  | 0.00           | \$1,911,432  | \$0         | \$1,911,432  | 10.00  | (\$1,267,862) | \$0         | (\$1,267,862) |
| <b>2019-21 Total Funding</b>                                      | 123.00                          | \$54,443,793 | \$125,000   | \$54,568,793 | 133.00         | \$53,175,931 | \$125,000   | \$53,300,931 | 10.00  | (\$1,267,862) | \$0         | (\$1,267,862) |

**Other Sections for Tax Commissioner - Budget No. 127**

|   | Executive Budget Recommendation   | Senate Version |
|---|---|----------------|
| Line item transfers                     | Section 2 would authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.   |                |
| Motor vehicle fuel tax revenue transfer | Section 3 would provide for a transfer of \$1,991,024 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 would provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$119,383 (4 percent) in fiscal year 2020 and to \$121,770 (2 percent) in fiscal year 2021. |                |



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Although authorized for 133 full-time equivalent positions for the 2017-19 biennium, the base level budget provided funding for 127 FTEs and recognized expected savings due to staff turnover. In addition to not filling 6 positions, other positions were held open and hiring was delayed in order to generate savings. In some cases, long-tenured employees retired and positions were filled at lower salaries, which also contributed to budget savings.

Significant reductions were made to travel, postage, printing, IT equipment, office furniture and equipment, and advertising. This means our staff have had less training; there has been less printing and mailing of forms, booklets, guidelines and statements; and less has been spent to promote programs such as the Homestead Tax Credit.

### 2017-19 ESTIMATED SPENDING

The Office of State Tax Commissioner has analyzed estimated expenditures and due to steps taken to keep positions unfilled and reduce expenditures where possible, the following unspent amounts are anticipated. A detailed analysis is attached as Appendix B.

| Line Item                 | 2017-19<br>Base Level | Estimated<br>2017-19<br>Expenditures | Variance         |
|---------------------------|-----------------------|--------------------------------------|------------------|
| Salaries and Wages        | 21,724,004            | 20,724,004                           | 1,000,000        |
| Operating Expenses        | 6,749,295             | 6,649,295                            | 100,000          |
| Capital Assets            | 6,000                 | 0                                    | 6,000            |
| Total                     | 28,479,199            | 27,373,299                           | 1,106,000        |
| Less Federal Funds        | (125,000)             | (25,000)                             | (100,000)        |
| <b>Total General Fund</b> | <b>28,354,199</b>     | <b>27,348,299</b>                    | <b>1,006,000</b> |

### 2019-21 BIENNIUM 90% BUDGET AND GOVERNOR'S RECOMMENDED BUDGET

| Line Item          | 2017-19<br>Base Level<br>Amount | Base<br>Budget<br>Adjustments | 2019-21<br>90% Budget<br>Amount | 90%<br>Budget<br>Adjustments | 2019-21<br>Governor's<br>Budget | Percent of<br>Total |
|--------------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|---------------------------------|---------------------|
| Salaries & Wages   | 21,724,004                      | (1,796,020)                   | 19,927,984                      | 3,312,149                    | 23,240,133                      | 76.5%               |
| Operating Expenses | 6,749,295                       | (904,411)                     | 5,844,884                       | 1,267,576                    | 7,112,460                       | 23.4%               |
| Capital Assets     | 6,000                           | 0                             | 6,000                           | 0                            | 6,000                           | 0%                  |
| <b>Total</b>       | <b>28,479,299</b>               | <b>(2,700,431)</b>            | <b>25,778,868</b>               | <b>4,579,725</b>             | <b>30,358,593</b>               | <b>100%</b>         |

To meet the 90 percent budget request for 2019-21, we followed a strategy of reducing salary expenditures by leaving positions vacant whenever possible and reducing operating expenses through efficiencies and work process changes, along with some reductions in critical services.

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The agency had 133 full-time equivalent positions for the 2017-19 biennium, with base level provided funding for 127 FTEs. A total of 6 FTEs, unfunded in the 2017-19 biennium, were put forward to meet the 5 percent staffing reduction request. To meet the 90 percent budget limit for 2019-21, salary and wages had to be unfunded with an estimated potential reduction down to 110 FTEs. The Office of State Tax Commissioner has hit the critical point where staffing needs and technology innovations are at a cross-roads. The work to reinvent and streamline processes has been occurring for two decades, and a dramatic reduction in staffing will have impacts to the timeliness and overall ROI of the agency. With this in mind, an optional request for the restoration of salaries from was submitted, and the Governor's executive budget recommendation proposes reducing staff by only an additional 4 FTEs (plus the 6 FTEs included in the 5 percent staffing reduction), bringing total staffing to 123 FTEs. The Governor's recommended budget restores \$1.81 million to the salaries and wages line and \$75,000 to the operating line for related expenses.

The 2019-21 base budget at 90 percent for operating expenses was \$5.8 million. The operating expenses line item includes a reduction in service on an ongoing contract with the provider of the state's integrated tax system, GenTax. This reduction of service limited the support available, as well as upgrades to the current system. An optional ask of \$1.13 million was submitted to restore service to its current level, which was included in the Governor's budget recommendation. GenTax support is the greatest portion of our operating expenses line at \$3.6 million. This period of budget reduction was again used as an opportunity to examine all aspects of operations and business processes to look for savings and efficiencies.

The following is a brief summary of the steps we have taken to reduce our budget:

- 6 FTEs unfunded in last session were eliminated to meet the 5% staffing reduction guideline.
- Positions have been left unfilled whenever possible to meet anticipated budget cuts, which resulted in additional work being distributed to other staff reducing timeliness, customer service and revenue collections.
- Temporary salary funding was reduced.
- Nearly \$2.582 million was "unfunded" from the salaries and wages line in anticipation of savings needed to achieve a 10% reduction, a portion of this was restored in the Governor's budget.
- Continued reductions were made to travel, postage, printing, IT equipment, office furniture and equipment, and advertising.
- Reduction in contracted service with our software vendor for GenTax was necessary to meet requirements. The Governor's budget restored funding to keep service at current levels, a long-term saving to the state as a break in service limits maintenance and advancements and adjusts prices negotiated in the 2016 allotment, grandfathered with a 4% discount if no reduction in services occurred.

Governor Burgum authorized the following additions to the budget to determine the 2019-21 biennium budget:

- \$1.13 million for continued GenTax support at current level
- \$1.81 million for salaries for the restoration of 13 FTEs
- \$75,000 for operating costs associated with the restoration of 13 FTEs
- \$62,576 to support Microsoft Office 365 implementation

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## FEDERAL FUNDING CHANGES

No changes in federal funding are expected for the 2019-21 biennium.

## 2019-21 BIENNIUM REQUESTED BUDGET

### PRIORITY 1 – SERVICE DELIVERY CONTINUITY – SALARY & STAFFING

The Office of State Tax Commissioner is at a critical point where staffing needs and technological innovations are at a cross-road. Current staffing levels are needed to manage the processes, tasks, and outputs of tax administration in a timely manner. In addition, the agency is facing increased workloads in two areas due to recent court actions that impact state revenues: 1) Wayfair vs. South Dakota and 2) Tobacco Master Settlement Agreement.

The Office of State Tax Commissioner seeks to restore funding for positions that help ensure the timeliness of tax administration. The executive budget recommendation includes the restoration of \$1.81 million to provide funding for 13 positions.

The highest priority for the agency is to restructure to allocate staffing to the discovery, compliance and audit of businesses with no physical presence who meet thresholds for sales tax compliance, as well as both corporate and individual income tax auditors, and needed staff to assist in the processes critical to the flow of tax administration. North Dakota is one of 45 states now able to collect sales tax from remote sellers, which could mean as much as \$20-\$50 million in revenues per year. In the long term, additional staff in this area also increase the number of audits and assessments that could potentially occur, ultimately increasing revenues for the state.

**The Office of State Tax Commissioner requests \$1.81 million and \$75,000 for related operating costs to restore 13 positions (same as Governor Burgum’s recommendation).**

### PRIORITY 2 – GENTAX MAINTENANCE CONTRACT – SERVICE RESTORATION

The Office of State Tax Commissioner implemented GenTax in the 2005-07 biennium and has been grandfathered into the current pricing structure, which is below market rates. In 2017-19, the agency negotiated a 4 percent discount on the GenTax (Level 3) contract to accommodate budget shortfalls. As part of the 90 percent budgets, a reduction in GenTax service was necessary to meet requirements, but potentially could result in a \$7-\$9 million increase over 10 years for support. The executive budget provides \$1.13 million to restore current service levels for GenTax in the coming biennium. Investment at this service level has allowed implementation of such services as the Taxpayer Access Point and others at no additional cost to the agency.

**The Office of State Tax Commissioner requests \$1.13 million to continue GenTax service at the current level (same as Governor Burgum’s recommendation).**

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PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 1, line 3, after the semicolon insert "to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the salary of the state tax commissioner;"

Page 1, replace lines 12 through 22 with:

|                                | <u>Base Level</u> | <u>Adjustments or Enhancements</u> | <u>Appropriation</u> |
|--------------------------------|-------------------|------------------------------------|----------------------|
| Salaries and wages             | \$21,724,004      | \$1,214,180                        | \$22,938,184         |
| Operating expenses             | 6,749,295         | 363,165                            | 7,112,460            |
| Capital assets                 | 6,000             | 0                                  | 6,000                |
| Homestead tax credit           | 14,800,000        | 1,000,000                          | 15,800,000           |
| Disabled veterans' tax credit  | 8,110,200         | 300,000                            | 8,410,200            |
| Total all funds                | \$51,389,499      | \$2,877,345                        | \$54,266,844         |
| Less estimated income          | 125,000           | 0                                  | 125,000              |
| Total general fund             | \$51,264,499      | \$2,877,345                        | \$54,141,844         |
| Full-time equivalent positions | 133.00            | (10.00)                            | 123.00               |

**SECTION 2. LINE ITEM TRANSFERS.** The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 4, insert:

**"SECTION 4. AMENDMENT.** Section 57-01-04 of the North Dakota Century Code is amended and reenacted as follows:

**57-01-04. Salary.**

The annual salary of the state tax commissioner is one hundred eleven thousand four hundred forty eight dollars through June 30, 2016, and one hundred fourteen thousand seven hundred ninety one dollars thereafter one hundred seventeen thousand eighty-seven dollars through June 30, 2020, and one hundred twenty thousand six hundred dollars thereafter."

Re-number accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

|                           | <u>Base Budget</u> | <u>Senate Changes</u> | <u>Senate Version</u> |
|---------------------------|--------------------|-----------------------|-----------------------|
| Salaries and wages        | \$21,724,004       | \$1,214,180           | \$22,938,184          |
| Operating expenses        | 6,749,295          | 363,165               | 7,112,460             |
| Capital assets            | 6,000              |                       | 6,000                 |
| Homestead tax credit      | 14,800,000         | 1,000,000             | 15,800,000            |
| Disabled veterans' credit | 8,110,200          | 300,000               | 8,410,200             |
| Total all funds           | \$51,389,499       | \$2,877,345           | \$54,266,844          |
| Less estimated income     | 125,000            | 0                     | 125,000               |

|              |              |             |              |
|--------------|--------------|-------------|--------------|
| General fund | \$51,264,499 | \$2,877,345 | \$54,141,844 |
| FTE          | 133.00       | (10.00)     | 123.00       |

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**Department 127 - State Tax Commissioner - Detail of Senate Changes**

|                           | Adjusts Funding for Base Payroll Changes <sup>1</sup> | Adds Funding for Salary and Benefit Increases <sup>2</sup> | Adds Funding for an Auditor Position <sup>3</sup> | Removes Unfunded Vacant FTE Positions <sup>4</sup> | Underfunds Salaries and Wages <sup>5</sup> | Increases Funding for GenTax Software Support <sup>6</sup> |
|---------------------------|---|--|---|--|--|--|
| Salaries and wages        | \$711,232   | \$1,200,200  | \$75,000  |  | (\$772,252)                                |  |
| Operating expenses        |   |  |   |  |  | \$300,589  |
| Capital assets            |   |  |   |  |  |  |
| Homestead tax credit      |   |  |   |  |  |  |
| Disabled veterans' credit |   |  |   |  |  |  |
| <b>Total all funds</b>    | <b>\$711,232</b>                                      | <b>\$1,200,200</b>   | <b>\$75,000</b>                                   | <b>\$0</b>   | <b>(\$772,252)</b>                         | <b>\$300,589</b>   |
| Less estimated income     | 0   | 0  | 0   | 0  | 0  | 0  |
| General fund              | \$711,232   | \$1,200,200  | \$75,000  | \$0  | (\$772,252)                                | \$300,589  |
| FTE                       | 0.00  | 0.00   | 0.00  | (10.00)  | 0.00                                       | 0.00   |

|                           | Adds Funding for Microsoft Office 365 Licensing <sup>7</sup> | Increases Funding for Tax Credit Programs <sup>8</sup> | Total Senate Changes |
|---------------------------|--|--|----------------------|
| Salaries and wages        |  |  | \$1,214,180          |
| Operating expenses        | \$62,576   |  | 363,165              |
| Capital assets            |  |  |                      |
| Homestead tax credit      |  | \$1,000,000  | 1,000,000            |
| Disabled veterans' credit |  | 300,000  | 300,000              |
| <b>Total all funds</b>    | <b>\$62,576</b>  | <b>\$1,300,000</b>                                     | <b>\$2,877,345</b>   |
| Less estimated income     | 0  | 0  | 0                    |
| General fund              | \$62,576   | \$1,300,000  | \$2,877,345          |
| FTE                       | 0.00   | 0.00   | (10.00)              |

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

|                           | General Fund |
|---------------------------|--------------|
| Salary increase           | \$633,516    |
| Health insurance increase | 566,684      |
| Total                     | \$1,200,200  |

<sup>3</sup> Funding is added for an auditor position that was partially funded during the 2017-19 biennium to provide a total of \$150,000.

<sup>4</sup> Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions.

<sup>5</sup> Funding for salaries and wages is reduced for anticipated savings from vacant positions and employee turnover.

<sup>6</sup> Funding is increased for GenTax information technology support to provide total funding of \$3,630,000.

<sup>7</sup> Funding is added for Microsoft Office 365 licensing expenses.

<sup>8</sup> Funding for the homestead tax credit program is increased by \$1,000,000, from \$14,800,000 to \$15,800,000. Funding for the disabled veterans' tax credit program is increased by \$300,000, from \$8,110,200 to \$8,410,200.

This amendment also adds sections to:

- Authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' tax credit line item for the 2019-21 biennium.

Provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

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PROPOSED AMENDMENTS TO SENATE BILL NO. 2006

Page 1, line 3, after the semicolon insert "to amend and reenact section 57-01-04 of the North Dakota Century Code, relating to the salary of the state tax commissioner;"

Page 1, replace lines 12 through 22 with:

|                                | Base Level   | Adjustments or Enhancements | Appropriation |
|--------------------------------|--------------|-----------------------------|---------------|
| Salaries and wages             | \$21,724,004 | \$1,214,180                 | \$22,938,184  |
| Operating expenses             | 6,749,295    | 363,165                     | 7,112,460     |
| Capital assets                 | 6,000        | 0                           | 6,000         |
| Homestead tax credit           | 14,800,000   | 1,000,000                   | 15,800,000    |
| Disabled veterans' tax credit  | 8,110,200    | 300,000                     | 8,410,200     |
| Total all funds                | \$51,389,499 | \$2,877,345                 | \$54,266,844  |
| Less estimated income          | 125,000      | 0                           | 125,000       |
| Total general fund             | \$51,264,499 | \$2,877,345                 | \$54,141,844  |
| Full-time equivalent positions | 133.00       | (10.00)                     | 123.00        |

**SECTION 2. LINE ITEM TRANSFERS.** The state tax commissioner may transfer funds between the homestead tax credit and disabled veterans' tax credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget and the legislative council of any transfers made pursuant to this section."

Page 2, after line 4, insert:

**"SECTION 4. AMENDMENT.** Section 57-01-04 of the North Dakota Century Code is amended and reenacted as follows:

**57-01-04. Salary.**

The annual salary of the state tax commissioner is ~~one hundred eleven thousand four hundred forty eight dollars through June 30, 2016, and one hundred fourteen thousand seven hundred ninety one dollars thereafter~~ one hundred seventeen thousand eighty-seven dollars through June 30, 2020, and one hundred twenty thousand six hundred dollars thereafter."

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        | \$21,724,004 | \$1,214,180    | \$22,938,184   |
| Operating expenses        | 6,749,295    | 363,165        | 7,112,460      |
| Capital assets            | 6,000        | 0              | 6,000          |
| Homestead tax credit      | 14,800,000   | 1,000,000      | 15,800,000     |
| Disabled veterans' credit | 8,110,200    | 300,000        | 8,410,200      |
| Total all funds           | \$51,389,499 | \$2,877,345    | \$54,266,844   |
| Less estimated income     | 125,000      | 0              | 125,000        |

|              |              |             |              |
|--------------|--------------|-------------|--------------|
| General fund | \$51,264,499 | \$2,877,345 | \$54,141,844 |
| FTE          | 133.00       | (10.00)     | 123.00       |

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**Department 127 - State Tax Commissioner - Detail of Senate Changes**

|                           | Adjusts Funding for Base Payroll Changes <sup>1</sup> | Adds Funding for Salary and Benefit Increases <sup>2</sup> | Adds Funding for an Auditor Position <sup>3</sup> | Removes Unfunded Vacant FTE Positions <sup>4</sup> | Underfunds Salaries and Wages <sup>5</sup> | Increases Funding for GenTax Software Support <sup>6</sup> |
|---------------------------|---|--|---|--|--|--|
| Salaries and wages        | \$711,232   | \$1,200,200  | \$75,000  |  | (\$772,252)                                |  |
| Operating expenses        |   |  |   |  |  | \$300,589  |
| Capital assets            |   |  |   |  |  |  |
| Homestead tax credit      |   |  |   |  |  |  |
| Disabled veterans' credit |   |  |   |  |  |  |
| <b>Total all funds</b>    | <b>\$711,232</b>                                      | <b>\$1,200,200</b>   | <b>\$75,000</b>                                   | <b>\$0</b>   | <b>(\$772,252)</b>                         | <b>\$300,589</b>   |
| Less estimated income     | 0   | 0  | 0   | 0  | 0  | 0  |
| General fund              | \$711,232   | \$1,200,200  | \$75,000  | \$0  | (\$772,252)                                | \$300,589  |
| FTE                       | 0.00  | 0.00   | 0.00  | (10.00)  | 0.00                                       | 0.00   |

|                           | Adds Funding for Microsoft Office 365 Licensing <sup>7</sup> | Increases Funding for Tax Credit Programs <sup>8</sup> | Total Senate Changes |
|---------------------------|--|--|----------------------|
| Salaries and wages        |  |  | \$1,214,180          |
| Operating expenses        | \$62,576   |  | 363,165              |
| Capital assets            |  |  |                      |
| Homestead tax credit      |  | \$1,000,000  | 1,000,000            |
| Disabled veterans' credit |  | 300,000  | 300,000              |
| <b>Total all funds</b>    | <b>\$62,576</b>  | <b>\$1,300,000</b>                                     | <b>\$2,877,345</b>   |
| Less estimated income     | 0  | 0  | 0                    |
| General fund              | \$62,576   | \$1,300,000  | \$2,877,345          |
| FTE                       | 0.00   | 0.00   | (10.00)              |

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

|                           | General Fund |
|---------------------------|--------------|
| Salary increase           | \$633,516    |
| Health insurance increase | 566,684      |
| Total                     | \$1,200,200  |

<sup>3</sup> Funding is added for an auditor position that was partially funded during the 2017-19 biennium to provide a total of \$150,000.

