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## **AGENCY OVERVIEW**

127 OFFICE OF STATE TAX COMMISSIONER

Date: 12/14/2006

Time: 11:18:01

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## **STATUTORY AUTHORITY**

North Dakota Century Code Chapters 57-01 through 57-02

## **AGENCY DESCRIPTION**

The Office of State Tax Commissioner is charged with the responsibility to fairly and effectively administer the tax laws of North Dakota. The Office of State Tax Commissioner consists of six separate divisions including the Commissioner's Division that is the administrative center of the department; the Legal Division that provides legal advice and counsel to the department and to the State Board of Equalization; the Operations Division that is responsible for leading the department's technology efforts and oversees the processing of tax returns; the Fiscal Management Division that performs accounting functions, budgeting, and collects delinquent taxes; the Income, Sales and Special Taxes Division that includes Individual Income, Corporation Income, Sales and Use, Motor Fuel, Financial Institution, Oil and Gas Gross Production, Oil Extraction, Alcoholic Beverages, Tobacco Products, Estate, Special Taxes, and applicable local option taxes; and the Property Tax Division that includes Property and Utility Taxes, Coal Taxes, Homestead Credit and Renter Refund Program, and the Telecommunications Gross Receipts Tax.

## **AGENCY MISSION**

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota.

## **AGENCY PERFORMANCE MEASURES**

The Tax Department improved its productivity by nearly 71 percent since 1992 because of actions resulting from business process measurement and process improvement. The department's cost to collect \$1,000 in revenue for fiscal year 2005 was \$7.10 compared to \$9.89 during 1992.

- Adjusting for inflation, the 1992 cost would be \$14.12 today.
- This equates to
  - a numeric reduction of \$2.79 when comparing the dollar amounts, or
  - a drop of \$7.02 in real terms, when adjusting those dollars for inflation

## **MAJOR ACCOMPLISHMENTS**

Completed the first conversion of Sales and Use taxes, Local Option taxes, City Lodging, and City Restaurant & Lodging taxes, Withholding, Motor Fuels & Estate tax to the new GenTax integrated tax system. Individual Income tax will be converted in January 2007 and Corporate Income tax will follow in June 2007.

Completed all the requirements to borrow \$14.0 million for the new tax system.

Implemented the Streamlined Sales and Use Tax Agreement, with 12 other states, that took effect October 1, 2005.

Provided a simplified sales and use tax system that provides for electronic registration, electronic filing and payment options.

Implemented the North American Industry Classification System in place of the U.S. Standard Industrial Classification system for use in developing statistics about North Dakota business activity.

Continued agency reorganization efforts to fairly and effectively administer the tax laws of North Dakota by realigning key processes, functions and organizational units resulting in a department that is more effectively structured and customer-friendly in the delivery of services.

Conducted various seminars and workshops regarding North Dakota's

Designed new forms and redesigning old forms.

Worked with other state agencies and IRS to assist taxpayers in reporting taxes.

Assumed administration of new taxes and implemented changes for tax laws and local taxes.

Developed new programming and electronic filing for taxpayers to use when reporting taxes.

Updated manuals, forms, tax return processing, and programs and provided taxpayer assistance.

## **FUTURE CRITICAL ISSUES**

### Costs to Continue - Payroll

The Cost to Continue adjustment reflects the increased payroll costs relating to the continuation of previously authorized salary increases.

### Costs to Continue - Capital Assets

The Cost to Continue adjustment reflects removing the current biennium appropriated amount for Capital Assets of \$25,000.

