
AGENCY OVERVIEW**127 Office of State Tax Commissioner****Date:** 12/07/2012**Time:** 13:40:55

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, which is the administrative center of the department.
- The Legal Division, which provides legal advice and counsel to the department and to the State Board of Equalization.
- The Fiscal Management Division, which is the financial center covering revenue accounting, accounts payable, payroll, asset management, purchasing, and budgeting.
- The Tax Administration Division, which includes tax administration for individual income, corporation income, sales and use, motor fuels, financial institution, oil and gas gross production, oil extraction, alcoholic beverages, tobacco products, estate, special taxes, telecommunications gross receipts tax, applicable local option taxes, and the collection of delinquent taxes.
- The Property Tax Division, which includes property and utility taxes, coal taxes, Homestead Tax Credit and Renter Refund Program, and the Disabled Veterans Property Tax Credit Program.
- The Information Management & Technology Division which is responsible for leading the department's technology efforts and manages the processing of tax returns.

Agency Mission Statement

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 Office of State Tax Commissioner improved its productivity by 80 percent since 1995 because of actions resulting from business process measurement and process improvement. The Tax Department's cost to collect \$1,000 in revenue for fiscal year 2012 was \$2.97 compared to \$9.64 during 1995. This equates to a numeric reduction of \$6.67 when comparing dollar amounts. Adjusting for inflation, the 1995 cost would be \$14.51 today, for a drop of \$11.54 in real terms.

Major Accomplishments

1. Completed the upgrade from GenTax Version 6 to GenTax Version 8. The result of this upgrade is a more robust and enhanced system.
2. Expanded E-File services. During 2012, just over 80 percent of the eligible individual income tax returns were filed electronically. This represents growth of nearly 13 percent compared to the number of e-file returns received during 2011.
3. Continued discovery work in individual income tax, corporate income tax, and sales tax. This work resulted in an additional \$3.8 million in collections for fiscal year 2011 and \$8.8 million in fiscal year 2012.
4. Continued to provide taxpayers with excellent customer service, including pursuing the following new initiatives: conducting a one-stop shop to educate contractors about their responsibilities as they pursue business in the state of North Dakota, conducting joint North Dakota and IRS seminars to educate taxpayers and property owners affected by the 2011 flood in Bismarck and Minot, dyed fuel enforcement projects in cooperation with the Highway Patrol and the Department of Transportation, establishing YouTube messages as an outreach to promote the individual income tax filing season and educate taxpayers about a number of individual income tax resources, incorporating social media outreach through a Facebook presence and RSS feeds, marketing the Homestead Credit and Renters Refund Programs through a direct mail coupon mailer service, conducting CPA Forums in the six major cities, and various seminars and workshops around the state regarding North Dakota's taxes, developing a new individual income tax fillable forms option for taxpayers to file basic, simple state individual income tax returns directly with the Tax Department, and processing Canadian requests for refund of sales tax, which resulted in over \$30.0 million in refunds.

Future Critical Issues

The Office of State Tax Commissioner continues to hold customer service as a top priority. Our mission statement and guiding principles emphasize this philosophy and stress the importance of providing prompt, accurate, and courteous customer service through fair and effective administration of tax laws. Future critical issues are:

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1. The growing energy development in North Dakota has resulted in a significant workload increase across the tax types administered by the Office of State Tax Commissioner. In addition to increased oversight and compliance activities, during the 2011-13 biennium the Department also dedicated considerable time working with other state agencies on issues of common concern. Two such programs include the One Stop Shop to educate contractors and the dyed fuels enforcement activities. These programs required the Department to spend significant time working with other agencies – the IRS, Highway Department, Secretary of State, Attorney General, and Department of Transportation – in order to fulfill our compliance goals. Continued coordination between our agency and others is particularly important to ensure the fair and effective administration of the tax laws of North Dakota.