<sup>4</sup> Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions.

<sup>5</sup> Funding for salaries and wages is reduced for anticipated savings from vacant positions and employee turnover.

<sup>6</sup> Funding is increased for GenTax information technology support to provide total funding of \$3,630,000.

<sup>7</sup> Funding is added for Microsoft Office 365 licensing expenses.

<sup>8</sup> Funding for the homestead tax credit program is increased by \$1,000,000, from \$14,800,000 to \$15,800,000. Funding for the disabled veterans' tax credit program is increased by \$300,000, from \$8,110,200 to \$8,410,200.

This amendment also adds sections to:

- Authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' tax credit line item for the 2019-21 biennium.



Provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

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Department 127 - Tax Commissioner  
Senate Bill No. 2006

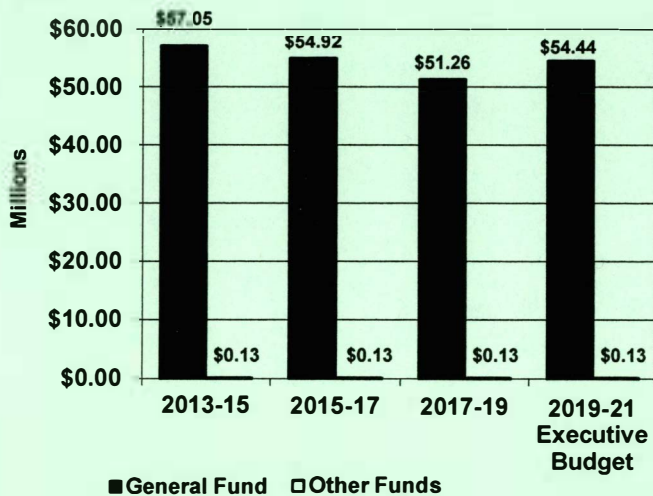
**Executive Budget Comparison to Prior Biennium Appropriations**

|                                    | FTE Positions | General Fund | Other Funds | Total        |
|------------------------------------|---------------|--------------|-------------|--------------|
| 2019-21 Executive Budget           | 123.00        | \$54,443,793 | \$125,000   | \$54,568,793 |
| 2017-19 Legislative Appropriations | 133.00        | 51,264,499   | 125,000     | 51,389,499   |
| Increase (Decrease)                | (10.00)       | \$3,179,294  | \$0         | \$3,179,294  |

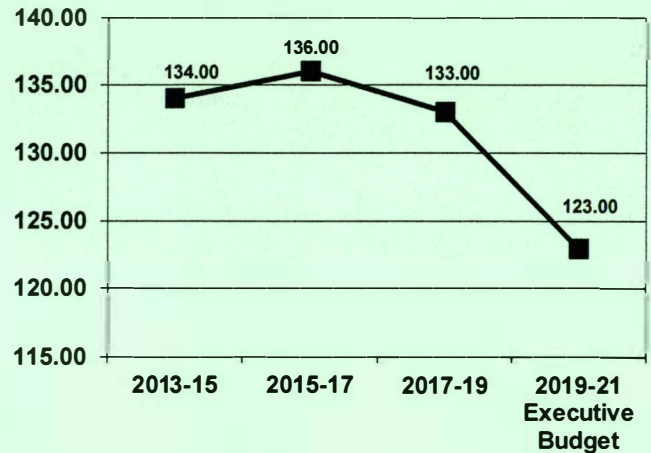
**Ongoing and One-Time General Fund Appropriations**

|                                    | Ongoing General Fund Appropriation | One-Time General Fund Appropriation | Total General Fund Appropriation |
|------------------------------------|------------------------------------|-------------------------------------|----------------------------------|
| 2019-21 Executive Budget           | \$54,443,793                       | \$0                                 | \$54,443,793                     |
| 2017-19 Legislative Appropriations | 51,264,499                         | 0                                   | 51,264,499                       |
| Increase (Decrease)                | \$3,179,294                        | \$0                                 | \$3,179,294                      |

Agency Funding



FTE Positions



**Executive Budget Comparison to Base Level**

|                          | General Fund | Other Funds | Total        |
|--------------------------|--------------|-------------|--------------|
| 2019-21 Executive Budget | \$54,443,793 | \$125,000   | \$54,568,793 |
| 2019-21 Base Level       | 51,264,499   | 125,000     | 51,389,499   |
| Increase (Decrease)      | \$3,179,294  | \$0         | \$3,179,294  |

**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 \$904,179 is for salary increases, \$479,935 is for health insurance increases, and \$118,035 is for retirement increases. <b>The Senate added funding for salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month. The Senate did not add funding for retirement contribution increase.</b> | \$1,502,149  | \$0         | \$1,502,149 |
| 2. Increases funding for 1 FTE auditor position that was partially funded for the 2017-19 biennium to provide a total of \$150,000   | \$75,000     | \$0         | \$75,000    |

|   |             |     |             |
|---|-------------|-----|-------------|
| 3. Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions | \$0         | \$0 | \$0         |
| 4. Underfunds salaries and wages  | (\$772,252) | \$0 | (\$772,252) |
| 5. Increases funding for GenTax information technology software support   | \$300,589   | \$0 | \$300,589   |
| 6. Adds funding for Microsoft Office 365 licensing  | \$62,576    | \$0 | \$62,576    |
| 7. Increases funding for the homestead tax credit program, from \$14,800,000 to \$15,800,000  | \$1,000,000 | \$0 | \$1,000,000 |
| 8. Increases funding for the disabled veterans' tax credit program, from \$8,110,200 to \$8,410,200                                       | \$300,000   | \$0 | \$300,000   |

### Other Sections in Senate Bill No. 2006

**Line item transfers** - Section 2 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.

**Motor vehicle fuel tax revenue transfer** - Section 3 provides for a transfer of \$1,991,024 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 from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

### Deficiency Appropriation

Senate Bill No. 2024 provides a deficiency appropriation of \$1,320,000 from the general fund for the homestead tax credit program (\$1,170,000) and the disabled veterans' tax credit program (\$150,000).

### Continuing Appropriations

**Multistate tax audit fund** - North Dakota Century Code Section 57-01-20 - Collections from the Multistate Tax Commission and Nexus program.

### Significant Audit Findings

The operational audit for the Tax Department conducted by the State Auditor's office during the 2017-18 interim identified no significant audit findings.

### Major Related Legislation

**House Bill No. 1111** - Requires information returns to be submitted electronically to the Tax Department in certain situations.

**House Bill No. 1214** - Clarifies the membership of the streamlined sales tax governing board.

**House Bill No. 1530** - Requires the Tax Department to calculate and publish reduced income tax rates based on the amount of legacy fund earnings deposited in a newly created legacy income tax reduction fund.

**House Concurrent Resolution No. 3012** - Adds the Tax Commissioner and removes the Attorney General as members of the Board of University and School Lands.

**Senate Bill No. 2036** - Removes obsolete language related to an expired income tax credit for angel fund investments and automation tax credits.

**Senate Bill No. 2042** - Removes the requirement for oil-producing counties and school districts located in oil-producing counties to report to the Tax Department regarding the use of oil and gas tax revenue allocations.

**Senate Bill No. 2089** - Provides technical corrections for clarity and consistency relating to various reports received by the Tax Department and definitions for administering sales and use taxes.

**Tax Commissioner - 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        |
| <b>2019-21 Biennium Base Level</b>                                | 133.00                          | \$51,264,499 | \$125,000   | \$51,389,499 | 133.00         | \$51,264,499 | \$125,000   | \$51,389,499 |
| <b>2019-21 Ongoing Funding Changes</b>                            |                                 |              |             |              |                |              |             |              |
| Base payroll changes  |                                 | \$711,232    |             | \$711,232    |                | \$711,232    |             | \$711,232    |
| Salary increase   |                                 | 904,179      |             | 904,179      |                | 633,516      |             | 633,516      |
| Health insurance increase   |                                 | 479,935      |             | 479,935      |                | 566,684      |             | 566,684      |
| Retirement contribution increase                                  |                                 | 118,035      |             | 118,035      |                |              |             | 0            |
| Adds funding for an auditor position (partial funding in 2017-19) |                                 | 75,000       |             | 75,000       |                | 75,000       |             | 75,000       |
| Removes unfunded vacant FTE positions                             | (10.00)                         |              |             | 0            | (10.00)        |              |             | 0            |
| Underfunds salaries and wages                                     |                                 | (772,252)    |             | (772,252)    |                | (772,252)    |             | (772,252)    |
| Adds funding for GenTax software support                          |                                 | 300,589      |             | 300,589      |                | 300,589      |             | 300,589      |
| Adds funding for Microsoft Office 365 licensing                   |                                 | 62,576       |             | 62,576       |                | 62,576       |             | 62,576       |
| Adds funding for homestead tax credits                            |                                 | 1,000,000    |             | 1,000,000    |                | 1,000,000    |             | 1,000,000    |
| Adds funding for disabled veterans' tax credits                   |                                 | 300,000      |             | 300,000      |                | 300,000      |             | 300,000      |
| Total ongoing funding changes                                     | (10.00)                         | \$3,179,294  | \$0         | \$3,179,294  | (10.00)        | \$2,877,345  | \$0         | \$2,877,345  |
| <b>One-time funding items</b>                                     |                                 |              |             |              |                |              |             |              |
| No one-time funding items   |                                 |              |             | \$0          |                |              |             | \$0          |
| Total one-time funding changes                                    | 0.00                            | \$0          | \$0         | \$0          | 0.00           | \$0          | \$0         | \$0          |
| <b>Total Changes to Base Level Funding</b>                        | (10.00)                         | \$3,179,294  | \$0         | \$3,179,294  | (10.00)        | \$2,877,345  | \$0         | \$2,877,345  |
| <b>2019-21 Total Funding</b>                                      | 123.00                          | \$54,443,793 | \$125,000   | \$54,568,793 | 123.00         | \$54,141,844 | \$125,000   | \$54,266,844 |

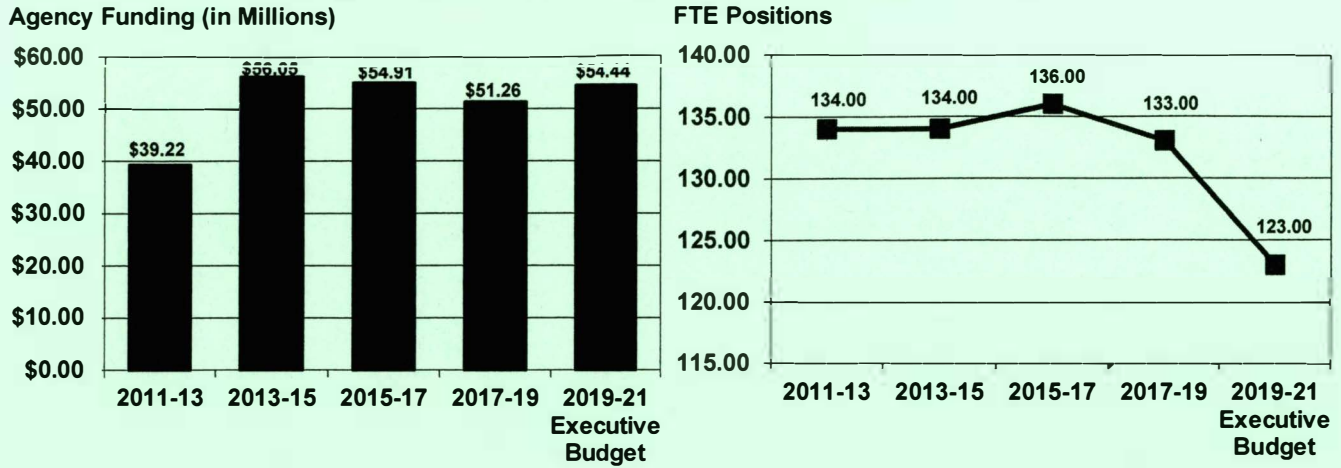
**Other Sections for Tax Commissioner - Budget No. 127**

|   | Executive Budget Recommendation   | Senate Version   |
|---|---|--|
| Line item transfers                     | Section 2 would authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.   | Section 2 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.   |
| Motor vehicle fuel tax revenue transfer | Section 3 would provide for a transfer of \$1,991,024 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.                         | Section 3 provides for a transfer of \$1,991,024 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 would provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$119,383 (4 percent) in fiscal year 2020 and to \$121,770 (2 percent) in fiscal year 2021. | Section 4 provides the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021. |

Department 127 - State Tax Commissioner

# Historical Appropriations Information

## Ongoing General Fund Appropriations Since 2011-13



| Ongoing General Fund Appropriations                             |              |              |               |               |                          |
|---|--------------|--------------|---------------|---------------|--------------------------|
|   | 2011-13      | 2013-15      | 2015-17       | 2017-19       | 2019-21 Executive Budget |
| Ongoing general fund appropriations                             | \$39,220,304 | \$56,054,140 | \$54,912,488  | \$51,264,499  | \$54,443,793             |
| Increase (decrease) from previous biennium                      | N/A          | \$16,833,836 | (\$1,141,652) | (\$3,647,989) | \$3,179,294              |
| Percentage increase (decrease) from previous biennium           | N/A          | 42.9%        | (2.0%)        | (6.6%)        | 6.2%                     |
| Cumulative percentage increase (decrease) from 2011-13 biennium | N/A          | 42.9%        | 40.0%         | 30.7%         | 38.8%                    |

### Major Increases (Decreases) in Ongoing General Fund Appropriations

#### 2013-15 Biennium

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

#### 2015-17 Biennium

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

#### 2017-19 Biennium

- Reduced funding for operating expenses, primarily related to professional services, postage, and office equipment and furniture (\$878,967)
- Reduced funding for the homestead tax credit program (\$3,890,000) and increased funding for the disabled veterans' tax credit program (\$935,109) (\$2,954,891)

#### 2019-21 Biennium (Executive Budget Recommendation)

- Adds funding for 1 FTE auditor position that was partially funded for the 2017-19 biennium \$75,000
- Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions and underfund FTE positions (\$772,252)
- Adds funding for GenTax information technology software support \$300,589
- Increases funding for the homestead tax credit program (\$1,000,000) and the disabled veterans' tax credit program (\$300,000) \$1,300,000

**GOVERNOR'S RECOMMENDATION FOR THE  
STATE TAX COMMISSIONER AS SUBMITTED  
BY THE OFFICE OF MANAGEMENT AND BUDGET**

**SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from special funds derived from federal funds and other income, to the tax commissioner for the purpose of defraying the expenses of the tax commissioner and paying the state reimbursement under the homestead tax credit and disabled veterans credit, for the biennium beginning July 1, 2019, and ending June 30, 2021, as follows:

|                                | <u>Base level</u> | <u>Adjustments or<br/>Enhancements</u> | <u>Appropriation</u> |
|--------------------------------|-------------------|--|----------------------|
| Salaries and wages             | \$21,724,004      | \$1,516,129                            | \$23,240,133         |
| Operating expenses             | 6,749,295         | 363,165                                | 7,112,460            |
| Capital assets                 | 6,000             | 0                                      | 6,000                |
| Homestead tax credit           | 14,800,000        | 1,000,000                              | 15,800,000           |
| Disabled veterans credit       | <u>8,110,200</u>  | <u>300,000</u>                         | <u>8,410,200</u>     |
| Total all funds                | \$51,389,499      | \$3,179,294                            | \$54,568,793         |
| Less estimated income          | <u>125,000</u>    | <u>0</u>                               | <u>125,000</u>       |
| Total general fund             | \$51,264,499      | \$3,179,294                            | \$54,443,793         |
| Full-time equivalent positions | 133.00            | (10.00)                                | 123.00               |

**SECTION 2. LINE ITEM TRANSFERS – 2019-21 BIENNIUM.** The state tax commissioner may transfer between the homestead tax credit and disabled veterans credit line items in section 1 of this Act if one line item does not have sufficient funds available for state reimbursement of eligible tax credits. The state tax commissioner shall notify the office of management and budget of any transfers made pursuant to this section.

**SECTION 3. TRANSFER.** There is transferred to the general fund in the state treasury out of motor vehicle fuel tax revenue collected pursuant to section 57-43.1-02, the sum of \$1,991,024 for the purpose of reimbursing the general fund for expenses incurred in the collection of the motor vehicle fuels and special fuels taxes and the administration of these taxes for the biennium beginning July 1, 2019, and ending June 30, 2021.