**REQUEST SUMMARY**

127 OFFICE OF STATE TAX COMMISSIONER

Biennium: 2007-2009

Bill#: SB 2006

Date: 12/14/2006

Time: 11:18:01

Description	Expenditures 2003-2005 Biennium	Present Budget 2005-2007	Budget Request Change	Requested Budget 2007-2009 Biennium	Optional Budget Request
<b>BY MAJOR PROGRAM</b>					
COMMISSIONERS DIVISION	1,069,265	1,177,586	6,305	1,183,891	0
LEGAL DIVISION	645,350	680,636	-20,466	660,170	0
FISCAL MANAGEMENT DIVISION	1,429,438	1,675,578	-39,038	1,636,540	0
INCOME, SALES AND SPECIAL TAXES DIV.	8,231,309	8,923,278	-4,982	8,918,296	0
PROPERTY, UTILITIES TAX DIVISION	488,509	539,985	801	540,786	0
OPERATIONS DIVISION	4,444,338	5,108,089	159,275	5,267,364	2,180,485
INTEGRATED TAX SYSTEM	0	14,000,000	-14,000,000	0	15,272,997
HOMESTEAD TAX CREDIT	3,689,621	4,500,000	0	4,500,000	0
<b>TOTAL MAJOR PROGRAMS</b>	<b>19,997,830</b>	<b>36,605,152</b>	<b>-13,898,105</b>	<b>22,707,047</b>	<b>17,453,482</b>
<b>BY LINE ITEM</b>					
SALARIES AND WAGES	11,873,646	13,466,823	221,895	13,688,718	0
OPERATING EXPENSES	4,415,519	4,613,329	-113,000	4,500,329	2,180,485
CAPITAL ASSETS	19,044	25,000	-7,000	18,000	0
HOMESTEAD TAX CREDIT	3,689,621	4,500,000	0	4,500,000	0
INTEGRATED TAX SYSTEM	0	14,000,000	-14,000,000	0	15,272,997
<b>TOTAL LINE ITEMS</b>	<b>19,997,830</b>	<b>36,605,152</b>	<b>-13,898,105</b>	<b>22,707,047</b>	<b>17,453,482</b>
<b>BY FUNDING SOURCE</b>					
GENERAL FUND	19,785,780	22,485,152	221,895	22,707,047	17,453,482
FEDERAL FUNDS	212,050	120,000	-120,000	0	0
SPECIAL FUNDS	0	14,000,000	-14,000,000	0	0
<b>TOTAL FUNDING SOURCE</b>	<b>19,997,830</b>	<b>36,605,152</b>	<b>-13,898,105</b>	<b>22,707,047</b>	<b>17,453,482</b>
<b>TOTAL FTE</b>	<b>137.00</b>	<b>133.00</b>	<b>.00</b>	<b>133.00</b>	<b>.00</b>

**REQUEST DETAIL**

Date: 12/14/2006

127 OFFICE OF STATE TAX COMMISSIONER

Bill#: SB 2006

Time: 11:18:01

Biennium: 2007-2009

Description	Expenditures 2003-2005 Biennium	Present Budget 2005-2007	Budget Request Change	Requested Budget 2007-2009 Biennium	Optional Budget Request
<b>SALARIES AND WAGES</b>					
SALARIES - PERMANENT	8,709,683	9,729,842	168,136	9,897,978	0
SALARIES - OTHER	2,673	0	0	0	0
TEMPORARY SALARIES	252,569	289,080	-10,080	279,000	0
OVERTIME	0	0	7,217	7,217	0
FRINGE BENEFITS	2,908,721	3,447,901	56,622	3,504,523	0
SALARY INCREASE	0	0	0	0	0
BENEFIT INCREASE	0	0	0	0	0
<b>TOTAL</b>	<b>11,873,646</b>	<b>13,466,823</b>	<b>221,895</b>	<b>13,688,718</b>	<b>0</b>
<b>SALARIES AND WAGES</b>					
GENERAL FUND	11,873,646	13,466,823	221,895	13,688,718	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>11,873,646</b>	<b>13,466,823</b>	<b>221,895</b>	<b>13,688,718</b>	<b>0</b>
<b>OPERATING EXPENSES</b>					
TRAVEL	295,961	320,683	-1,600	319,083	0
SUPPLIES - IT SOFTWARE	69,251	219,237	1,090,688	1,309,925	0
SUPPLY/MATERIAL-PROFESSIONAL	66,096	58,622	9,189	67,811	0
BLDG, GROUND, MAINTENANCE	17,856	13,500	-2,400	11,100	0
MISCELLANEOUS SUPPLIES	32,965	0	0	0	0
OFFICE SUPPLIES	94,538	72,050	1,968	74,018	0
POSTAGE	697,715	755,415	17,218	772,633	0
PRINTING	195,584	263,471	-61,047	202,424	0
IT EQUIP UNDER \$5,000	73,806	145,600	-69,600	76,000	0
OTHER EQUIP UNDER \$5,000	3,808	0	0	0	0
OFFICE EQUIP & FURN SUPPLIES	125,261	19,900	-5,000	14,900	0
INSURANCE	35,384	22,309	-3,497	18,812	0
RENTALS/LEASES-EQUIP & OTHER	42,107	53,568	9,910	63,478	0
RENTALS/LEASES - BLDG/LAND	46,838	48,260	6,460	54,720	0
REPAIRS	57,231	25,360	8,440	33,800	0
IT - DATA PROCESSING	1,422,728	1,729,756	-966,641	763,115	448,085
IT-COMMUNICATIONS	133,634	159,600	0	159,600	32,400
IT CONTRACTUAL SERVICES AND RE	504,613	170,840	-159,840	11,000	1,700,000
PROFESSIONAL DEVELOPMENT	91,225	113,572	20,073	133,645	0
OPERATING FEES AND SERVICES	65,836	72,850	-8,750	64,100	0
FEES - PROFESSIONAL SERVICES	343,082	348,736	1,429	350,165	0
<b>TOTAL</b>	<b>4,415,519</b>	<b>4,613,329</b>	<b>-113,000</b>	<b>4,500,329</b>	<b>2,180,485</b>

**REQUEST DETAIL**127 OFFICE OF STATE TAX COMMISSIONER  
Biennium: 2007-2009

Bill#: SB 2006

Date: 12/14/2006

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Description	Expenditures 2003-2005 Biennium	Present Budget 2005-2007	Budget Request Change	Requested Budget 2007-2009 Biennium	Optional Budget Request
<b>OPERATING EXPENSES</b>					
GENERAL FUND	4,203,469	4,493,329	7,000	4,500,329	2,180,485
FEDERAL FUNDS	212,050	120,000	-120,000	0	0
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>4,415,519</b>	<b>4,613,329</b>	<b>-113,000</b>	<b>4,500,329</b>	<b>2,180,485</b>
<b>CAPITAL ASSETS</b>					
IT EQUIP UNDER \$5,000	130	0	0	0	0
EQUIPMENT OVER \$5000	0	0	0	0	0
IT EQUIPMENT OVER \$5000	18,914	25,000	-7,000	18,000	0
<b>TOTAL</b>	<b>19,044</b>	<b>25,000</b>	<b>-7,000</b>	<b>18,000</b>	<b>0</b>
<b>CAPITAL ASSETS</b>					
GENERAL FUND	19,044	25,000	-7,000	18,000	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	0	0	0	0
<b>TOTAL</b>	<b>19,044</b>	<b>25,000</b>	<b>-7,000</b>	<b>18,000</b>	<b>0</b>
<b>SPECIAL LINES</b>					
HOMESTEAD TAX CREDIT	3,689,621	4,500,000	0	4,500,000	0
INTEGRATED TAX SYSTEM	0	14,000,000	-14,000,000	0	15,272,997
<b>TOTAL</b>	<b>3,689,621</b>	<b>18,500,000</b>	<b>0</b>	<b>4,500,000</b>	<b>15,272,997</b>
<b>SPECIAL LINES</b>					
GENERAL FUND	3,689,621	4,500,000	0	4,500,000	15,272,997
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	0	14,000,000	-14,000,000	0	0
<b>TOTAL</b>	<b>3,689,621</b>	<b>18,500,000</b>	<b>-14,000,000</b>	<b>4,500,000</b>	<b>15,272,997</b>
<b>FUNDING SOURCES</b>					
GENERAL FUND	19,785,780	22,485,152	221,895	22,707,047	17,453,482
FEDERAL FUNDS	212,050	120,000	-120,000	0	0
SPECIAL FUNDS	0	14,000,000	-14,000,000	0	0
<b>TOTAL FUNDING SOURCES</b>	<b>19,997,830</b>	<b>36,605,152</b>	<b>-13,898,105</b>	<b>22,707,047</b>	<b>17,453,482</b>