**SECTION 4. AMENDMENT.** Section 57-01-04 of the North Dakota Century Code is amended and reenacted as follows:

**57-01-04. Salary.**

The annual salary of the state tax commissioner is ~~one hundred eleven thousand four hundred forty-eight dollars through June 30, 2016, and one hundred nineteen thousand three hundred eighty-three dollars through June 30, 2020, and one hundred fourteen thousand seven hundred ninety-one dollars one hundred twenty-one thousand seven hundred seventy dollars thereafter.~~

February 28, 2019

SB 2006

Attachment A



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

SENATE BILL NO. 2006  
FEBRUARY 28, 2019

## BUDGET PRESENTATION

HOUSE GOVERNMENT OPERATIONS DIVISION - APPROPRIATIONS COMMITTEE  
REPRESENTATIVE DON VIGESAA, 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 exceptional service while enhancing compliance with the tax laws.

As you know, the Office of State Tax Commissioner is the primary revenue collection agency for the state. For the 2017-19 biennium, the agency will collect over 90 percent of all general fund revenue, excluding transfers. Total agency collections are expected to exceed \$8.2 billion. This includes over \$4 billion in oil tax revenues during the current biennium, based on the executive revenue forecast.

The Office of State Tax Commissioner collects and administers around 30 tax types, 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 agency provides education to help taxpayers understand their filing requirements, conducts discovery work to ensure compliance with the law, processes returns, 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 agency and the amounts collected in fiscal years 2010 and 2018. In many cases, the growth is not merely in the dollars collected, but is a reflection of the increase in the number of filers and returns processed by the agency.

1.

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OFFICE OF STATE TAX COMMISSIONER  
STATEMENT OF COLLECTIONS DATA  
FISCAL YEARS 2010 AND 2018

| Description                     | FY 2010 Net Collections | FY 2018 Net Collections | Change                 |
|---------------------------------|-------------------------|-------------------------|------------------------|
| Sales & Use Tax                 | \$603,732,481           | \$912,480,709           | \$308,748,228          |
| Motor Vehicle Excise Tax(1)     | \$106,657               | \$310,002               | \$203,345              |
| City Occupancy Tax              | \$1,872,368             | \$2,996,871             | \$1,124,503            |
| City Sales Tax                  | \$119,411,810           | \$239,582,346           | \$120,170,536          |
| City Restaurant and Lodging Tax | \$4,289,399             | \$7,744,140             | \$3,454,741            |
| City Motor Vehicle Rental Tax   | \$110,557               | \$136,744               | \$26,187               |
| Individual Income Tax           | \$304,252,924           | \$366,321,257           | \$62,068,333           |
| Corporate Income Tax            | \$87,874,592            | \$92,872,214            | \$4,997,622            |
| Financial Institutions Tax      | \$10,451,319            | \$4,605                 | -\$10,446,714          |
| Cigarette Tax (Cities)          | \$1,353,442             | \$1,423,010             | \$69,568               |
| Cigarette Tax (Tribe)           | \$64,693                | \$79,441                | \$14,748               |
| Cigarette Tax (GF)              | \$18,454,355            | \$19,460,767            | \$1,006,412            |
| Tobacco Tax                     | \$3,976,398             | \$7,012,940             | \$3,036,542            |
| Oil & Gas Gross Production Tax  | \$302,099,211           | \$1,073,026,703         | \$770,927,492          |
| Oil Extraction Tax              | \$280,611,437           | \$1,003,828,719         | \$723,217,282          |
| Telecommunications Tax          | \$11,252,316            | \$9,682,446             | -\$1,569,870           |
| Wholesale Liquor/beer Tax       | \$7,411,422             | \$8,918,246             | \$1,506,824            |
| Estate Tax                      | \$9,174                 | \$0                     | -\$9,174               |
| Miscellaneous Remittances       | \$13,019                | \$18,770                | \$5,751                |
| Coal Severance Tax              | \$11,506,451            | \$11,654,559            | \$148,108              |
| Coal Conversion Tax             | \$26,154,150            | \$26,237,709            | \$83,559               |
| Electric Generation Tax         | \$442,604               | \$16,703,423            | \$16,260,819           |
| Music and Composition Tax       | \$155,923               | \$225,235               | \$69,312               |
| Sales & Use Tax Cash Bonds      | \$51,050                | -\$17,882               | -\$68,932              |
| Fuel Dealers & Inspection Fees  | \$0                     | \$322,288               | \$322,288              |
| Motor Vehicle Fuel Tax          | \$85,179,818            | \$101,440,286           | \$16,260,468           |
| Special Fuel Tax                | \$66,553,656            | \$95,316,356            | \$28,762,700           |
| Motor Fuel Tax - Cash Bond      | -\$2,000                | \$10,005                | \$12,005               |
| Nongame Wildlife Fund           | \$19,444                | \$29,369                | \$9,925                |
| Centennial Tree Trust Fund      | \$20,375                | \$34,189                | \$13,814               |
| Organ Transplant Support Fund   | \$11,950                | \$25,981                | \$14,031               |
| Airline Tax                     | \$202,399               | \$223,265               | \$20,866               |
| Aircraft Excise Tax             |                         | \$19,858                | \$19,858               |
| Prepd Wireless Emerg 911 Fee    | \$0                     | \$1,175,158             | \$1,175,158            |
| Provider Assessment             | \$4,094,197             | \$5,642,021             | \$1,547,824            |
| <b>Total Collections</b>        | <b>\$1,951,737,591</b>  | <b>\$4,004,941,748</b>  | <b>\$2,053,204,157</b> |





The economic growth of the state has resulted in a corresponding increase in the workload of the Office of State Tax Commissioner. Returns continue to remain at record levels in nearly all tax types. The following chart illustrates the growth in the Office of State Tax Commissioner’s workload since 2008:

|  | 2008    | 2014    | 2018    | 2008-2018 Increase | Percent Change |
|--|---------|---------|---------|--------------------|----------------|
| Sales tax – original returns filed   | 145,849 | 194,856 | 209,735 | 63,886             | 44%            |
| Individual income tax withholding - original returns filed   | 112,744 | 148,213 | 147,245 | 34,501             | 31%            |
| Individual income tax - original returns filed   | 354,623 | 480,903 | 471,006 | 116,383            | 33%            |
| Partnership and S Corp - original returns filed  | 23,348  | 38,835  | 43,223  | 19,875             | 85%            |
| Corporate income tax - original returns filed by out of state corporations   | 5,347   | 7,419   | 7,958   | 2,611              | 49%            |
| Canadian resident sales tax refund requests  | 15,537  | 25,022  | 9,421   | -6,116             | -39%           |
| Fraudulent Claims/ID Theft – Identification of over 1,400 fraudulent claims, totaling over \$2 million since 2015. |         |         |         |                    |                |

Despite workloads, the Office of State Tax Commissioner has kept several authorized positions unfilled in the current biennium to accommodate a 90 percent budget if needed through attrition. As of February 2019, we have 18 unfilled positions.

The number of positions authorized for the agency has declined significantly over the past twenty years, from 151 in 1998 to 133 in the current biennium. Reduction in staff has been made possible through continued efforts to gain efficiencies. Key technological advancements have created more efficient processes that can be executed with less staff, such as an increasing percentage of electronically filed returns, the implementation of web-file solutions for businesses – Taxpayer Access Point (TAP), and the implementation of an integrated tax system known as GenTax. However, continued growth of workload and continued staff reductions has put a strain on the agency’s ability to provide timely service. Tough decisions to prioritize and focus on critical tasks often limits other functions that should be done, many of which are in the best interest of the taxpayer and the state but are not required. The following chart shows a long-term history of the staffing level for the Office of State Tax Commissioner.



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

## AGENCY OPERATIONS BUDGET 2017-19 BIENNIUM BASE BUDGET

| Line Item          | 2017-19<br>Base Level<br>Appropriation | Carryover<br>Section 7,<br>HB 1006 | 2017-19<br>Appropriation<br>Total | Percent of<br>Total |
|--------------------|--|------------------------------------|-----------------------------------|---------------------|
| Salaries & Wages   | 21,724,004                             | 75,000                             | 21,799,004                        | 76.4%               |
| Operating Expenses | 6,749,295                              |                                    | 6,749,295                         | 23.6%               |
| Capital Assets     | 6,000                                  |                                    | 6,000                             | 0%                  |
| <b>Total</b>       | <b>28,479,299</b>                      | <b>75,000</b>                      | <b>28,554,299</b>                 | <b>100%</b>         |

As an agency that relies on staff to meet its statutory obligations and perform all of the work the legislature has directed us to do, we have a budget that consists primarily of salaries and wages. Approximately 76 percent of the current biennium operating budget is for salaries and wages. The appropriation for salaries and wages for the 2017-19 biennium was \$21.7 million.

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Although authorized for 133 full-time equivalent positions for the 2017-19 biennium, the base level budget provided funding for 127 FTEs and recognized expected savings due to staff turnover. In addition to not filling 6 positions, other positions were held open and hiring was delayed in order to generate savings. In some cases, long-tenured employees retired and positions were filled at lower salaries, which also contributed to budget savings.

Significant reductions were made to travel, postage, printing, IT equipment, office furniture and equipment, and advertising. This means our staff have had less training; there has been less printing and mailing of forms, booklets, guidelines and statements; and less has been spent to promote programs such as the Homestead Tax Credit.

**2017-19 ESTIMATED SPENDING**

The Office of State Tax Commissioner has analyzed estimated expenditures and due to steps taken to keep positions unfilled and reduce expenditures where possible, the following unspent amounts are anticipated. A detailed analysis is attached as Appendix B.

| Line Item                 | 2017-19<br>Base Level | Estimated<br>2017-19<br>Expenditures | Variance         |
|---------------------------|-----------------------|--------------------------------------|------------------|
| Salaries and Wages        | 21,724,004            | 20,724,004                           | 1,000,000        |
| Operating Expenses        | 6,749,295             | 6,649,295                            | 100,000          |
| Capital Assets            | 6,000                 | 0                                    | 6,000            |
| Total                     | 28,479,199            | 27,373,299                           | 1,106,000        |
| Less Federal Funds        | (125,000)             | (25,000)                             | (100,000)        |
| <b>Total General Fund</b> | <b>28,354,199</b>     | <b>27,348,299</b>                    | <b>1,006,000</b> |

**2019-21 BIENNIUM 90% BUDGET AND GOVERNOR'S RECOMMENDED BUDGET**

| Line Item          | 2017-19<br>Base Level<br>Amount | Base<br>Budget<br>Adjustments | 2019-21<br>90% Budget<br>Amount | 90%<br>Budget<br>Adjustments | 2019-21<br>Governor's<br>Budget | Percent of<br>Total |
|--------------------|---------------------------------|-------------------------------|---------------------------------|------------------------------|---------------------------------|---------------------|
| Salaries & Wages   | 21,724,004                      | (1,796,020)                   | 19,927,984                      | 3,312,149                    | 23,240,133                      | 76.5%               |
| Operating Expenses | 6,749,295                       | (904,411)                     | 5,844,884                       | 1,267,576                    | 7,112,460                       | 23.4%               |
| Capital Assets     | 6,000                           | 0                             | 6,000                           | 0                            | 6,000                           | 0%                  |
| <b>Total</b>       | <b>28,479,299</b>               | <b>(2,700,431)</b>            | <b>25,778,868</b>               | <b>4,579,725</b>             | <b>30,358,593</b>               | <b>100%</b>         |

To meet the 90 percent budget request for 2019-21, we followed a strategy of reducing salary expenditures by leaving positions vacant whenever possible and reducing operating expenses through efficiencies and work process changes, along with some reductions in critical services.

The agency had 133 full-time equivalent positions for the 2017-19 biennium, with base level provided funding for 127 FTEs. A total of 6 FTEs, unfunded in the 2017-19 biennium, were put forward to meet the 5 percent staffing reduction request. To meet the 90 percent budget limit for 2019-21, salary and wages had to be unfunded with an estimated potential reduction down to 110 FTEs. The Office of State Tax Commissioner has hit the critical point where staffing needs and technology innovations are at a cross-roads. The work to reinvent and streamline processes has been occurring for two decades, and a dramatic reduction in staffing will have impacts to the timeliness and overall ROI of the agency. With this in mind, an optional request for the restoration of salaries was submitted, and the Governor's executive budget recommendation proposes reducing staff by only an additional 4 FTEs (plus the 6 FTEs included in the 5 percent staffing reduction), bringing total staffing to 123 FTEs. The Governor's recommended budget restores \$1.81 million to the salaries and wages line and \$75,000 to the operating line for related expenses.

The 2019-21 base budget at 90 percent for operating expenses was \$5.8 million. The operating expenses line item includes a reduction in service on an ongoing contract with the provider of the state's integrated tax system, GenTax. This reduction of service limited the support available, as well as upgrades to the current system. An optional ask of \$1.13 million was submitted to restore service to its current level, which was included in the Governor's budget recommendation. GenTax support is the greatest portion of our operating expenses line at \$3.6 million. This period of budget reduction was again used as an opportunity to examine all aspects of operations and business processes to look for savings and efficiencies.

The following is a brief summary of the steps we have taken to reduce our budget:

- 6 FTEs unfunded in last session were eliminated to meet the 5% staffing reduction guideline.
- Positions have been left unfilled whenever possible to meet anticipated budget cuts, which resulted in additional work being distributed to other staff reducing timeliness, customer service and revenue collections.
- Temporary salary funding was reduced.
- Nearly \$2.582 million was "unfunded" from the salaries and wages line in anticipation of savings needed to achieve a 10% reduction, a portion of this was restored in the Governor's budget.
- Continued reductions were made to travel, postage, printing, IT equipment, office furniture and equipment, and advertising.
- Reduction in contracted service with our software vendor for GenTax was necessary to meet requirements. The Governor's budget restored funding to keep service at current levels, a long-term saving to the state as a break in service limits maintenance and advancements and adjusts prices negotiated in the 2016 allotment, grandfathered with a 4% discount if no reduction in services occurred.

Governor Burgum authorized the following additions to the budget to determine the 2019-21 biennium budget:

- \$1.13 million for continued GenTax support at current level
- \$1.81 million for salaries for the restoration of 13 FTEs
- \$75,000 for operating costs associated with the restoration of 13 FTEs
- \$62,576 to support Microsoft Office 365 implementation

## FEDERAL FUNDING CHANGES

No changes in federal funding are expected for the 2019-21 biennium.

## 2019-21 BIENNIUM REQUESTED BUDGET

### PRIORITY 1 – SERVICE DELIVERY CONTINUITY – SALARY & STAFFING

The Office of State Tax Commissioner is at a critical point where staffing needs and technological innovations are at a cross-road. Current staffing levels are needed to manage the processes, tasks, and outputs of tax administration in a timely manner. In addition, the agency is facing increased workloads in two areas due to recent court actions that impact state revenues: 1) Wayfair vs. South Dakota and 2) Tobacco Master Settlement Agreement.

The Office of State Tax Commissioner seeks to restore funding for positions that help ensure the timeliness of tax administration. The executive budget recommendation includes the restoration of \$1.81 million to provide funding for 13 positions.

The highest priority for the agency is to restructure to allocate staffing to the discovery, compliance and audit of businesses with no physical presence who meet thresholds for sales tax compliance, as well as both corporate and individual income tax auditors, and needed staff to assist in the processes critical to the flow of tax administration. North Dakota is one of 45 states now able to collect sales tax from remote sellers, which could mean as much as \$20-\$50 million in revenues per year. In the long term, additional staff in this area also increase the number of audits and assessments that could potentially occur, ultimately increasing revenues for the state.

**The Office of State Tax Commissioner requests \$1.81 million and \$75,000 for related operating costs to restore 13 positions (same as Governor Burgum’s recommendation).**

### PRIORITY 2 – GEN TAX MAINTENANCE CONTRACT – SERVICE RESTORATION

The Office of State Tax Commissioner implemented GenTax in the 2005-07 biennium and has been grandfathered into the current pricing structure, which is below market rates. In 2017-19, the agency negotiated a 4 percent discount on the GenTax (Level 3) contract to accommodate budget shortfalls. As part of the 90 percent budgets, a reduction in GenTax service was necessary to meet requirements, but potentially could result in a \$7-\$9 million increase over 10 years for support. The executive budget provides \$1.13 million to restore current service levels for GenTax in the coming biennium. Investment at this service level has allowed implementation of such services as the Taxpayer Access Point and others at no additional cost to the agency.

**The Office of State Tax Commissioner requests \$1.13 million to continue GenTax service at the current level (same as Governor Burgum’s recommendation).**

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### PRIORITY 3 – LITIGATION CONTINGENCY FUNDS

The Office of State Tax Commissioner has a number of potential cases that may result in litigation. We initially asked for \$1.2 million in litigation contingency funding to support cases that could result in court action. The Governor's budget recommends these funds become part of a contingency pool at the Office of Management and Budget as a number of agencies were seeking similar funds.

**The Office of State Tax Commissioner requests \$1.2 million be included for potential court action on tax related cases in the proposed litigation pool at OMB.**

### GRANT PROGRAMS BUDGET– HOMESTEAD TAX CREDIT AND DISABLED VETERAN'S CREDIT 2017-19 BIENNIUM BASE LEVEL BUDGET AND 2019-21 BIENNIUM GOVERNOR'S RECOMMENDED BUDGET

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

The original appropriation for this line for the 2017-19 biennium was \$14.8 million. Expenditures during the first year of the biennium totaled slightly less than \$8 million. Although we won't know fiscal year 2019 expenditures until close to the end of the biennium, we estimate that the remaining appropriation will not be sufficient to cover projected expenditures. Our best estimate at this time is for 2017-19 biennium expenditures to total approximately \$16 million, \$1,170,000 more than the appropriation. No statutory authority exists for the appropriation to be prorated.

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

The original appropriation for this line for the 2017-19 biennium was \$8.1 million. Expenditures during the first year of the biennium totaled just over \$4 million. Our best estimate for 2017-19 biennium expenditures is approximately \$8.3 million, \$150,000 more than the appropriation. No statutory authority exists for the appropriation to be prorated. After the credit is granted by counties to eligible tax payers, the county receives reimbursement from the state.

Deficiency funding requests for both the Homestead Tax Credit (\$1,170,000) and Disabled Veteran's Credit (\$150,000) programs are included in SB 2024.