**CHANGE PACKAGE SUMMARY**

127 OFFICE OF STATE TAX COMMISSIONER

Biennium: 2007-2009

Bill#: SB 2006

Date: 12/14/2006

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Description	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<b>AGENCY BUDGET CHANGES</b>					
Cost To Continue	.00	196,895	0	0	196,895
1 Commissioner's Division	.00	-15,822	0	0	-15,822
2 Legal Division	.00	-30,564	0	0	-30,564
3 Fiscal Management	.00	4,711	0	0	4,711
4 Income, Sales & Special Taxes Division	.00	-36,427	-120,000	0	-156,427
5 Property, Utilities Division	.00	-11,192	0	0	-11,192
6 Operations Division	.00	2,294,779	0	0	2,294,779
9 Integrated Tax System - TREND project completed	.00	0	0	-14,000,000	-14,000,000
<b>Agency Total</b>	<b>.00</b>	<b>2,402,380</b>	<b>-120,000</b>	<b>-14,000,000</b>	<b>-11,717,620</b>
<b>OPTIONAL REQUESTS</b>					
7 Integrated Tax System - First Payments	.00	5,356,702	0	0	5,356,702
8 Loan payoff	.00	9,916,295	0	0	9,916,295
10 Operations-Onsite Support of General Tax Program	.00	1,700,000	0	0	1,700,000
11 Operations-IT Data Processing & Communication	.00	480,485	0	0	480,485
<b>Optional Total</b>	<b>.00</b>	<b>17,453,482</b>	<b>0</b>	<b>0</b>	<b>17,453,482</b>

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**BUDGET CHANGES NARRATIVE**

127 OFFICE OF STATE TAX COMMISSIONER

Date: 12/14/2006

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<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 1</b>	<b>Priority: 1</b>
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Commissioner's Division -

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The focus of the Office of State Tax Commissioner's mission, vision, and guiding principles is on fair and effective tax administration, quality customer service, good stewardship, and teamwork. Coupling this focus with efficient use of technology and our staff's desire to maximize the effectiveness of the Tax Department, has resulted in the department returning significant funds to the state general fund over the past several biennia. The majority of the turnback has been due to savings in the Salary and Wages line. We have eliminated 20 FTEs over the past 10 years. We are now at a plateau where the efficiencies created are offset with the opportunity to do more due to improved access to data. Therefore, the department is not proposing a reduction in the number of FTEs for the 2007-2009 biennium. In order to achieve the 100% budget level, we have filled one vacancy for only one year of the biennium and we reduced our temporary salary line. A reduction to temporary salaries is a concern because we experienced difficulty in recruiting qualified temporary employees during the last filing season due to the fast retail growth in Bismarck.

The Office of State Tax Commissioner has made every effort to identify and implement efficiencies. These efficiencies are difficult to accurately predict and plan for at the time the budget request is prepared. Savings associated with the Operating line have dropped over the past few biennia, which we anticipate to continue through the current biennium. This means that on June 30, 2007, we anticipate a minimal portion of turnback to be directly associated with the Operating line. The efficiencies that generated previous turnbacks were taken into consideration when analyzing the operating expense items. Adjustments, where appropriate, were made to the usage or quantity in the analysis. This resulted in most areas maintaining a hold even budget level.

Specifically in the Commissioner's division, we are requesting continuation of funding for all FTEs.

Travel and professional development were kept at the current appropriation level. All other areas were reduced based on lower usage or reduced need for services.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 2</b>	<b>Priority: 1</b>
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Legal Division -

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The Office of State Tax Commissioner has made every effort to identify and implement efficiencies. These efficiencies are difficult to accurately predict and plan for at the time the budget request is prepared. Savings associated with the Operating line have dropped over the past few biennia, which we anticipate to continue through the current biennium. This means that on June 30, 2007, we anticipate a minimal portion of turnback to be directly associated with the Operating line. The efficiencies that generated previous turnbacks were taken into consideration when analyzing the operating expense items. Adjustments, where appropriate, were made to the usage or quantity in the analysis. This resulted in most areas maintaining a hold even budget level.

Specifically in the Legal division, we are requesting continuation of funding for all FTEs.

The requests for Travel and professional development were reduced. Subscriptions services were increased based on contract prices. The Professional Services line includes both the costs of utilizing the Office of Administrative Hearings and the hiring of expert witnesses for litigation of tax cases. The rate for OAH increased and is included here. However, the usage for expert witnesses was reduced in order to achieve the 100% budget request level. The need for expert witnesses is difficult to determine in advance but could be critical in successfully litigating a tax case.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 3</b>	<b>Priority: 1</b>
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Fiscal Management -

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The Office of State Tax Commissioner has made every effort to identify and implement efficiencies. These efficiencies are difficult to accurately predict and plan for at the time the budget request is prepared. Savings associated with the Operating line have dropped over the past few biennia, which we anticipate to continue through the current biennium. This means that on June 30, 2007, we anticipate a minimal portion of turnback to be directly associated with the Operating line. The efficiencies that generated previous turnbacks were taken into consideration when analyzing the operating expense items. Adjustments, where appropriate, were made to the usage or quantity in the analysis. This resulted in most areas maintaining a hold even budget level.