**For the required 90 percent budget, the Office of State Tax Commissioner requested \$14.8 million for the Homestead Tax Credit program and \$8.1 million for the Disabled Veteran's Credit program. Governor Burgum provided additional funding in his recommendation of \$15.8 million for the Homestead Tax Credit program (6.8 percent increase), and \$8.4 million for the Disabled Veteran's Credit program (3.7 percent increase).**

## LINE ITEM TRANSFERS

Appropriations for the Homestead Tax Credit program and Disabled Veteran's Credit program are based on estimated program costs. Program costs are difficult to estimate and occasionally result in either a deficiency request or a turn back to the general fund. In the past two bienniums, line item transfer authority has been granted to allow for any shortfall situations. An amendment was included by the Senate in SB2006 to grant authority to continue to address any shortfalls and allow funding to be transferred between these two lines and nowhere else within the Office of State Tax Commissioner budget.

## AUDIT FINDINGS

The operational audit for the Office of State Tax Commissioner conducted by the State Auditor's Office during the 2017-2018 interim identified no significant audit findings.

## ATTACHMENTS

Appendix A – Organizational chart with filled/vacant positions shown by section.

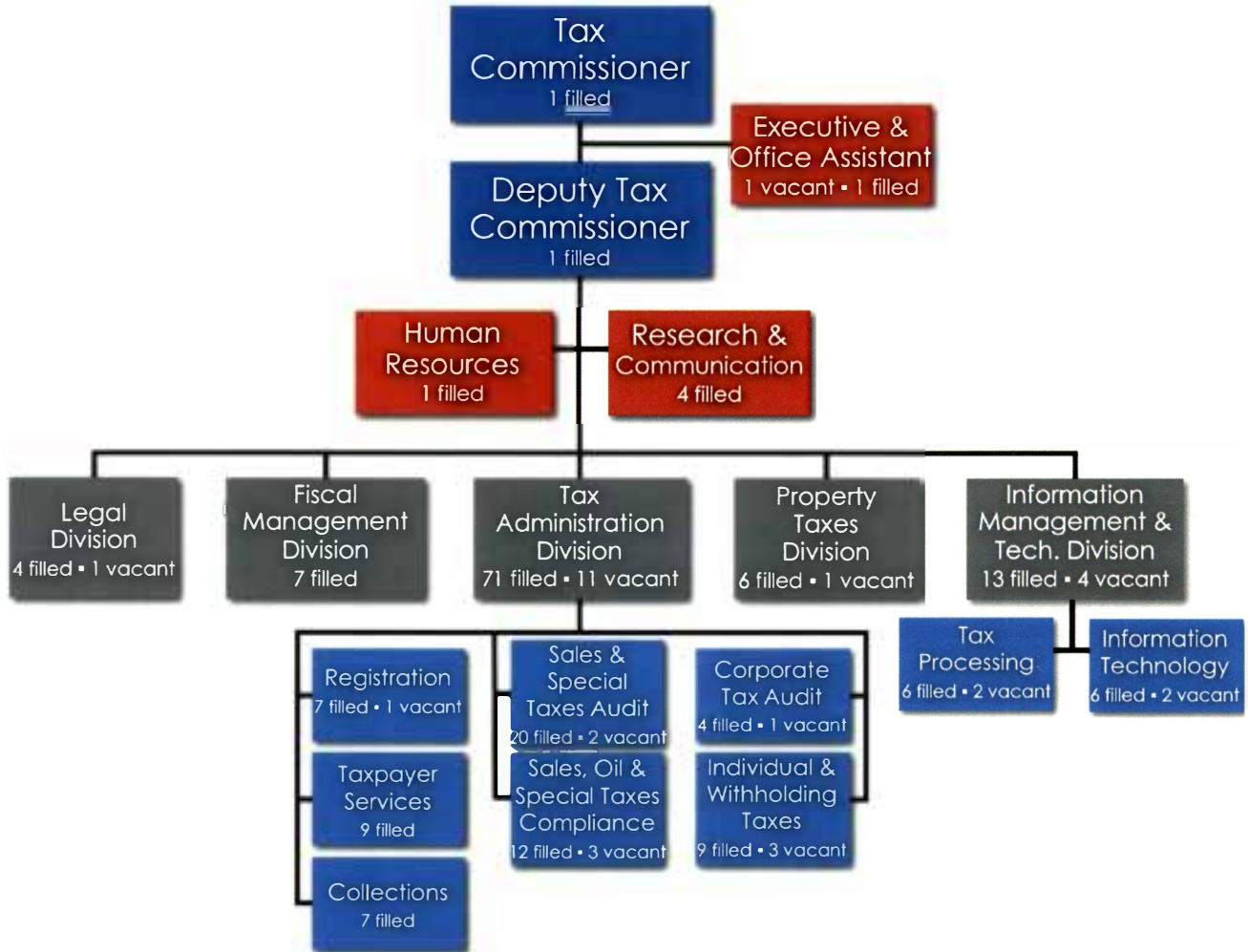
Appendix B – Estimated 2017-19 expenditures.

Appendix C – Analysis of budget reductions proposed to meet 90% budget requirements.

Appendix D – Comparison of optional budget asks and adjustments recommended by Governor Burgum.

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OFFICE OF STATE TAX COMMISSIONER  
APPENDIX A - ORGANIZATIONAL CHART  
AS OF JANUARY 2, 2019 – 127 FUNDED FTES – DOES NOT REFLECT 6 UNFUNDED FTES





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OFFICE OF STATE TAX COMMISSIONER  
APPENDIX B - ESTIMATED 2017-2019 EXPENDITURES

| Line Item/<br>\$ Object<br>Description     | Appropriation<br>2017 - 2019 | Estimated<br>Expenses<br>2017 -<br>2019 | Variance           |     | Governor's<br>Recommended<br>2019 - 2021 | Inc/(Decr)<br>Recommended<br>over 17 - 19<br>Appropriation |
|--|------------------------------|---|--------------------|-----|--|--|
| Salaries & Wages                           | 21,724,004                   | 20,724,004                              | 1,000,000          | (1) | 23,240,133                               | 1,516,129 (3)  |
| Operating Expenses                         | 6,749,295                    | 6,649,295                               | 100,000            | (2) | 7,112,460                                | 363,165 (4)  |
| Capital Assets                             | 6,000                        | 0                                       | 6,000              |     | 6,000                                    | 0  |
| <b>Subtotal</b>                            | <b>28,479,299</b>            | <b>27,373,299</b>                       | <b>1,106,000</b>   |     | <b>30,358,593</b>                        | <b>1,879,294</b>   |
| % of Change                                |                              |   |                    |     |  | 6.6%   |
| Homestead Tax Credit<br>(General Fund)     | 14,800,000                   | 15,970,000                              | (1,170,000)        | (7) | 15,800,000                               | 1,000,000 (5)  |
| Disabled Veterans Credit<br>(General Fund) | 8,110,200                    | 8,260,200                               | (150,000)          | (7) | 8,410,200                                | 300,000 (6)  |
| <b>Total for Agency</b>                    | <b>\$51,389,499</b>          | <b>\$51,603,499</b>                     | <b>\$(214,000)</b> |     | <b>\$54,568,793</b>                      | <b>\$3,179,294</b>   |
| # FTE                                      | 133                          |   |                    |     | 123                                      | (10)   |
| <b>Total General Fund</b>                  | <b>51,264,499</b>            | <b>51,578,499</b>                       | <b>(314,000)</b>   |     | <b>54,443,793</b>                        | <b>3,179,294</b>   |
| <b>Total Special Fund</b>                  | <b>0</b>                     | <b>0</b>                                | <b>0</b>           |     | <b>0</b>                                 | <b>0</b>   |
| <b>Total Federal Fund</b>                  | <b>125,000</b>               | <b>25,000</b>                           | <b>100,000</b>     |     | <b>125,000</b>                           | <b>0</b>   |
| <b>Total Funding Source</b>                | <b>\$51,389,499</b>          | <b>\$51,603,499</b>                     | <b>(214,000)</b>   |     | <b>\$54,568,793</b>                      | <b>\$3,179,294</b>   |
| % of Change                                |                              |   |                    |     |  | 6.2%   |

<sup>1</sup> The projected underrun in Salaries is due to savings from vacancies and filling positions less than budgeted. As of 02/28/2019 the agency had 18 vacancies.

<sup>2</sup> The projected under-run in Operating Expenses is from unused federal grant funds (\$100,000).

<sup>3</sup> The increase in the 2019-2021 Salary line includes the removal of funding for 4 FTEs and 6 currently unfunded FTEs, the cost to fully fund the remaining 123 positions, and the proposed salary compensation package recommended by the Governor.

<sup>4</sup> The base budget request includes fully covering the contract for GenTax support services, Microsoft Office 365 service support, and restoration of a small portion of operating expenses (\$75,000).

<sup>5</sup> An additional \$1 million is included in the Governor's recommended budget to fund this program based on current program eligibility requirements. Amount required to fully fund program is \$16 million.

<sup>6</sup> The 2019-2021 increase for the Disabled Veteran's Credit program reflects the amount needed to fully fund this program based on current program eligibility requirements. Amount required to fully fund program is \$9 million.

<sup>7</sup> Deficiency appropriation requests to cover excess expected expenditures are included in SB2024.

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OFFICE OF STATE TAX COMMISSIONER  
APPENDIX C - ANALYSIS OF RECOMMENDED BUDGET –  
2019-21 BIENNIUM

| A  | B                                      | C   | D                        | (C+D)                                      | F                                |
|--|--|---|--------------------------|--|----------------------------------|
| Line Item/<br>Object Description           | 2017-2019<br>Original<br>Appropriation | Agency<br>Adjustments<br>For 90% Level<br>Request | Adjustments<br>by<br>OMB | Total<br>Adjustments<br>or<br>Enhancements | 2019-2021<br>Recommend<br>Budget |
| <b>1 Total Salaries and Wages</b>          | 21,724,004                             | (1,796,020)                                       | 3,312,149                | 1,516,129                                  | 23,240,133                       |
| FTE Employees                              | 133                                    | (6)   | (4)                      | (10)                                       | 123                              |
| <b>Operating Expenses</b>                  |  |   |                          |  |                                  |
| <b>2 Travel</b>                            | 299,397                                | (30,147)  | 75,000                   | 44,853                                     | 344,250                          |
| <b>3 Supplies - IT Software</b>            | 182,784                                | 7,226   | 62,576                   | 69,802                                     | 252,586                          |
| <b>4 Supply/Material-Professional</b>      | 69,965                                 | 2,740   | 0                        | 2,740                                      | 72,705                           |
| <b>5 Bldg, Ground, Maintenance</b>         | 0                                      | 0   | 0                        | 0  | 0                                |
| <b>6 Miscellaneous Supplies</b>            | 21,000                                 | (1,000)   | 5,000                    | 4,000                                      | 25,000                           |
| <b>7 Office supplies</b>                   | 95,372                                 | (15,372)  | 0                        | (15,372)                                   | 80,000                           |
| <b>8 Postage</b>                           | 824,035                                | (14,035)  | 0                        | (14,035)                                   | 810,000                          |
| <b>9 Printing</b>                          | 110,609                                | (609)   | 0                        | (609)                                      | 110,000                          |
| <b>10 IT Equipment under \$5,000</b>       | 58,483                                 | (28,483)  | 0                        | (28,483)                                   | 30,000                           |
| <b>11 Other Equip under \$5,000</b>        | 1,600                                  | (1,600)   | 0                        | (1,600)                                    | 0                                |
| <b>12 Office Equip &amp; Furn Supplies</b> | 75,000                                 | (50,000)  | 0                        | (50,000)                                   | 25,000                           |
| <b>13 Insurance</b>                        | 9,100                                  | 16,327  | 0                        | 16,327                                     | 25,427                           |
| <b>14 Leases/Rents - Equipment</b>         | 48,000                                 | 3,440   | 0                        | 3,440                                      | 51,440                           |
| <b>15 Leases/Rents - Buildings/Land</b>    | 109,368                                | 8,752   | 0                        | 8,752                                      | 118,120                          |
| <b>16 Repairs</b>                          | 86,168                                 | 3,832   | 0                        | 3,832                                      | 90,000                           |
| <b>17 IT - Data Processing</b>             | 1,020,800                              | (2,791)   | 0                        | (2,791)                                    | 1,018,009                        |
| <b>18 IT - Communications</b>              | 162,264                                | 0   | 0                        | 0  | 162,264                          |
| <b>19 IT Contractual Services</b>          | 3,281,855                              | (781,855)   | 1,130,000                | 348,145                                    | 3,630,000                        |
| <b>20 Professional Development</b>         | 197,070                                | 3,289   | (5,000)                  | (1,711)                                    | 195,359                          |
| <b>21 Operating Fees &amp; Services</b>    | 96,425                                 | (24,125)  | 0                        | (24,125)                                   | 72,300                           |
| <b>22 Professional Services</b>            | 0                                      | 0   | 0                        | 0  | 0                                |
| <b>23 Total Operating Expenses</b>         | 6,749,295                              | (904,411)   | 1,267,576                | 363,165                                    | 7,112,460                        |
| <b>24 Total Capital Asset</b>              | 6,000                                  | 0   | 0                        | 0  | 6,000                            |
| Subtotal General Fund                      | 28,354,299                             | (2,700,431)                                       | 4,579,725                | 1,879,294                                  | 30,233,593                       |
| Subtotal Federal Fund                      | 125,000                                | 0   | 0                        | 0  | 125,000                          |
| <b>25 Subtotal Tax Department</b>          | 28,479,299                             | (2,700,431)                                       | 4,579,725                | 1,879,294                                  | 30,358,593                       |
| <b>26 Homestead Tax Credit</b>             | 14,800,000                             | 0   | 1,000,000                | 1,000,000                                  | 15,800,000                       |
| <b>27 Disabled Veterans Credit</b>         | 8,110,200                              |   | 300,000                  | 300,000                                    | 8,410,200                        |
| <b>28 Total General Fund</b>               | 51,264,499                             | (2,700,431)                                       | 5,879,725                | 3,179,294                                  | 54,443,793                       |
| <b>29 Total Federal Fund</b>               | 125,000                                | 0   | 0                        | 0  | 125,000                          |
| <b>30 Total for Agency</b>                 | 51,389,499                             | (2,700,431)                                       | 5,879,725                | 3,179,294                                  | 54,568,793                       |

\*Equals 2017-19 final legislative appropriation before \$75,000 carryover adjustment (Section 7 of HB 1006).

Att: A  
SB 2006  
2-28-19

OFFICE OF STATE TAX COMMISSIONER

APPENDIX D - COMPARISON OF OPTIONAL BUDGET ASKS AND GOVERNOR'S RECOMMENDED BUDGET

| Description                                       | Optional Requests | Optionals Not Included In 2019-21 Gov. Recomm. | Balance In 2019-2021 Recommended Budget | Comments   |
|---|-------------------|--|---|--|
| <b>Salary &amp; Wages</b>                         |                   |  |   |  |
| Reinvent package - funding for 17 FTEs            | 2,582,252         | 772,252  | 1,810,000                               | 4 in the recommended budget = 123) Restores a portion of request to fund equivalent of 17 FTEs. The reduction eliminates 4 FTEs for a total reduction to FTEs of 10 (133 - 6 in base and |
| <b>Total Salary and Wages Optional Requests</b>   | <b>2,582,252</b>  | <b>772,252</b>                                 | <b>1,810,000</b>                        |  |
| <b>Operating Expenses</b>                         |                   |  |   |  |
| Inflationary adjustments to Operating             | 45,606            | 45,606   | 0                                       | Eliminated all inflationary increases requested  |
| Gentax Support - Level 3                          | 1,130,000         | 0  | 1,130,000                               | Restores Gentax support to Level 3 (current level of support)  |
| Reinvent package - operating                      | 98,805            | (38,771)                                       | 137,576                                 | Restored 75,000 of 98,805 and added 62,576 for Microsoft Office 365  |
| Litigation contingency                            | 1,200,000         | 1,200,000                                      | 0                                       | Moved to litigation pool in OMBs appropriation bill  |
| <b>Total Operating Expenses Optional Requests</b> | <b>2,474,411</b>  | <b>1,206,835</b>                               | <b>1,267,576</b>                        |  |
| <b>Homestead Tax Credit</b>                       | <b>1,200,000</b>  | <b>200,000</b>                                 | <b>1,000,000</b>                        | Restored portion of request  |
| <b>Disabled Veterans Credit</b>                   | <b>889,800</b>    | <b>589,800</b>                                 | <b>300,000</b>                          | Restored portion of request  |
| <b>Subtotal of Adjustments - All General Fund</b> | <b>7,146,463</b>  | <b>2,768,887</b>                               | <b>4,377,576</b>                        |  |
| Governor's health ins & compensation package      |                   |  | 1,502,149                               |  |
| <b>Total All Adjustments</b>                      |                   |  | <b>5,879,725</b>                        |  |

March 6, 2019

SB2006

Attachment A

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

|   | Executive Budget Recommendation |              |             |              | Senate Version |              |             |              | Senate Changes to Executive Budget<br>Increase (Decrease) - Executive Budget |              |             |             |
|---|---------------------------------|--------------|-------------|--------------|----------------|--------------|-------------|--------------|--|--------------|-------------|-------------|
|   | FTE Positions                   | General Fund | Other Funds | Total        | FTE Positions  | General Fund | Other Funds | Total        | FTE Positions  | General Fund | Other Funds | Total       |
| <b>2019-21 Biennium Base Level</b>                                | 133.00                          | \$51,264,499 | \$125,000   | \$51,389,499 | 133.00         | \$51,264,499 | \$125,000   | \$51,389,499 | 0.00   | \$0          | \$0         | \$0         |
| <b>2019-21 Ongoing Funding Changes</b>                            |                                 |              |             |              |                |              |             |              |  |              |             |             |
| Base payroll changes  |                                 | \$711,232    |             | \$711,232    |                | \$711,232    |             | \$711,232    |  |              |             | \$0         |
| Salary increase   |                                 | 904,179      |             | 904,179      |                | 633,516      |             | 633,516      |  | (270,663)    |             | (270,663)   |
| Health insurance increase   |                                 | 479,935      |             | 479,935      |                | 566,684      |             | 566,684      |  | 86,749       |             | 86,749      |
| Retirement contribution increase                                  |                                 | 118,035      |             | 118,035      |                |              |             | 0            |  | (118,035)    |             | (118,035)   |
| Adds funding for an auditor position (partial funding in 2017-19) |                                 | 75,000       |             | 75,000       |                | 75,000       |             | 75,000       |  |              |             | 0           |
| Removes unfunded vacant FTE positions                             | (10.00)                         |              |             | 0            | (10.00)        |              |             | 0            |  |              |             | 0           |
| Underfunds salaries and wages                                     |                                 | (772,252)    |             | (772,252)    |                | (772,252)    |             | (772,252)    |  |              |             | 0           |
| Adds funding for GenTax software support                          |                                 | 300,589      |             | 300,589      |                | 300,589      |             | 300,589      |  |              |             | 0           |
| Adds funding for Microsoft Office 365 licensing                   |                                 | 62,576       |             | 62,576       |                | 62,576       |             | 62,576       |  |              |             | 0           |
| Adds funding for homestead tax credits                            |                                 | 1,000,000    |             | 1,000,000    |                | 1,000,000    |             | 1,000,000    |  |              |             | 0           |
| Adds funding for disabled veterans' tax credits                   |                                 | 300,000      |             | 300,000      |                | 300,000      |             | 300,000      |  |              |             | 0           |
| Total ongoing funding changes                                     | (10.00)                         | \$3,179,294  | \$0         | \$3,179,294  | (10.00)        | \$2,877,345  | \$0         | \$2,877,345  | 0.00   | (\$301,949)  | \$0         | (\$301,949) |
| <b>One-time funding items</b>                                     |                                 |              |             |              |                |              |             |              |  |              |             |             |
| 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         |
| <b>Total Changes to Base Level Funding</b>                        | (10.00)                         | \$3,179,294  | \$0         | \$3,179,294  | (10.00)        | \$2,877,345  | \$0         | \$2,877,345  | 0.00   | (\$301,949)  | \$0         | (\$301,949) |
| <b>2019-21 Total Funding</b>                                      | 123.00                          | \$54,443,793 | \$125,000   | \$54,568,793 | 123.00         | \$54,141,844 | \$125,000   | \$54,266,844 | 0.00   | (\$301,949)  | \$0         | (\$301,949) |

Other Sections for Tax Commissioner - Budget No. 127

|   | Executive Budget Recommendation   | Senate Version   |
|---|---|--|
| Line item transfers                     | Section 2 would authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.   | Section 2 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.   |
| Motor vehicle fuel tax revenue transfer | Section 3 would provide for a transfer of \$1,991,024 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes.                         | Section 3 provides for a transfer of \$1,991,024 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 would provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$119,383 (4 percent) in fiscal year 2020 and to \$121,770 (2 percent) in fiscal year 2021. | Section 4 provides the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021. |

April 4, 2019

SB2006

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Title.