Specifically in the Fiscal Management division, we are requesting continuation of funding for all FTEs.

The request for Travel will remain at hold even, but Professional Development was increased for on-going educational seminars. During the last legislative session, the Sheriff fees for delivering summons, complaints, and garnishment notices were increased – some fees doubled. This budget request asks for only a small increase in the Operating Fees & Services line to cover those costs. The request for office space leases is based on the history of rate increases. We analyze the rental market every two years to confirm the space is sufficient and that we are paying a fair rate. The increase in postage is offset by a reduction in the number of mailings. Insurance costs were lowered by increasing the deductible and thereby lowering the insurance premium.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 4</b>	<b>Priority: 1</b>
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Income, Sales & Special Taxes Division -

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The Office of State Tax Commissioner has made every effort to identify and implement efficiencies. These efficiencies are difficult to accurately predict and plan for at the time the budget request is prepared. Savings associated with the Operating line have dropped over the past few biennia, which we anticipate to continue through the current biennium. This means that on June 30, 2007, we anticipate a minimal portion of turnback to be directly associated with the Operating line. The efficiencies that generated previous turnbacks were taken into consideration when analyzing the operating expense items. Adjustments, where appropriate, were made to the usage or quantity in the analysis. This resulted in most areas maintaining a hold even budget level.

Specifically in the Income, Sales, Special Taxes Division, we are requesting continuation of funding for all FTEs. As of July 1, 2006, this division has 7 vacant positions. Three vacant positions are currently being recruited. One position currently retained under the Uniformed Services Employment and Reemployments Rights Act and two vacant FTEs are anticipated to be filled during the 2006-07 Fiscal Year. One position was funded for only one year of the 2007 – 2009 biennium and temporary salaries were lowered in order to achieve the 100% budget request level.

The funding request for Professional Materials, which includes tax subscription services, was requested at contract price. Insurance coverage was increased based on history of increases by the vendor. This insurance covers laptop computers and printers used by field personnel when conducting audits. We have already increased the deductible level to keep premium cost lower. The request for office space leases is based on the history of rate increases. We analyze the rental market every two years to confirm the space is sufficient and that we are paying a fair rate. Legislation pertaining to the Streamlined Sales Tax Project was passed during the last legislative session. The Professional Development line item represents the increased cost to the department for yearly Streamlined Sales Tax Project membership dues. It also provides for necessary training for our staff to maintain their qualifications and skills necessary to conduct department business. Operating Fees and Services includes the costs for promoting electronic filing. An increase in electronic filing reduces the amount of paper we need to process so it is a benefit to promote this filing option.

This budget requests a hold-even travel budget despite the large increases in airfare and out-of- state lodging expenses. This may affect the volume of field audits conducted. Whenever possible, we are attempting to have the taxpayer provide documents that can be audited in the office. This, of course, is not a workable option in all cases. We have reduced our usage for office supplies and have cutback on the quantity of publications printed (tax forms, booklets), which offsets the increased rates for printing.

The federal program that has been providing grant money to states to enhance Motor Fuels Tax projects has not been funded by the Federal Highway Administration. The potential for future federal funds is unlikely. As a result, a request for spending authority for federal funds was not included in our budget request. The Department's ongoing expense for the maintenance of the Motor Fuels electronic filing program is included in its base budget request from General Fund dollars.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 5</b>	<b>Priority: 1</b>
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Property, Utilities Division -

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The focus of the Office of State Tax Commissioner's mission, vision, and guiding principles is on fair and effective tax administration, quality customer service, good stewardship, and teamwork. Coupling this focus with efficient use of technology and our staff's desire to maximize the effectiveness of the Tax Department, has resulted in the department returning significant funds to the state general fund over the past several biennia. The majority of the turnback has been due to savings in the Salary and Wages line. We have eliminated 20 FTEs over the past 10 years. We are now at a plateau where the efficiencies created are offset with the opportunity to do more due to improved access to data. Therefore, the department is not proposing a reduction in the number of FTEs for the 2007-2009 biennium. In order to achieve the 100% budget level, we have filled one vacancy for only one year of the biennium and we reduced our temporary salary line. A reduction to temporary salaries is a concern because we experienced difficulty in recruiting qualified temporary employees during the last filing season due to the fast retail growth in Bismarck.