Prepared by the Legislative Council staff for  
Representative Headland  
April 3, 2019

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 3, after the semicolon insert "to create and enact a new section to chapter 54-11 and a new section to chapter 54-27 of the North Dakota Century Code, relating to an income tax rate reduction fund and the transfer of legacy fund earnings;"

Page 1, line 4, replace "and" with "to provide a continuing appropriation;"

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

Page 2, after line 11, insert:

"SECTION 4. A new section to chapter 54-11 of the North Dakota Century Code is created and enacted as follows:

**Legacy income tax rate reduction fund - State treasurer - Tax commissioner - Income tax rate adjustment - Transfers to the general fund - Continuing appropriation.**

1. There is created in the state treasury the legacy income tax rate reduction fund. The fund consists of all moneys deposited in the fund pursuant to section 5 of this Act. All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of providing transfers to the general fund to reduce the individual income tax imposed under section 57-38-30.3 and the corporate income tax imposed under section 57-38-30.
2. If money is transferred into the fund pursuant to section 5 of this Act, the tax commissioner shall publish reduced individual and corporate income tax rates and notify taxpayers of the reduced rates by November first of the first fiscal year of the biennium. The tax commissioner may determine the form and manner for publishing the reduced rates and notifying taxpayers, including any notification that taxpayers are not required to file returns or pay taxes. The tax commissioner shall reduce the individual income tax rates and the corporate income tax rates based on the following:
  - a. The percentage reduction to the individual and corporate income tax rates is equal to the rate reduction amount divided by the total estimated tax collections, including both the individual tax collections and corporate income tax collections, for the second year of the biennium.
  - b. Any reductions to the individual income tax rates and the corporate income tax rates apply to tax years after December 31, 2021.
  - c. The reductions to the individual income tax rates and the corporate income tax rates must be proportional to the estimated tax collections for each tax relative to the combined total estimated tax collections for both taxes.
  - d. The reductions to the individual income tax rates and the corporate income tax rates must be applied equally to all tax brackets for each tax.

- e. The reduced individual income tax rates and corporate income tax rates must be rounded to the nearest one-hundredth of a percent.
- 3. If no money is transferred to the fund pursuant to section 5 of this Act, the tax commissioner may not reduce the individual and corporate income tax rates currently in effect.
- 4. a. If the income tax rate reduction results in a disproportionate amount of tax to be deducted and withheld under section 57-38-59, the tax commissioner may adjust the percentage that, when withheld, will as closely as possible pay the income tax liability imposed.  
 b. This section does not limit or suspend any provision in chapter 57-38 which is not in conflict with this section, including provisions for assessment and refund under sections 57-38-34.4, 57-38-38, and 57-38-40.
- 5. In April of each year, the state treasurer shall transfer the amounts certified by the tax commissioner from the legacy fund income tax reduction fund to the general fund. The amount transferred to the general fund each year may not be less than the rate reduction amount determined for the current biennium plus the rate reduction amount determined for each preceding biennium.
- 6. For purposes of this section:
  - a. "Base funding amount" means the total amount transferred from the legacy income tax rate reduction fund to the general fund in the preceding biennium.
  - b. "Estimated tax collections" means the income tax collection amounts included in the revenue forecast of the current biennial state budget as approved by the most recently adjourned special or regular session of the legislative assembly.
  - c. "Rate reduction amount" means one-third of any legacy fund earnings deposited in the legacy income tax rate reduction fund exceeding the base funding amount.

**SECTION 5.** A new section to chapter 54-27 of the North Dakota Century Code is created and enacted as follows:

**Transfer of legacy fund earnings - Limitations.**

Fifty percent of any legacy fund earnings transferred to the general fund at the end of each biennium in accordance with section 26 of article X of the Constitution of North Dakota must be transferred immediately by the state treasurer to the legacy income tax rate reduction fund. The state treasurer may not transfer legacy fund earnings to the income tax rate reduction fund if the amount of legacy fund earnings to be transferred to the legacy income tax rate reduction fund is less than fifty million dollars."

Page 2, after line 18, insert:

**"SECTION 7. EFFECTIVE DATE.** Sections 4 and 5 of this Act become effective on June 1, 2021."

April 4, 2019

SB2006

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Renumber accordingly

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

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 4-16-19  
 pg 1

|   | Senate Version |              |             |              | House Version |              |             |              | House Changes to Senate Version<br>Increase (Decrease) - Senate Version |              |             |             |
|---|----------------|--------------|-------------|--------------|---------------|--------------|-------------|--------------|---|--------------|-------------|-------------|
|   | FTE Positions  | General Fund | Other Funds | Total        | FTE Positions | General Fund | Other Funds | Total        | FTE Positions   | General Fund | Other Funds | Total       |
| <b>2019-21 Biennium Base Level</b>                                | 133.00         | \$51,264,499 | \$125,000   | \$51,389,499 | 133.00        | \$51,264,499 | \$125,000   | \$51,389,499 | 0.00  | \$0          | \$0         | \$0         |
| <b>2019-21 Ongoing Funding Changes</b>                            |                |              |             |              |               |              |             |              |   |              |             |             |
| Base payroll changes  |                | \$711,232    |             | \$711,232    |               | \$711,232    |             | \$711,232    |   |              |             | \$0         |
| Salary increase   |                | 633,516      |             | 633,516      |               | 691,036      |             | 691,036      |   | 57,520       |             | 57,520      |
| Health insurance increase   |                | 566,684      |             | 566,684      |               | 566,684      |             | 566,684      |   |              |             | 0           |
| Adds funding for an auditor position (partial funding in 2017-19) |                | 75,000       |             | 75,000       |               | 75,000       |             | 75,000       |   |              |             | 0           |
| Removes unfunded vacant FTE positions                             | (10.00)        |              |             | 0            | (10.00)       |              |             | 0            |   |              |             | 0           |
| Underfunds salaries and wages                                     |                | (772,252)    |             | (772,252)    |               | (772,252)    |             | (772,252)    |   |              |             | 0           |
| Reduces funding for temporary employees                           |                |              |             | 0            |               | (390,786)    |             | (390,786)    |   | (390,786)    |             | (390,786)   |
| Adds funding for GenTax software support                          |                | 300,589      |             | 300,589      |               | 300,589      |             | 300,589      |   |              |             | 0           |
| Adds funding for Microsoft Office 365 licensing                   |                | 62,576       |             | 62,576       |               | 62,576       |             | 62,576       |   |              |             | 0           |
| Adds funding for homestead tax credits                            |                | 1,000,000    |             | 1,000,000    |               | 1,000,000    |             | 1,000,000    |   |              |             | 0           |
| Adds funding for disabled veterans' tax credits                   |                | 300,000      |             | 300,000      |               | 300,000      |             | 300,000      |   |              |             | 0           |
| Total ongoing funding changes                                     | (10.00)        | \$2,877,345  | \$0         | \$2,877,345  | (10.00)       | \$2,544,079  | \$0         | \$2,544,079  | 0.00  | (\$333,266)  | \$0         | (\$333,266) |
| <b>One-time funding items</b>                                     |                |              |             | \$0          |               |              |             | \$0          |   |              |             | \$0         |
| No one-time funding items   |                |              |             | \$0          |               |              |             | \$0          |   |              |             | \$0         |
| Total one-time funding changes                                    | 0.00           | \$0          | \$0         | \$0          | 0.00          | \$0          | \$0         | \$0          | 0.00  | \$0          | \$0         | \$0         |
| <b>Total Changes to Base Level Funding</b>                        | (10.00)        | \$2,877,345  | \$0         | \$2,877,345  | (10.00)       | \$2,544,079  | \$0         | \$2,544,079  | 0.00  | (\$333,266)  | \$0         | (\$333,266) |
| <b>2019-21 Total Funding</b>                                      | 123.00         | \$54,141,844 | \$125,000   | \$54,266,844 | 123.00        | \$53,808,578 | \$125,000   | \$53,933,578 | 0.00  | (\$333,266)  | \$0         | (\$333,266) |

**Other Sections for Tax Commissioner - Budget No. 127**

|   | Senate Version   | House Version   |
|---|--|---|
| Line item transfers                     | Section 2 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.                             | Section 2 authorizes the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' credit line item for the 2019-21 biennium.  |
| Motor vehicle fuel tax revenue transfer | Section 3 provides for a transfer of \$1,991,024 from the motor vehicle fuel tax revenue collections to the general fund for the expenses related to the administration of the motor vehicle fuel taxes. | Section 3 provides for a transfer of \$1,991,024 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.  |
| Legacy income tax rate reduction fund   |  | Section 4 creates a legacy income tax rate reduction fund to provide income tax reductions to tax payers. Section 5 transfers 50 percent of legacy fund earnings exceeding \$100 million to the newly created fund at the end of the 2019-21 biennium to offset general fund revenue reductions resulting from the income tax rate reductions. Section 6 transfers 50 percent of legacy fund earnings to the new fund thereafter. Section 8 provides an effective date of June 1, 2021. |



Other Sections for Tax Commissioner - Budget No. 127

Salary of Tax Commissioner

**Senate Version**

Section 4 provides the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

**House Version**

Section 6 provides the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021.

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4-16-19  
pg 2

# 2 SB 2006  
4-16-19  
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**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2006 - Funding Summary**

|                           | Base Budget  | Senate Version | House Changes | House Version |
|---------------------------|--------------|----------------|---------------|---------------|
| State Tax Commissioner    |              |                |               |               |
| Salaries and wages        | \$21,724,004 | \$22,938,184   | (\$333,266)   | \$22,604,918  |
| Operating expenses        | 6,749,295    | 7,112,460      |               | 7,112,460     |
| Capital assets            | 6,000        | 6,000          |               | 6,000         |
| Homestead tax credit      | 14,800,000   | 15,800,000     |               | 15,800,000    |
| Disabled veterans' credit | 8,110,200    | 8,410,200      |               | 8,410,200     |
| Total all funds           | \$51,389,499 | \$54,266,844   | (\$333,266)   | \$53,933,578  |
| Less estimated income     | 125,000      | 125,000        | 0             | 125,000       |
| General fund              | \$51,264,499 | \$54,141,844   | (\$333,266)   | \$53,808,578  |
| FTE                       | 133.00       | 123.00         | 0.00          | 123.00        |
| Bill total                |              |                |               |               |
| Total all funds           | \$51,389,499 | \$54,266,844   | (\$333,266)   | \$53,933,578  |
| Less estimated income     | 125,000      | 125,000        | 0             | 125,000       |
| General fund              | \$51,264,499 | \$54,141,844   | (\$333,266)   | \$53,808,578  |
| FTE                       | 133.00       | 123.00         | 0.00          | 123.00        |

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

|                           | Base Budget  | Senate Changes | Senate Version |
|---------------------------|--------------|----------------|----------------|
| Salaries and wages        | \$21,724,004 | \$1,214,180    | \$22,938,184   |
| Operating expenses        | 6,749,295    | 363,165        | 7,112,460      |
| Capital assets            | 6,000        |                | 6,000          |
| Homestead tax credit      | 14,800,000   | 1,000,000      | 15,800,000     |
| Disabled veterans' credit | 8,110,200    | 300,000        | 8,410,200      |
| Total all funds           | \$51,389,499 | \$2,877,345    | \$54,266,844   |
| Less estimated income     | 125,000      | 0              | 125,000        |
| General fund              | \$51,264,499 | \$2,877,345    | \$54,141,844   |
| FTE                       | 133.00       | (10.00)        | 123.00         |

**Department 127 - State Tax Commissioner - Detail of Senate Changes**

|                           | Adjusts Funding for Base Payroll Changes <sup>1</sup> | Adds Funding for Salary and Benefit Increases <sup>2</sup> | Adds Funding for an Auditor Position <sup>3</sup> | Removes Unfunded Vacant FTE Positions <sup>4</sup> | Underfunds Salaries and Wages <sup>5</sup> | Increases Funding for GenTax Software Support <sup>6</sup> |
|---------------------------|---|--|---|--|--|--|
| Salaries and wages        | \$711,232   | \$1,200,200  | \$75,000  |  | (\$772,252)                                |  |
| Operating expenses        |   |  |   |  |  | \$300,589  |
| Capital assets            |   |  |   |  |  |  |
| Homestead tax credit      |   |  |   |  |  |  |
| Disabled veterans' credit |   |  |   |  |  |  |
| Total all funds           | \$711,232   | \$1,200,200  | \$75,000  | \$0  | (\$772,252)                                | \$300,589  |
| Less estimated income     | 0   | 0  | 0   | 0  | 0  | 0  |
| General fund              | \$711,232   | \$1,200,200  | \$75,000  | \$0  | (\$772,252)                                | \$300,589  |
| FTE                       | 0.00  | 0.00   | 0.00  | (10.00)  | 0.00                                       | 0.00   |

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4-16-19  
Pg 2

|                           | Adds Funding<br>for Microsoft<br>Office 365<br>Licensing <sup>7</sup> | Increases<br>Funding for<br>Tax Credit<br>Programs <sup>8</sup> | Total Senate<br>Changes |
|---------------------------|---|---|-------------------------|
| Salaries and wages        |   |   | \$1,214,180             |
| Operating expenses        | \$62,576  |   | 363,165                 |
| Capital assets            |   |   |                         |
| Homestead tax credit      |   | \$1,000,000   | 1,000,000               |
| Disabled veterans' credit |   | 300,000   | 300,000                 |
| <b>Total all funds</b>    | <b>\$62,576</b>   | <b>\$1,300,000</b>  | <b>\$2,877,345</b>      |
| Less estimated income     | 0   | 0   | 0                       |
| General fund              | \$62,576  | \$1,300,000   | \$2,877,345             |
| <b>FTE</b>                | <b>0.00</b>   | <b>0.00</b>   | <b>(10.00)</b>          |

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

|                           | General Fund       |
|---------------------------|--------------------|
| Salary increase           | \$633,516          |
| Health insurance increase | 566,684            |
| <b>Total</b>              | <b>\$1,200,200</b> |

<sup>3</sup> Funding is added for an auditor position that was partially funded during the 2017-19 biennium to provide a total of \$150,000.

<sup>4</sup> Removes 10 FTE unfunded vacant positions, including 2 office assistants, 1 account technician, 2 auditors, and 5 unspecified positions.

<sup>5</sup> Funding for salaries and wages is reduced for anticipated savings from vacant positions and employee turnover.

<sup>6</sup> Funding is increased for GenTax information technology support to provide total funding of \$3,630,000.

<sup>7</sup> Funding is added for Microsoft Office 365 licensing expenses.

<sup>8</sup> Funding for the homestead tax credit program is increased by \$1,000,000, from \$14,800,000 to \$15,800,000. Funding for the disabled veterans' tax credit program is increased by \$300,000, from \$8,110,200 to \$8,410,200.

This amendment also adds sections to:

- Authorize the Tax Commissioner to transfer funds between the homestead tax credit line item and the disabled veterans' tax credit line item for the 2019-21 biennium.
- Provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,600 (3 percent) in fiscal year 2021.