The Office of State Tax Commissioner has made every effort to identify and implement efficiencies. These efficiencies are difficult to accurately predict and plan for at the time the budget request is prepared. Savings associated with the Operating line have dropped over the past few biennia, which we anticipate to continue through the current biennium. This means that on June 30, 2007, we anticipate a minimal portion of turnback to be directly associated with the Operating line. The efficiencies that generated previous turnbacks were taken into consideration when analyzing the operating expense items. Adjustments, where appropriate, were made to the usage or quantity in the analysis. This resulted in most areas maintaining a hold even budget level.

Specifically in the Property, Utilities Tax division, we are requesting continuation of funding for all FTEs.

The funding request for Professional Materials was increased due to higher subscription costs for reference materials. We reduced the quantity of publications printed, which offset the increased rates in printing. Funding for training was reduced.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 6</b>	<b>Priority: 1</b>
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Operations Division -

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The Office of State Tax Commissioner has made every effort to identify and implement efficiencies. These efficiencies are difficult to accurately predict and plan for at the time the budget request is prepared. Savings associated with the Operating line have dropped over the past few biennia, which we anticipate to continue through the current biennium. This means that on June 30, 2007, we anticipate a minimal portion of turnback to be directly associated with the Operating line. The efficiencies that generated previous turnbacks

were taken into consideration when analyzing the operating expense items. Adjustments, where appropriate, were made to the usage or quantity in the analysis. This resulted in most areas maintaining a hold even budget level.

Specifically in the Operations Division, we are requesting continuation of funding for all FTEs. Currently, this division has 4 vacant positions all of which we anticipate filling. Temporary salaries were lowered in order to achieve the 100% budget request level.

The request for Travel and related conference fees were increased to provide the necessary training to employees. Increased reference materials are needed to enhance the training plan. Postage is a significant portion of our Operating line and is needed to cover the costs of mailing general correspondence, tax statements and worksheets, forms, booklets and other publications that are necessary to effectively administer the tax laws of this State. The United Postal Service has recently increased their rates and there has been discussion of additional increases of 5% in each of the two years of the 2007-09 biennium. The funding request is based on a projection that we will be able to reduce the volume mailed somewhat to offset the effects of the projected increased costs. The hold-even or reduction of projected equipment purchases is offset by an increase in repair cost on aging equipment. In addition, fixed costs for copier and printer contracts renewed during the current biennium are projected into the 2007 – 2009 biennium for the life of the lease.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 9</b>	<b>Priority: 6</b>
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Integrated Tax System - TREND project completed -

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The Office of State Tax Commissioner was authorized to establish an integrated tax processing system (HB 1006). The principal amount of any financing agreement was not to exceed \$14 million. The proceeds acquired from any financing agreement must be used to implement an integrated system and was appropriated for the 2005 – 2007 biennium.

The Department contracted with FAST Enterprise and AdvanTech to assist with the implementation of an off the shelf software product called GenTax. The project, which we call TREND (Tax Revenue Excellence for North Dakota), began on July 1, 2005. It is projected that this project will be completed by June 30, 2007 – on time and under budget. The one-time budget change reflects the completion of this project.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 100</b>	<b>Priority:</b>
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OMB Payoff of Integrated Tax System -

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Executive Recommendation for the payoff of the loan for the GenTax Integrated Tax System in the amount of \$15,272,997.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 101	<b>Priority:</b>
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OMB IT Data Processing Costs -

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Executive Recommendation to fund \$380,485 for ITD rate increases for data processing.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 102	<b>Priority:</b>
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OMB GenTax Post Production Costs -

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Executive Recommendation of \$1,150,000 of unexpended loan funds for GenTax on-site and post-production costs.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 103	<b>Priority:</b>
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OMB Funding Source Change for Maintenance Contract -

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Executive Recommendation changes the funding source from general fund dollars to special fund (unexpended loan funds from 2005-07) of \$550,000 for the annual maintenance charge for the GenTax system.

<b>Change Group:</b> O	<b>Change Type:</b> A	<b>Change No:</b> 7	<b>Priority:</b> 3
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Integrated Tax System - First Payments - Covers 2 years payments due during 2007-09 biennium

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The Office of State Tax Commissioner was authorized to establish an integrated tax processing system (HB 1006). The principal amount of any financing agreement was not to exceed \$14 million. Repayment for the financing agreement begins with the 2007-2009 biennium and is incorporated in our budget as an optional budget request. Payments of \$2,678,350.61 are due on July 1, 2007 and July 1, 2008. (Total Principal - \$4,083,705; Interest - \$1,272,997)

Failure to fund the optional budget request would put the State in a default situation on its financing agreement authorized by the Legislature.