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

|                           | Base<br>Budget      | Senate<br>Version   | House<br>Changes   | House<br>Version    |
|---------------------------|---------------------|---------------------|--------------------|---------------------|
| Salaries and wages        | \$21,724,004        | \$22,938,184        | (\$333,266)        | \$22,604,918        |
| Operating expenses        | 6,749,295           | 7,112,460           |                    | 7,112,460           |
| Capital assets            | 6,000               | 6,000               |                    | 6,000               |
| Homestead tax credit      | 14,800,000          | 15,800,000          |                    | 15,800,000          |
| Disabled veterans' credit | 8,110,200           | 8,410,200           |                    | 8,410,200           |
| <b>Total all funds</b>    | <b>\$51,389,499</b> | <b>\$54,266,844</b> | <b>(\$333,266)</b> | <b>\$53,933,578</b> |
| Less estimated income     | 125,000             | 125,000             | 0                  | 125,000             |
| General fund              | \$51,264,499        | \$54,141,844        | (\$333,266)        | \$53,808,578        |
| <b>FTE</b>                | <b>133.00</b>       | <b>123.00</b>       | <b>0.00</b>        | <b>123.00</b>       |

**Department 127 - State Tax Commissioner - Detail of House Changes**

|                           | Adjusts<br>Funding for<br>Salary<br>Increases <sup>1</sup> | Reduces<br>Funding for<br>Temporary<br>Employees <sup>2</sup> | Total House<br>Changes |
|---------------------------|--|---|------------------------|
| Salaries and wages        | \$57,520   | (\$390,786)   | (\$333,266)            |
| Operating expenses        |  |   |                        |
| Capital assets            |  |   |                        |
| Homestead tax credit      |  |   |                        |
| Disabled veterans' credit |  |   |                        |
| <b>Total all funds</b>    | <b>\$57,520</b>  | <b>(\$390,786)</b>  | <b>(\$333,266)</b>     |
| Less estimated income     | 0  | 0   | 0                      |
| General fund              | \$57,520   | (\$390,786)   | (\$333,266)            |
| <b>FTE</b>                | <b>0.00</b>  | <b>0.00</b>   | <b>0.00</b>            |

<sup>1</sup> Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and a 2.5 percent salary increase on July 1, 2020. The Senate provided funding for salary increases of 2 percent on July 1, 2019, and 3 percent on July 1, 2020.

<sup>2</sup> Funding for temporary employees is reduced by \$390,786 to provide total funding of \$258,534. The Senate provided \$649,320.

This amendment also:

- Adds three new sections to create a legacy income tax rate reduction fund; to transfer 50 percent of the legacy fund earnings at the end of the biennium to the newly created fund; and to provide an effective date of June 1, 2021. The Senate did not include these provisions. The transfer of legacy fund earnings to the legacy income tax rate reduction fund will reduce general fund revenues in the 2019-21 biennium.
- Includes a section to provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021. The Senate included statutory changes necessary to increase the Tax Commissioner's salary by 2 percent in fiscal year 2020 and by 3 percent in fiscal year 2021.

#1 SB 2006  
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pg 1**Subject:** Deficiency Request SB2006 - Homestead & Disabled Veteran's Tax Credit

All,

Good morning! I'm reaching out with some information and an ask from the Office of State Tax Commissioner, regarding the Homestead and Disabled Veteran's Tax Credits. As you remember, these credits reimburse counties for the tax due by the qualifying applicant. We must reimburse the county for qualifying applicants and have no ability to limit funds requested.

Based on the final report submissions from the counties (due March 2019), our requests for payments for the Homestead and Disabled Veteran's Tax Credits are exceeding appropriation amounts, even with the deficiency appropriation requested in SB2024. Based on the final applications, these credits will be short a total of \$586,644, the combined amount of a deficiency of \$40,613 in Homestead and \$546,031 in Disabled Veteran's.

Due to continued deficiency in this appropriation, we would like to request an amendment be considered in conference committee for SB2006, with an emergency clause to allow reimbursement of counties for these two tax credits. Potential wording of such an amendment is attached for your consideration. A breakdown of the program and deficiency is included below for reference.

|                               | <b>Homestead</b>  | <b>Disabled Veteran's</b> |
|-------------------------------|-------------------|---------------------------|
| Current Appropriation         | \$6,290,097       | \$4,026,711               |
| SB2024 Deficiency             | \$1,170,000       | \$150,000                 |
| Total                         | \$7,460,097       | \$4,176,711               |
| Less Payments Due             | (\$7,500,710)     | (\$4,722,742)             |
| <b>FUND BALANCE REMAINING</b> | <b>(\$40,613)</b> | <b>(\$546,031)</b>        |

As always, there are many factors at play for these two credits – mill levy rates change based on county projects, taxable values are going up, applicant numbers go up or down. Based on analysis, here's a couple of items of note:

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- A total of 9,399 applications were received for Homestead Tax Credit in 2018, down 306 from 2017.
  - Taxable values did increase during this time, which increased the amount requested.
- A total of 4,017 applications were received for Disabled Veteran’s Tax Credit in 2018, up 446 from 2017.
  - More applicants, combined with taxable values increases, again increased the amount requested.
- Based on this shortfall, and the current suggested appropriation amount for 2019-2021, we believe we will likely have a deficiency request coming into the next legislative session.

We’d be happy to discuss any remaining questions you may have, and thank you for your consideration in ensuring we can adequately reimburse counties for these credits.

Sandy

Sandy McMerty

Deputy Tax Commissioner

**NORTH DAKOTA OFFICE OF STATE TAX COMMISSIONER**

P: 701-328-3033 | [samcmerty@nd.gov](mailto:samcmerty@nd.gov) | [www.nd.gov/tax](http://www.nd.gov/tax)

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# Homestead Credit

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| FormattedID     | County Name          | GrandTotal   | SlateMed               |
|-----------------|----------------------|--------------|------------------------|
| 0627193-HPC-007 | ADAMS COUNTY         | 26,486.22    | 104.34                 |
| 0702240-HPC-007 | BARNES COUNTY        | 156,528.33   | 537.56                 |
| 0696196-HPC-008 | BENSON COUNTY        | 31,020.76    | 112.42                 |
| 0717153-HPC-008 | BOTTINEAU COUNTY     | 77,436.46    | 314.70                 |
| 0705182-HPC-008 | BOWMAN COUNTY        | 39,073.70    | 170.21                 |
| 0678223-HPC-007 | BURKE COUNTY         | 7,508.46     | 35.26                  |
| 0699257-HPC-007 | BURLEIGH COUNTY      | 908,124.86   | 4,075.63               |
| 0174442-HPC-008 | CASS COUNTY          | 1,168,730.70 | 4,155.59               |
| 0573280-HPC-006 | CAVALIER COUNTY      | 38,131.82    | 133.64                 |
| 0576198-HPC-006 | DICKEY COUNTY        | 71,052.09    | 248.22                 |
| 0567190-HPC-008 | DIVIDE COUNTY        | 13,678.43    | 65.85                  |
| 0549212-HPC-007 | DUNN COUNTY          | 14,491.58    | 101.09                 |
| 0564127-HPC-008 | EDDY COUNTY          | 28,083.02    | 77.41                  |
| 0642236-HPC-007 | EMMONS COUNTY        | 78,687.96    | 341.37                 |
| 0633228-HPC-007 | FOSTER COUNTY        | 70,102.09    | 192.24                 |
| 0048004-HPC-008 | GOLDEN VALLEY COUNTY | 13,278.82    | 87.69                  |
| 0186236-HPC-009 | GRAND FORKS COUNTY   | 812,428.96   | 2,661.75               |
| 0558205-HPC-006 | GRANT COUNTY         | 31,364.53    | 103.62                 |
| 4004384-HPC-007 | GRIGGS COUNTY        | 22,291.52    | 73.77                  |
| 0570160-HPC-009 | HETTINGER COUNTY     | 56,351.57    | 183.60                 |
| 0579245-HPC-007 | KIDDER COUNTY        | 32,891.18    | 114.47                 |
| 0024214-HPC-008 | LAMOURE COUNTY       | 33,769.68    | 105.45                 |
| 0084484-HPC-007 | LOGAN COUNTY         | 26,511.76    | 82.21                  |
| 0054095-HPC-007 | MCHENRY COUNTY       | 66,325.42    | 257.41                 |
| 0648203-HPC-009 | MCINTOSH COUNTY      | 36,631.34    | 115.02                 |
| 0180279-HPC-008 | MCKENZIE COUNTY      | 14,615.80    | 96.62                  |
| 0324316-HPC-007 | MCLEAN COUNTY        | 90,907.89    | 395.48                 |
| 0639244-HPC-007 | MERCER COUNTY        | 125,505.76   | 542.38                 |
| 0672207-HPC-007 | MORTON COUNTY        | 491,391.96   | 1,927.47               |
| 0615204-HPC-007 | MOUNTRAIL COUNTY     | 16,368.01    | 119.53                 |
| 0738248-HPC-007 | NELSON COUNTY        | 48,705.46    | 164.10                 |
| 0603179-HPC-007 | OLIVER COUNTY        | 14,352.42    | 76.16                  |
| 0693157-HPC-008 | PEMBINA COUNTY       | 60,433.71    | 234.17                 |
| 0555278-HPC-006 | PIERCE COUNTY        | 92,501.13    | 319.40                 |
| 0681269-HPC-009 | RAMSEY COUNTY        | 127,729.12   | 446.22                 |
| 0690251-HPC-007 | RANSOM COUNTY        | 57,279.61    | 181.01                 |
| 0669211-HPC-008 | RENVILLE COUNTY      | 15,077.39    | 52.13                  |
| 0024650-HPC-008 | RICHLAND COUNTY      | 203,903.88   | 628.59                 |
| 0660265-HPC-007 | ROLETTE COUNTY       | 72,321.10    | 261.70                 |
| 0600245-HPC-007 | SARGENT COUNTY       | 27,341.68    | 89.27                  |
| 0732237-HPC-007 | SHERIDAN COUNTY      | 7,348.18     | 26.49                  |
| 0618193-HPC-006 | SIOUX COUNTY         | 1,045.71     | 4.59                   |
| 0342052-HPC-008 | SLOPE COUNTY         | 729.60       | 3.57                   |
| 0663278-HPC-008 | STARK COUNTY         | 385,998.49   | 1,650.16               |
| 0270120-HPC-008 | STEELE COUNTY        | 8,716.96     | 34.43                  |
| 0000148-HPC-010 | STUTSMAN COUNTY      | 360,300.62   | 1,153.83               |
| 4004667-HPC-007 | TOWNER COUNTY        | 12,945.81    | 46.03                  |
| 0084521-HPC-008 | TRAILL COUNTY        | 81,964.79    | 279.26                 |
| 0687233-HPC-008 | WALSH COUNTY         | 161,831.46   | 426.98                 |
| 0390164-HPC-008 | WARD COUNTY          | 881,806.84   | 2,760.32               |
| 0609222-HPC-007 | WELLS COUNTY         | 73,514.03    | 272.99                 |
| 0594130-HPC-006 | WILLIAMS COUNTY      | 177,525.31   | 921.92                 |
|                 |                      | 7,473,143.98 | 27,565.32              |
|                 |                      | <b>TOTAL</b> | <b>\$ 7,500,709.30</b> |

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HOMESTEAD CREDIT PROGRAM HISTORY

|      | Total Applicants | Total Taxable Value | Total Payment to County | State Med Payment | Total        |
|------|------------------|---------------------|-------------------------|-------------------|--------------|
| 2015 | 8,659            | 22,056,833.24       | 6,090,541.65            | 22,056.85         | 6,112,598.50 |
| 2016 | 8,621            | 25,248,164.09       | 6,895,595.95            | 25,248.19         | 6,920,844.14 |
| 2017 | 9,705            | 26,664,735.10       | 7,114,476.51            | 26,669.36         | 7,141,145.87 |
| 2018 | 9,399            | 27,565,287.12       | 7,473,143.98            | 27,565.32         | 7,500,709.30 |

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| FormattedID     | CountyName           | GrandTotal   | StateMed |
|-----------------|----------------------|--------------|----------|
| 0627193-HPC-007 | ADAMS COUNTY         | 29,071.19    | 110.31   |
| 0702240-HPC-007 | BARNES COUNTY        | 162,101.79   | 558.34   |
| 0696196-HPC-008 | BENSON COUNTY        | 35,897.46    | 124.56   |
| 0717153-HPC-008 | BOTTINEAU COUNTY     | 75,316.95    | 314.48   |
| 0705182-HPC-008 | BOWMAN COUNTY        | 41,653.54    | 172.42   |
| 0678223-HPC-007 | BURKE COUNTY         | 7,983.57     | 36.24    |
| 0699257-HPC-007 | BURLEIGH COUNTY      | 939,204.08   | 4,116.18 |
| 0174442-HPC-008 | CASS COUNTY          | 1,077,051.12 | 3,867.47 |
| 0573280-HPC-006 | CAVALIER COUNTY      | 37,905.54    | 115.75   |
| 0576198-HPC-006 | DICKEY COUNTY        | 67,900.26    | 243.68   |
| 0567190-HPC-008 | DIVIDE COUNTY        | 14,685.82    | 79.56    |
| 0549212-HPC-007 | DUNN COUNTY          | 14,898.66    | 108.08   |
| 0564127-HPC-008 | EDDY COUNTY          | 26,065.44    | 75.50    |
| 0642236-HPC-007 | EMMONS COUNTY        | 76,680.39    | 338.59   |
| 0633228-HPC-007 | FOSTER COUNTY        | 71,762.11    | 195.55   |
| 0048004-HPC-008 | GOLDEN VALLEY COUNTY | 17,486.21    | 119.24   |
| 0186236-HPC-009 | GRAND FORKS COUNTY   | 784,784.42   | 2,558.22 |
| 0558205-HPC-006 | GRANT COUNTY         | 29,864.45    | 97.84    |
| 4004384-HPC-007 | GRIGGS COUNTY        | 24,849.64    | 79.57    |
| 0570160-HPC-009 | HETTINGER COUNTY     | 70,974.91    | 246.17   |
| 0579245-HPC-007 | KIDDER COUNTY        | 31,694.22    | 113.18   |
| 0024214-HPC-008 | LAMOURE COUNTY       | 25,672.34    | 82.75    |
| 0084484-HPC-007 | LOGAN COUNTY         | 27,817.78    | 90.88    |
| 0054095-HPC-007 | MCHENRY COUNTY       | 73,278.56    | 287.63   |
| 0648203-HPC-009 | MCINTOSH COUNTY      | 32,269.64    | 104.70   |
| 0180279-HPC-008 | MCKENZIE COUNTY      | 11,441.71    | 80.73    |
| 0324316-HPC-007 | MCLEAN COUNTY        | 79,655.79    | 354.05   |
| 0639244-HPC-007 | MERCER COUNTY        | 100,316.24   | 441.34   |
| 0672207-HPC-007 | MORTON COUNTY        | 529,187.94   | 2,089.49 |
| 0615204-HPC-007 | MOUNTRAIL COUNTY     | 18,030.04    | 106.62   |
| 0738248-HPC-007 | NELSON COUNTY        | 40,320.25    | 133.62   |
| 0603179-HPC-007 | OLIVER COUNTY        | 10,775.53    | 50.88    |
| 0693157-HPC-008 | PEMBINA COUNTY       | 65,208.18    | 261.64   |
| 0555278-HPC-006 | PIERCE COUNTY        | 94,876.06    | 326.20   |
| 0681269-HPC-009 | RAMSEY COUNTY        | 129,109.57   | 467.33   |
| 0690251-HPC-007 | RANSOM COUNTY        | 63,401.87    | 193.73   |
| 0669211-HPC-008 | RENVILLE COUNTY      | 13,606.64    | 48.51    |
| 0024650-HPC-008 | RICHLAND COUNTY      | 166,510.00   | 504.78   |
| 0660265-HPC-007 | ROLETTE COUNTY       | 51,297.84    | 182.72   |
| 0600245-HPC-007 | SARGENT COUNTY       | 32,557.10    | 105.46   |
| 0732237-HPC-007 | SHERIDAN COUNTY      | 4,131.68     | 18.67    |
| 0618193-HPC-006 | SIOUX COUNTY         | 850.60       | 3.38     |
| 0342052-HPC-008 | SLOPE COUNTY         | 211.43       | 1.40     |
| 0663278-HPC-008 | STARK COUNTY         | 390,231.56   | 1,734.30 |
| 0270120-HPC-008 | STEELE COUNTY        | 6,762.21     | 25.68    |
| 0000148-HPC-010 | STUTSMAN COUNTY      | 312,905.60   | 1,062.61 |

393, 204.08 originally certified.

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|                 |                 |                     |           |
|-----------------|-----------------|---------------------|-----------|
| 4004667-HPC-007 | TOWNER COUNTY   | 11,270.33           | 40.30     |
| 0084521-HPC-008 | TRAILL COUNTY   | 59,987.43           | 209.53    |
| 0687233-HPC-008 | WALSH COUNTY    | 160,497.18          | 435.92    |
| 0390164-HPC-008 | WARD COUNTY     | 729,913.17          | 2,442.41  |
| 0609222-HPC-007 | WELLS COUNTY    | 74,441.72           | 259.74    |
| 0594130-HPC-006 | WILLIAMS COUNTY | 160,108.75          | 851.43    |
|                 |                 | 7,114,476.51        | 26,669.36 |
|                 | <b>TOTAL</b>    | <b>7,141,145.87</b> |           |

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Disabled Veteran Credit

| FormattedID     | CountyName           | GrandTotal   | StateMed  |
|-----------------|----------------------|--------------|-----------|
| 0627193-DVC-006 | ADAMS COUNTY         | 9,262.99     | 35.52     |
| 0702240-DVC-006 | BARNES COUNTY        | 75,002.59    | 281.43    |
| 0696196-DVC-007 | BENSON COUNTY        | 5,850.93     | 30.14     |
| 0000274-DVC-006 | BILLINGS COUNTY      | 377.85       | 2.96      |
| 0717153-DVC-007 | BOTTINEAU COUNTY     | 22,414.69    | 109.19    |
| 0705182-DVC-007 | BOWMAN COUNTY        | 11,547.53    | 56.44     |
| 0678223-DVC-006 | BURKE COUNTY         | 7,419.87     | 36.20     |
| 0699257-DVC-006 | BURLEIGH COUNTY      | 569,295.78   | 2,657.84  |
| 0174442-DVC-007 | CASS COUNTY          | 1,067,477.87 | 3,827.33  |
| 0573280-DVC-005 | CAVALIER COUNTY      | 5,281.22     | 18.55     |
| 0576198-DVC-005 | DICKEY COUNTY        | 27,549.57    | 106.44    |
| 0567190-DVC-007 | DIVIDE COUNTY        | 6,424.14     | 33.12     |
| 0549212-DVC-006 | DUNN COUNTY          | 17,040.50    | 119.72    |
| 0564127-DVC-007 | EDDY COUNTY          | 7,801.01     | 24.58     |
| 0642236-DVC-006 | EMMONS COUNTY        | 11,034.00    | 51.84     |
| 0633228-DVC-006 | FOSTER COUNTY        | 13,084.41    | 34.74     |
| 0048004-DVC-007 | GOLDEN VALLEY COUNTY | 2,792.08     | 18.29     |
| 0186236-DVC-008 | GRAND FORKS COUNTY   | 650,629.17   | 2,234.86  |
| 0558205-DVC-005 | GRANT COUNTY         | 5,405.49     | 17.29     |
| 4004384-DVC-006 | GRIGGS COUNTY        | 9,441.62     | 34.87     |
| 0570160-DVC-008 | HETTINGER COUNTY     | 8,882.16     | 31.17     |
| 0579245-DVC-006 | KIDDER COUNTY        | 8,647.56     | 32.24     |
| 0024214-DVC-007 | LAMOURE COUNTY       | 10,404.30    | 36.94     |
| 0084484-DVC-006 | LOGAN COUNTY         | 5,427.50     | 17.22     |
| 0054095-DVC-006 | MCHENRY COUNTY       | 24,730.33    | 111.55    |
| 0648203-DVC-008 | MCINTOSH COUNTY      | 7,843.84     | 24.81     |
| 0180279-DVC-007 | MCKENZIE COUNTY      | 10,252.31    | 84.73     |
| 0324316-DVC-006 | MCLEAN COUNTY        | 59,155.05    | 259.25    |
| 0639244-DVC-006 | MERCER COUNTY        | 35,602.00    | 157.08    |
| 0672207-DVC-006 | MORTON COUNTY        | 215,977.86   | 860.60    |
| 0615204-DVC-006 | MOUNTRAIL COUNTY     | 9,445.35     | 56.76     |
| 0738248-DVC-006 | NELSON COUNTY        | 14,411.75    | 53.28     |
| 0603179-DVC-006 | OLIVER COUNTY        | 9,096.12     | 54.16     |
| 0693157-DVC-007 | PEMBINA COUNTY       | 19,810.06    | 77.52     |
| 0555278-DVC-005 | PIERCE COUNTY        | 12,503.42    | 56.42     |
| 0681269-DVC-008 | RAMSEY COUNTY        | 81,425.77    | 299.33    |
| 0690251-DVC-006 | RANSOM COUNTY        | 29,125.31    | 111.32    |
| 0669211-DVC-007 | RENVILLE COUNTY      | 13,453.07    | 51.06     |
| 0024650-DVC-007 | RICHLAND COUNTY      | 94,853.49    | 286.24    |
| 0660265-DVC-006 | ROLETTE COUNTY       | 11,014.18    | 43.14     |
| 0600245-DVC-006 | SARGENT COUNTY       | 15,905.82    | 56.32     |
| 0732237-DVC-006 | SHERIDAN COUNTY      | 400.25       | 1.42      |
| 0618193-DVC-005 | SIOUX COUNTY         | 468.11       | 4.05      |
| 0663278-DVC-007 | STARK COUNTY         | 193,952.56   | 840.54    |
| 0270120-DVC-007 | STEELE COUNTY        | 11,026.49    | 43.76     |
| 0000148-DVC-009 | STUTSMAN COUNTY      | 162,077.85   | 521.46    |
| 4004667-DVC-006 | TOWNER COUNTY        | 6,456.41     | 25.37     |
| 0084521-DVC-007 | TRAIL COUNTY         | 74,044.60    | 248.81    |
| 0687233-DVC-007 | WALSH COUNTY         | 56,173.80    | 163.64    |
| 0390164-DVC-007 | WARD COUNTY          | 895,622.31   | 2,824.39  |
| 0609222-DVC-006 | WELLS COUNTY         | 12,540.28    | 51.90     |
| 0594130-DVC-005 | WILLIAMS COUNTY      | 69,282.85    | 377.74    |
| Totals          |                      | 4,705,146.07 | 17,595.57 |

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DISABLED VETERAN CREDIT HISTORY

|      | Total Applicants | Total Taxable Value | Total Payment to County | State Med Payment | Total        |
|------|------------------|---------------------|-------------------------|-------------------|--------------|
| 2015 | 3,111            | 13,129,536.72       | 3,531,300.77            | 13,129.56         | 3,544,430.33 |
| 2016 | 3,329            | 14,171,940.39       | 3,757,434.90            | 14,171.96         | 3,771,606.86 |
| 2017 | 3,571            | 15,537,258.10       | 4,067,951.52            | 15,537.28         | 4,083,488.80 |
| 2018 | 4,017            | 17,595,559.45       | 4,705,146.07            | 17,595.57         | 4,722,741.64 |

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| FormattedID     | CountyName           | GrandTotal          | StateMed            |
|-----------------|----------------------|---------------------|---------------------|
| 0627193-DVC-006 | ADAMS COUNTY         | 8,198.34            | 30.31               |
| 0702240-DVC-006 | BARNES COUNTY        | 62,633.06           | 239.43              |
| 0696196-DVC-007 | BENSON COUNTY        | 4,917.64            | 22.62               |
| 0000274-DVC-006 | BILLINGS COUNTY      | 398.69              | 3.13                |
| 0717153-DVC-007 | BOTTINEAU COUNTY     | 20,937.41           | 103.13              |
| 0705182-DVC-007 | BOWMAN COUNTY        | 9,571.42            | 42.74               |
| 0678223-DVC-006 | BURKE COUNTY         | 7,667.54            | 36.20               |
| 0699257-DVC-006 | BURLEIGH COUNTY      | 543,497.76          | 2,493.64            |
| 0174442-DVC-007 | CASS COUNTY          | 934,133.41          | 3,396.91            |
| 0573280-DVC-005 | CAVALIER COUNTY      | 4,766.57            | 15.77               |
| 0576198-DVC-005 | DICKEY COUNTY        | 18,021.28           | 63.89               |
| 0567190-DVC-007 | DIVIDE COUNTY        | 2,189.94            | 12.09               |
| 0549212-DVC-006 | DUNN COUNTY          | 13,807.17           | 98.49               |
| 0564127-DVC-007 | EDDY COUNTY          | 6,729.54            | 22.86               |
| 0642236-DVC-006 | EMMONS COUNTY        | 9,959.94            | 46.95               |
| 0633228-DVC-006 | FOSTER COUNTY        | 10,592.15           | 27.67               |
| 0048004-DVC-007 | GOLDEN VALLEY COUNTY | 1,969.39            | 13.44               |
| 0186236-DVC-008 | GRAND FORKS COUNTY   | 601,316.96          | 2,045.22            |
| 0558205-DVC-005 | GRANT COUNTY         | 4,816.20            | 15.61               |
| 4004384-DVC-006 | GRIGGS COUNTY        | 10,992.25           | 37.72               |
| 0570160-DVC-008 | HETTINGER COUNTY     | 7,319.96            | 26.57               |
| 0579245-DVC-006 | KIDDER COUNTY        | 5,694.94            | 21.72               |
| 0024214-DVC-007 | LAMOURE COUNTY       | 11,517.33           | 38.45               |
| 0084484-DVC-006 | LOGAN COUNTY         | 4,192.89            | 14.24               |
| 0054095-DVC-006 | MCHENRY COUNTY       | 18,805.09           | 82.50               |
| 0648203-DVC-008 | MCINTOSH COUNTY      | 4,699.54            | 15.09               |
| 0180279-DVC-007 | MCKENZIE COUNTY      | 10,575.69           | 89.56               |
| 0324316-DVC-006 | MCLEAN COUNTY        | 49,565.38           | 223.61              |
| 0639244-DVC-006 | MERCER COUNTY        | 27,242.04           | 124.73              |
| 0672207-DVC-006 | MORTON COUNTY        | 207,694.51          | 829.13              |
| 0615204-DVC-006 | MOUNTRAIL COUNTY     | 5,670.04            | 35.78               |
| 0738248-DVC-006 | NELSON COUNTY        | 9,519.53            | 38.11               |
| 0603179-DVC-006 | OLIVER COUNTY        | 10,045.18           | 52.43               |
| 0693157-DVC-007 | PEMBINA COUNTY       | 19,507.65           | 81.38               |
| 0555278-DVC-005 | PIERCE COUNTY        | 8,780.96            | 33.07               |
| 0681269-DVC-008 | RAMSEY COUNTY        | 53,763.81           | 208.39              |
| 0690251-DVC-006 | RANSOM COUNTY        | 29,531.60           | 110.50              |
| 0669211-DVC-007 | RENVILLE COUNTY      | 13,122.76           | 49.48               |
| 0024650-DVC-007 | RICHLAND COUNTY      | 84,920.76           | 253.19              |
| 0660265-DVC-006 | ROLETTE COUNTY       | 7,511.30            | 27.38               |
| 0600245-DVC-006 | SARGENT COUNTY       | 9,749.95            | 34.18               |
| 0732237-DVC-006 | SHERIDAN COUNTY      | 357.70              | 1.42                |
| 0618193-DVC-005 | SIOUX COUNTY         | 672.12              | 3.56                |
| 0663278-DVC-007 | STARK COUNTY         | 174,280.96          | 783.17              |
| 0270120-DVC-007 | STEELE COUNTY        | 10,442.21           | 43.46               |
| 0000148-DVC-009 | STUTSMAN COUNTY      | 134,344.69          | 456.72              |
| 4004667-DVC-006 | TOWNER COUNTY        | 1,899.11            | 6.34                |
| 0084521-DVC-007 | TRAILL COUNTY        | 59,105.06           | 210.82              |
| 0687233-DVC-007 | WALSH COUNTY         | 50,164.07           | 153.60              |
| 0390164-DVC-007 | WARD COUNTY          | 684,262.69          | 2,325.60            |
| 0609222-DVC-006 | WELLS COUNTY         | 11,988.42           | 44.19               |
| 0594130-DVC-005 | WILLIAMS COUNTY      | 63,886.92           | 351.09              |
|                 |                      | <b>4,067,951.52</b> | <b>15,537.28</b>    |
|                 |                      | <b>TOTAL</b>        | <b>4,083,488.80</b> |

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PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

Page 1, line 6, after the semicolon, insert “to provide a statement of legislative intent;”

Page 1, line 7, remove “and”

Page 1, line 7 after “date” insert “; and to declare an emergency”

Page 4, after line 21, insert:

**SECTION 7. APPROPRIATION.** The funds provided in this section or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, and from special funds derived from federal funds and other income, to the tax commissioner for the purpose of paying the state reimbursement under the homestead tax credit and disabled veterans’ tax credit, for the period beginning with the effective date of this Act, and ending June 30, 2019, as follows:

|                          |                |
|--------------------------|----------------|
| Homestead tax credit     | \$ 40,613      |
| Disabled veterans credit | <u>546,031</u> |
| Total general fund       | \$586,644      |

**SECTION 8. LEGISLATIVE INTENT –DEFICIENCY FUNDING.** It is the intent of the sixty-sixth legislative assembly that the funds provided for in Section 7 of this Act are in addition to the deficiency appropriation for the homestead tax credit and disabled veterans credit as provided in section 1 of Senate Bill No. 2024, as approved by the sixty-sixth legislative assembly.”

Page 4, after line 23, insert:

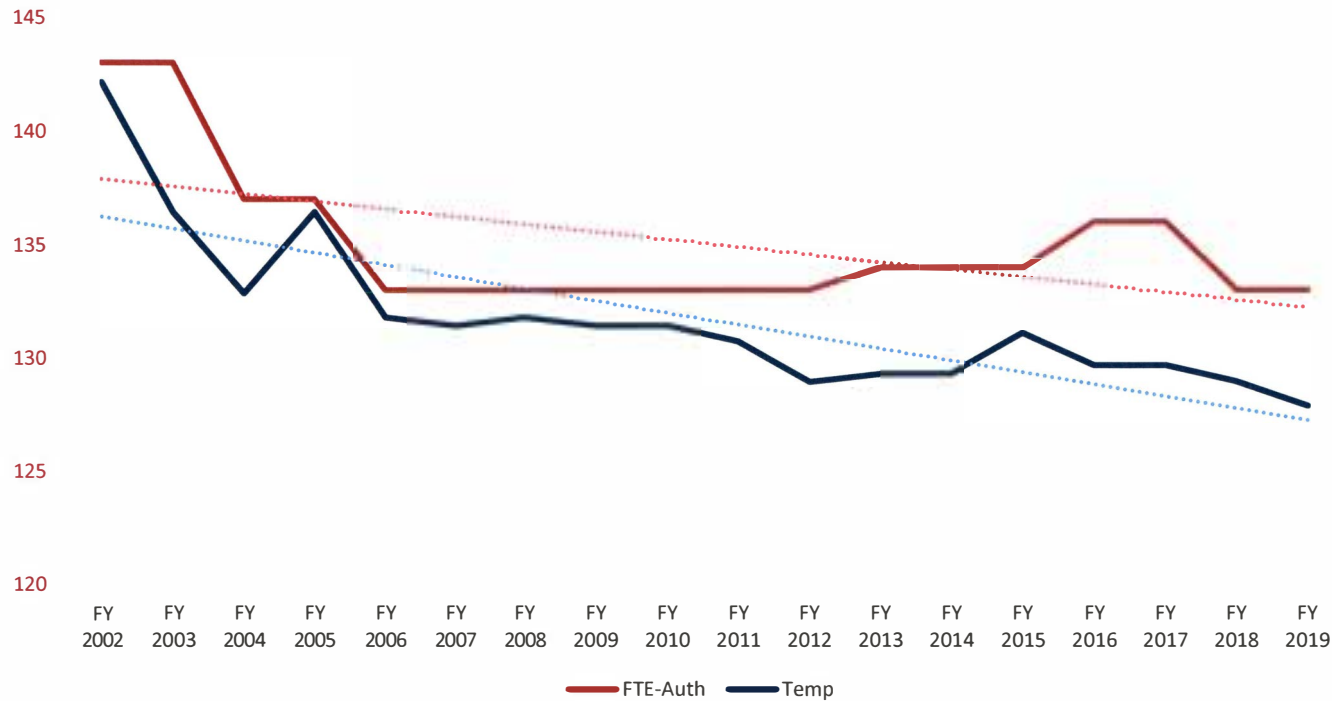
**SECTION 10. EMERGENCY.** Section 7 of this Act is declared to be an emergency.”

Renumber accordingly

#3 SB 2006  
4-18-19  
pg 1

# OFFICE OF STATE TAX COMMISSIONER

Staffing - Authorized FTE & Temps

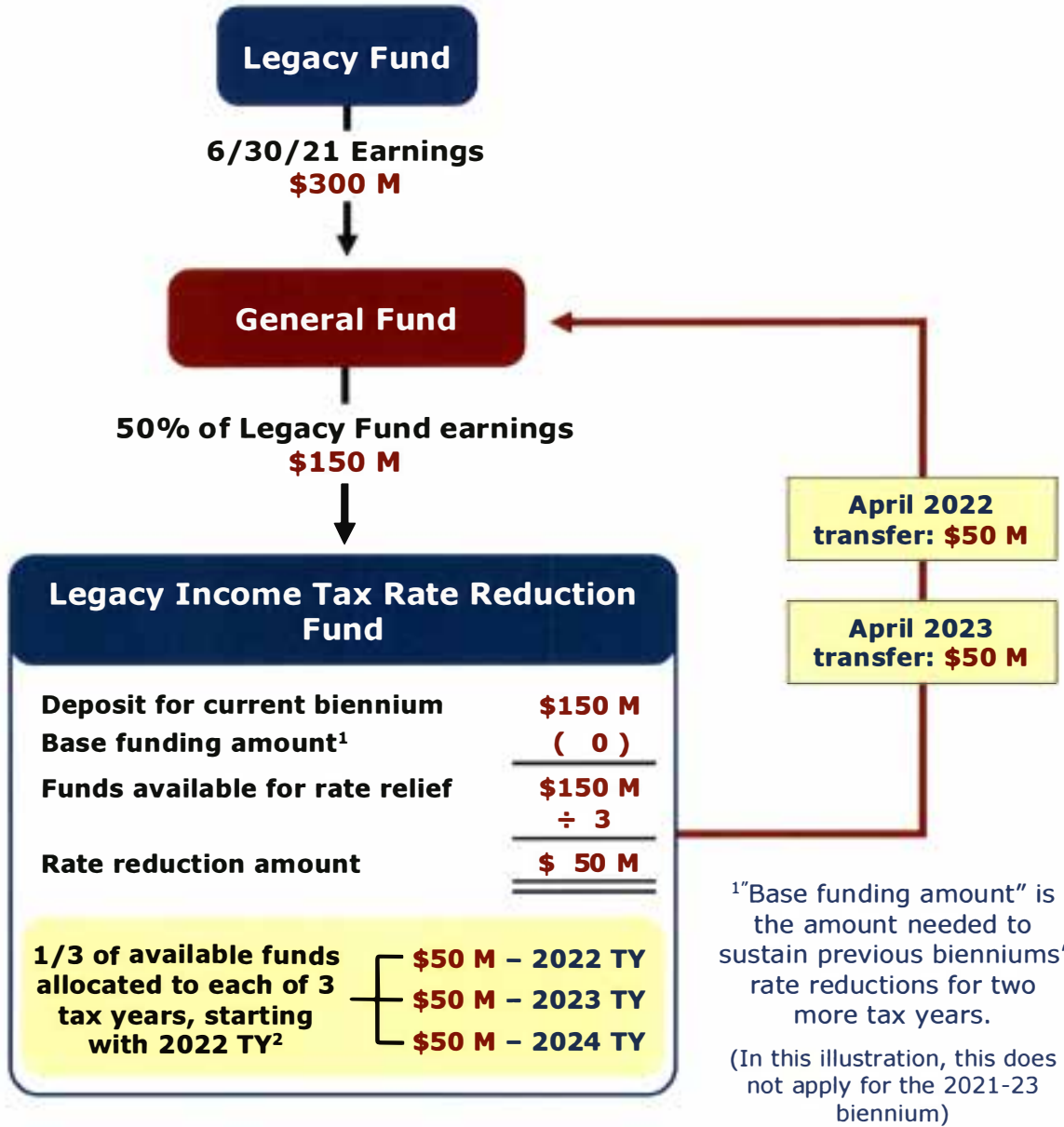


| Year    | Temp Employees | FTE-Auth |
|---------|----------------|----------|
| FY 2002 | 62             | 143      |
| FY 2003 | 46             | 143      |
| FY 2004 | 36             | 137      |
| FY 2005 | 46             | 137      |
| FY 2006 | 33             | 133      |
| FY 2007 | 32             | 133      |
| FY 2008 | 33             | 133      |
| FY 2009 | 32             | 133      |
| FY 2010 | 32             | 133      |
| FY 2011 | 30             | 133      |
| FY 2012 | 25             | 133      |
| FY 2013 | 26             | 134      |
| FY 2014 | 26             | 134      |
| FY 2015 | 31             | 134      |
| FY 2016 | 27             | 136      |
| FY 2017 | 27             | 136      |
| FY 2018 | 25             | 133      |
| FY 2019 | 22             | 133      |

# 4

SB 2006  
4-18-19

**2021-23  
Biennium**



**Rate Reduction Calculation (for tax years 2022 and after<sup>2</sup>)**

$$\text{Rate reduction \%} = \frac{\text{Rate reduction amount}}{\text{Forecasted income tax collections for 2nd fiscal year of biennium (2022)}} = \frac{\$50 \text{ M}}{\$481 \text{ M}} = 10\%$$

| Current rates (TY 2021) |                | New rates (TY 2022 and after) |
|-------------------------|----------------|-------------------------------|
| 1.10 %                  | x (1.00 - .10) | = 0.99 %                      |
| 2.04                    | x (1.00 - .10) | = 1.84                        |
| 2.27                    | x (1.00 - .10) | = 2.04                        |
| 2.64                    | x (1.00 - .10) | = 2.38                        |
| 2.90                    | x (1.00 - .10) | = 2.61                        |

<sup>2</sup>Rates for TYs 2022 and after are based on one rate reduction cycle.