<b>Change Group: O</b>	<b>Change Type: A</b>	<b>Change No: 8</b>	<b>Priority: 5</b>
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Loan payoff - Covers balance of loan after payments made for 2007-09

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This optional budget request represents the balance of the financing agreement after the first two payments (see optional adjustment request for Integrated Tax System – first payments). Payoff of the financing agreement, \$9,916,295 principal, by June 30, 2009 would save the State just over \$797,000 of interest. Earlier payoff of the financing agreement will provide additional interest savings to the State. Full payment of the financing agreement during the 2007–2009 biennium will eliminate the need to request \$5,356,702 per biennium in the 2009-11 and 2011-13 bienniums.

<b>Change Group: O</b>	<b>Change Type: A</b>	<b>Change No: 10</b>	<b>Priority: 4</b>
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Operations - On-site support of GenTax program -

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The optional request of \$1.7 million will allow the Tax Department to contract with FAST Enterprise for on-site support next biennium. This is a one-time budget investment with long-term benefits. On-site support provides the necessary structure for knowledge transfer to Tax Department IT staff. Having several FAST developers on-site will ensure that version / release control of the State’s new integrated tax system is managed well. On-site support will also allow us to learn more about configuration changes required to support legislative law changes.

The expanded support offered by FAST Enterprises allows the Tax Department to retain on-site support services from FAST beyond the life of the implementation project. The on-site vendor resources will engage in a variety of support activities, including:

- Resolving defects in ND-specific configurations and modules (defects not covered by maintenance)
- Assisting with changing system configuration, such as the implementation of legislatively mandated rate changes, line item changes, compliance changes, etc.
- Enhancing the Department’s utilization of GenTax by improving related business processes, identifying opportunities for additional efficiencies, expanding the analysis of data, etc.
- Assisting with changing or developing new interfaces to other systems (e.g. on-line filing, imaging, etc.)
- Coordinating with FAST Enterprises Solution Centers on problem resolution and upgrade requests
- Coordinating with other FAST Enterprises customers for best practices recommendations
- Service pack analysis and installation
- Upgrade analysis and installation
- Performance tuning
- Database maintenance, analysis and review
- Supplemental user, developer or operator training
- Completing the knowledge transfer from FAST on-site support personnel to the Department’s IT personnel to maintain ongoing operations and maintenance.

This on-site support is a critical component to the successful use of the system. During the implementation process, State personnel have gained a certain amount of knowledge regarding the operation and maintenance of the system, but will not be ready to handle all support activities on their own. The on-site vendor resources will work directly with Tax Department and ITD staff to ensure the system is providing the most effective functionality, while increasing the State’s level of capability for ongoing operations and maintenance.

This support will also ensure that service packs are installed in a timely and effective manner. That also applies to full system upgrades if the State funds the maintenance and support contract at the level proposed by the vendor. Finally, the expanded support will enable the Tax Department to migrate certain additional taxes to the GenTax system, further enhancing the integrated approach to tax processing, administration, and compliance.

<b>Change Group:</b> O	<b>Change Type:</b> A	<b>Change No:</b> 11	<b>Priority:</b> 2
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Operations - IT Data Processing and Communications -

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Data processing and Telecommunication costs are based on ITD supplied rates. ITD calculates an increase in storage costs to the Department of \$253,522 if our usage is identical to the 2005 – 2007 biennium. Our calculations reflect an additional increase as more documents are imaged and retained to comply with the six years plus the current retention period as defined in statute. As storage increases, so does the cost for storage. This projected increase (\$448,085) is a significant portion of the Department’s Operating line and is included as an optional budget request. Failure to fund this optional request will result in our inability to continue scanning documents which will increase our costs for storing the paper document and personnel to retrieve and file back as needed.

Telephone service rates were increased significantly by ITD. Rate increases ranged from 7% for telephone analysts to 80% for long distance costs. We rely heavily on long distance service to conduct our business. An 80% rate increase is more than the base budget can sustain. With IT related line items representing over 50% of the total Operating line for the Department, it is difficult to fund such large increases at the expense of other necessary operating line items. The projected increase (\$32,400) is included as an optional budget request. Failure to fund this request will require us to limit our long distance usage.