Legacy Fund earnings from 2019-21 biennium provides \$50M per year for 2022 - 2024 tax years.

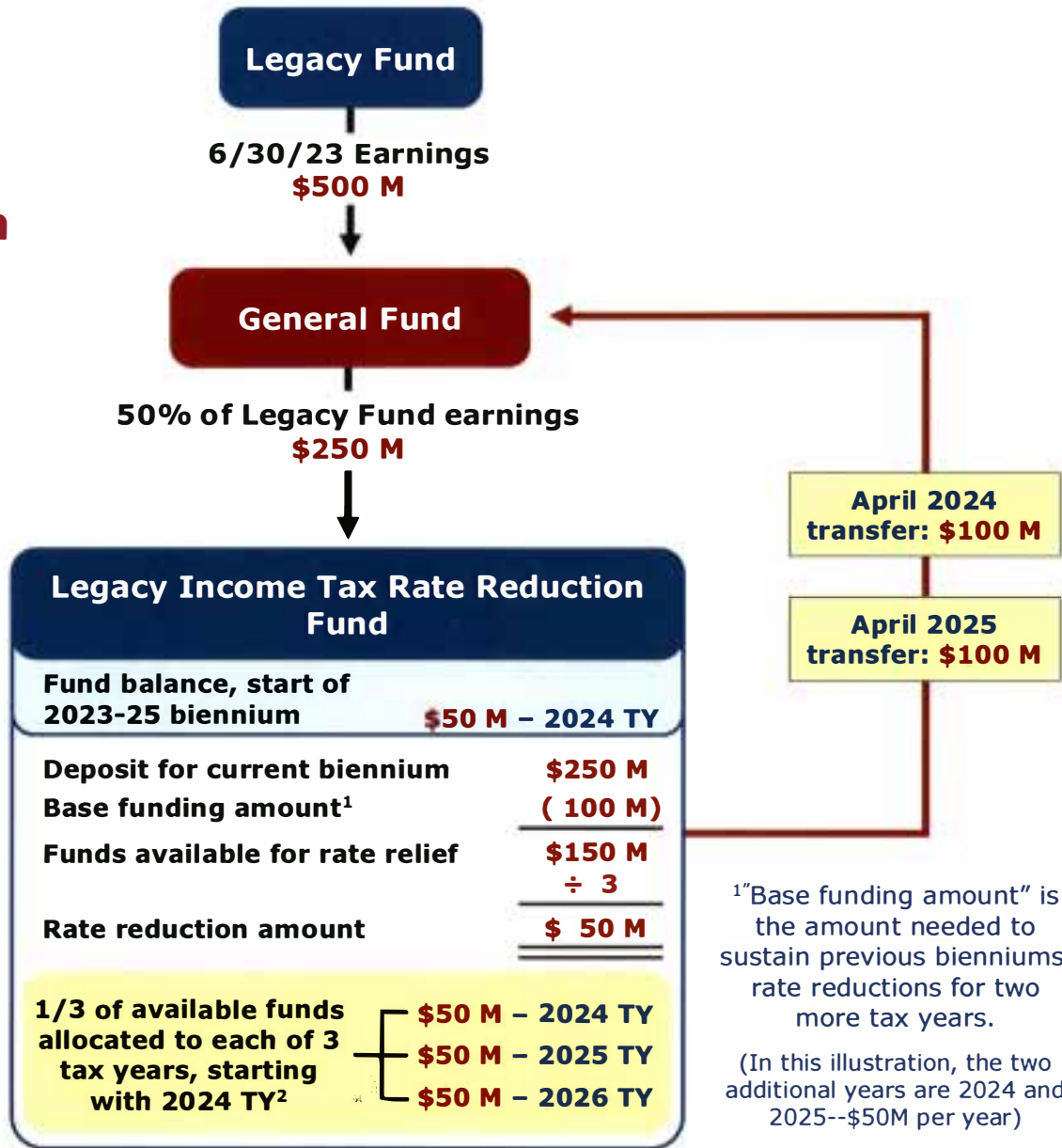
P1



**Engrossed SB 2006 (First Engrossment with House Amendments)**

Income Tax Rate Reduction Using Legacy Fund Earnings (§§4 and 5)

**2023-25  
Biennium**



**Rate Reduction Calculation (for tax years 2024 and after<sup>2</sup>)**

$$\text{Rate reduction \%} = \frac{\text{Rate reduction amount}}{\text{Forecasted income tax collections for 2nd fiscal year of biennium (2024)}} = \frac{\$50 \text{ M}}{\$450 \text{ M}} = 11\%$$

| Current rates (TY 2022-23) |                | New rates (TY 2024 and after <sup>2</sup> ) |
|----------------------------|----------------|---|
| 0.99 %                     | x (1.00 - .11) | = 0.88 %                                    |
| 1.84                       | x (1.00 - .11) | = 1.64                                      |
| 2.04                       | x (1.00 - .11) | = 1.82                                      |
| 2.38                       | x (1.00 - .11) | = 2.12                                      |
| 2.61                       | x (1.00 - .11) | = 2.32                                      |

<sup>2</sup>Rates for TYs 2024 and after are based on two rate reduction cycles—  
Legacy Fund earnings from 2019-21 biennium provide \$50M per year for 2022 - 2024 tax years.  
Legacy Fund earnings from 2021-23 biennium provide additional \$50M per year for 2024 - 2026 tax years.

Engrossed SB 2006 (First Engrossment w/House Amendments): Income Tax Rate Reduction Using Legacy Fund Earnings

# 4  
SB 2006  
4-18-19 pg 3

**Transaction Timeline**

| Date   | Amount of Legacy Fund Earnings<br><i>(Assumed amounts for illustration only)</i> | Transfer Transaction  |                    | Legacy Income Tax Rate Reduction Fund Balance<br><i>(Rate Reduction Fund)</i> | Base Funding Amount<br><i>(Sum of previous biennium's April transfers)</i> | Rate Reduction Amount<br><i>[(Rate Reduction Fund transfer - Base Funding Amount) ÷ 3]</i> |
|--|--|---|--------------------|---|--|--|
|  |  | Type of Transfer  | Amount of Transfer |   |  |  |
| January 2021--<br>2021 Legis. Session Begins   |  |   |                    |   |  |  |
| <b>2021-23 BIENNIUM</b>  |  |   |                    |   |  |  |
| June 30, 2021--<br>End of 2019-21 biennium   | \$300,000,000  | 50% of Legacy Fund earnings from General Fund to Rate Reduction Fund                                  | \$150,000,000      | \$150,000,000   | \$0  | \$50,000,000   |
| April 2022   |  | Certified amount from Rate Reduction Fund to General Fund<br><b>(to fund 2022 tax year reduction)</b> | 50,000,000         | 100,000,000   |  |  |
| January 2023--<br>2023 Legis. Session Begins   |  |   |                    |   |  |  |
| April 2023   |  | Certified amount from Rate Reduction Fund to General Fund<br><b>(to fund 2023 tax year reduction)</b> | 50,000,000         | 50,000,000  |  |  |
| <b>2023-25 BIENNIUM</b>  |  |   |                    |   |  |  |
| June 30, 2023--<br>End of 2021-23 biennium   | \$500,000,000  | 50% of Legacy Fund earnings from General Fund to Rate Reduction Fund                                  | \$250,000,000      | \$300,000,000   | \$100,000,000  | \$50,000,000   |
| April 2024   |  | Certified amount from Rate Reduction Fund to General Fund<br><b>(to fund 2024 tax year reduction)</b> | 100,000,000        | 200,000,000   |  |  |
| January 2025--<br>2025 Legis. Session Begins   |  |   |                    |   |  |  |
| April 2025   |  | Certified amount from Rate Reduction Fund to General Fund<br><b>(to fund 2025 tax year reduction)</b> | 100,000,000        | 100,000,000   |  |  |
| <b>SUBSEQUENT BIENNIUMS -- Process repeats each biennium, subject to statutory requirements and limitations.</b> |  |   |                    |   |  |  |

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# Engrossed SB 2006 (First Engrossment w/House Amendments: Income Tax Rate Reduction Using Legacy Fund Earnings

## Rate Reduction Calculation Formula

- 1 - If there is a transfer of Legacy Fund earnings to the Legacy Income Tax Rate Reduction Fund (Rate Reduction Fund), a rate reduction % is calculated. See "Rate Reduction Formula" below.
- 2 - If a rate reduction occurs, the tax commissioner shall publish the reduced tax rates and notify the public by November 1 of the 1st fiscal year of the biennium.
- 3 - For the 2021-23 biennium, the first biennium the provisions of SB 2006 take effect, if a rate reduction occurs, it will apply to tax years 2022 and after.

## Rate Reduction Formula

### Formula factors:

$$\text{Rate reduction amount} = \frac{\text{Legacy Fund earnings placed in Rate Reduction Fund} - \text{Base Funding Amount}}{3}$$

$$\text{Base funding amount} = \text{Amount certified for transfer from Rate Reduction Fund to State General Fund during the previous biennium.}$$

*Note: The base funding amount is the amount of Legacy Fund earnings needed to continue funding any tax rate reductions made in a prior bienniums. For the 2021-23 biennium calculation, if any, this amount is zero.*

$$\text{Rate reduction \%} = \frac{\text{Rate Reduction Amount}}{\text{Forecasted income tax collections for 2nd fiscal year of the biennium}}$$

### Calculation of new tax rates:

If a rate reduction is made, the new income tax rate for each tax bracket is determined as follows:

$$\text{Income tax rate} \times [1.00 - \text{Rate reduction \% (as decimal)}] = \text{Revised income tax rate}$$

#4  
SB 2006  
4-18-19  
pg 4

## Rate Reduction Example

The following illustrates how the income tax rates would be adjusted if a rate reduction occurs, using the numbers for the 2021-23 biennium from Transaction Timeline page and the income tax collections forecasted for the 2nd fiscal year of the biennium ending June 30, 2023.

$$\begin{aligned} \text{Rate reduction \%} &= \frac{\text{Rate Reduction Amount}}{\text{Forecasted income tax collections for 2nd fiscal year of biennium}} \\ &= \frac{\$50,000,000}{\$481,000,000} = 10\% \end{aligned}$$

| Individual Income Tax Rates |   |              |   |               |
|-----------------------------|---|--------------|---|---------------|
| Current Rates               |   |              |   | Revised Rates |
| 1.10%                       | x | (1.00 - .10) | = | 0.99%         |
| 2.04%                       | x | (1.00 - .10) | = | 1.84%         |
| 2.27%                       | x | (1.00 - .10) | = | 2.04%         |
| 2.64%                       | x | (1.00 - .10) | = | 2.38%         |
| 2.90%                       | x | (1.00 - .10) | = | 2.61%         |

| Corporation Income Tax Rates |   |              |   |               |
|------------------------------|---|--------------|---|---------------|
| Current Rates                |   |              |   | Revised Rates |
| 1.41%                        | x | (1.00 - .10) | = | 1.27%         |
| 3.55%                        | x | (1.00 - .10) | = | 3.20%         |
| 4.31%                        | x | (1.00 - .10) | = | 3.88%         |

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2006

That the House recede from its amendments as printed on pages 1574-1577 of the House Journal and pages 1382-1385 of the Senate 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 declare an emergency"

Page 1, replace lines 15 through 22 with:

|                               |                  |                |                  |
|-------------------------------|------------------|----------------|------------------|
| "Salaries and wages           | \$21,724,004     | \$1,143,952    | \$22,867,956     |
| Operating expenses            | 6,749,295        | 363,165        | 7,112,460        |
| Capital assets                | 6,000            | 0              | 6,000            |
| Homestead tax credit          | 14,800,000       | 1,000,000      | 15,800,000       |
| Disabled veterans' tax credit | <u>8,110,200</u> | <u>300,000</u> | <u>8,410,200</u> |
| Total all funds               | \$51,389,499     | \$2,807,117    | \$54,196,616     |
| Less estimated income         | <u>125,000</u>   | <u>0</u>       | <u>125,000</u>   |
| Total general fund            | \$51,264,499     | \$2,807,117    | \$54,071,616"    |

Page 1, after line 23, insert:

**"SECTION 2. APPROPRIATION - 2017-19 BIENNIUM.** There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$590,000, or so much of the sum as may be necessary, to the tax commissioner for the homestead tax credit program and the disabled veterans' tax credit program, for the period beginning with the effective date of this Act, and ending June 30, 2019."

Page 2, line 18, replace "one hundred twenty thousand six hundred" with "one hundred twenty thousand fourteen"

Page 2, after line 18, insert:

**"SECTION 6. EMERGENCY.** Section 2 of this Act is declared to be an emergency measure."

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        | \$21,724,004     | \$22,938,184     | (\$70,228)                   | \$22,867,956                 | \$22,604,918     | \$263,038           |
| Operating expenses        | 6,749,295        | 7,112,460        |                              | 7,112,460                    | 7,112,460        |                     |
| Capital assets            | 6,000            | 6,000            |                              | 6,000                        | 6,000            |                     |
| Homestead tax credit      | 14,800,000       | 15,800,000       |                              | 15,800,000                   | 15,800,000       |                     |
| Disabled veterans' credit | <u>8,110,200</u> | <u>8,410,200</u> |                              | <u>8,410,200</u>             | <u>8,410,200</u> |                     |
| Total all funds           | \$51,389,499     | \$54,266,844     | (\$70,228)                   | \$54,196,616                 | \$53,933,578     | \$263,038           |
| Less estimated income     | <u>125,000</u>   | <u>125,000</u>   | 0                            | <u>125,000</u>               | <u>125,000</u>   | 0                   |
| General fund              | \$51,264,499     | \$54,141,844     | (\$70,228)                   | \$54,071,616                 | \$53,808,578     | \$263,038           |

#1

SB 2006  
4-24-19  
Pg 2

|     |        |        |      |        |        |      |
|-----|--------|--------|------|--------|--------|------|
| FTE | 133.00 | 123.00 | 0.00 | 123.00 | 123.00 | 0.00 |
|-----|--------|--------|------|--------|--------|------|

### Department 127 - State Tax Commissioner - Detail of Conference Committee Changes

|                           | Adjusts<br>Funding for<br>Salary<br>Increases <sup>1</sup> | Underfunds<br>Salaries and<br>Wages <sup>2</sup> | Total<br>Conference<br>Committee<br>Changes |
|---------------------------|--|--|---|
| Salaries and wages        | \$57,520   | (\$127,748)                                      | (\$70,228)                                  |
| Operating expenses        |  |  |   |
| Capital assets            |  |  |   |
| Homestead tax credit      |  |  |   |
| Disabled veterans' credit |  |  |   |
| <b>Total all funds</b>    | <b>\$57,520</b>  | <b>(\$127,748)</b>                               | <b>(\$70,228)</b>                           |
| Less estimated income     | 0  | 0  | 0   |
| General fund              | \$57,520   | (\$127,748)                                      | (\$70,228)                                  |
| <b>FTE</b>                | <b>0.00</b>  | <b>0.00</b>                                      | <b>0.00</b>                                 |

<sup>1</sup> Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and a 2.5 percent salary increase on July 1, 2020. The Senate provided funding for salary increases of 2 percent on July 1, 2019, and 3 percent on July 1, 2020.

<sup>2</sup> Funding for salaries and wages is reduced by \$127,748 for anticipated savings from vacant positions and employee turnover for total underfunding of \$900,000. The Senate underfunded salaries and wages by \$772,252. The House underfunded salaries and wages by \$772,252 and reduced funding for temporary employees by \$390,786 for a total reduction of \$1,163,038.

**This amendment:**

- Provides an appropriation of \$590,000 from the general fund for the 2017-19 biennium for the homestead tax credit program and the disabled veterans' tax credit program and includes an emergency clause related to the appropriation. Neither the Senate nor the House included this funding.
- Does not include three sections added by the House to create a legacy income tax rate reduction fund, to transfer 50 percent of the legacy fund earnings at the end of the biennium to the newly created fund, and to provide an effective date of June 1, 2021.
- Includes a section to provide the statutory changes necessary to increase the Tax Commissioner's salary from the current salary of \$114,791 to \$117,087 (2 percent) in fiscal year 2020 and to \$120,014 (2.5 percent) in fiscal year 2021, the same as the House version. The Senate included statutory changes necessary to increase the Tax Commissioner's salary by 2 percent in fiscal year 2020 and by 3 percent in fiscal year 2021.