The state's energy industry is impacting not only western North Dakota, but is now spreading across the state. As our economy continues to grow, the Department's compliance activities in the oil and gas, sales and use, corporate and individual income, and property tax areas, along with those areas providing support services to these taxes, will require a corresponding increase. For example, comparing fiscal year 2012 to fiscal year 2011 the Department has experienced a 33.0 percent growth in new taxpayers entered into the Department's system.

New filers have an impact on the Department throughout each work unit. More time is spent by employees in various stages of working with taxpayers. The increase in volume affects the Department from more incoming phone calls, providing more taxpayer assistance, increased mailroom duties, more return corrections, increased audit and compliance activities, and more billing and collections work.

2. As of May 2012, the Office of State Tax Commissioner has the highest average years of service (19.5 years) of all state agencies and it is estimating nearly 30.0 percent of current staff may qualify for retirement. While the high number of possible retirements and resulting financial impact is a concern (paying retiring employees for outstanding leave balances), of greater concern is the tremendous loss of tax expertise.

To fairly and effectively administer the tax laws of North Dakota, Department employees need to have a thorough knowledge of many different tax types. A strong knowledge base of current, as well as previous, tax laws and regulations is important to the overall effectiveness of the administration of tax laws. It is important that salaries and benefit packages remain competitive in order to retain high quality tax expertise. It is also important that training funds are available for ongoing educational opportunities to broaden the knowledge base and to provide the opportunity for promotion from within when a retirement occurs. By doing so, the Department can continue to provide the excellent customer service to North Dakota's citizens and to the tax community at large, such as CPAs, tax practitioners, and the IRS.

3. In addition to the concern of future retirements, recruiting for vacant positions continues to be increasingly competitive. North Dakota's strong economy is creating opportunities for individuals seeking employment. This has resulted in a tightening labor pool as students and experienced workers are in high demand. Of particular concern is recruiting for vacant positions in the Dickinson, Minot, and Williston areas. With the surge in energy-related businesses operating in these areas and the employment opportunities that accompany this economic boom, it is becoming increasingly difficult to compete in the available labor pool to recruit for vacant positions.

The Hay Study that was recently completed validates the concerns that the Department continues to express. In order to compete in the current tight job market the Department needs to offer competitive starting salaries to attract new employees. The Department also needs the ability to offer salary increases to retain current staff in order to address any potential compression issues with long-tenured employees.

4. GenTax – FAST Enterprises

The budget request for \$3.2 million for the next biennium will allow the Department to contract with FAST Enterprises (FAST) for continued software maintenance, on-site support, service packs and upgrades.

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On-site FAST developers work with the Tax Department and Information Technology Department (ITD) staff to ensure GenTax is managed effectively and to increase the state's level of competence for ongoing operations and maintenance. The complexity and depth of GenTax will require ongoing support from FAST to maintain the GenTax product. The GenTax Core Code is the proprietary code for the system and access to the code is limited to the FAST developers. The Tax Department Information Technology (IT) staff relies on the FAST developers to ensure the ongoing updates and maintenance to the GenTax core code is implemented in a timely and efficient manner.

On-site support from FAST Enterprises is a critical component to the successful use of GenTax. Ongoing development and implementation of further automation in GenTax will continue to significantly lessen Tax Department dependence on manual, labor intensive processes and increase our ability to timely identify taxpayers who have not complied with the state's tax laws.

Taxpayers are requesting more electronic options to file tax returns. Filing local option tax electronically is one of the most requested areas. The Department is looking at options to move its sales tax registration and WebFile to the GenTax Taxpayer Access Point (TAP) program. Within this program, the Department will be able to provide the electronic filing of local option taxes.

5. Workspace Issues

Providing a safe and functional office environment is important for the Office of State Tax Commissioner's employees and customers. The Department continues to look for opportunities to change the way it does business, which may require different arrangement of the current space. The Department currently occupies three floors in the Capitol tower, a small area in the State Office Building, and has employees located in offices in Dickinson, Williston, Minot, Grand Forks, and Fargo. Every effort has been made to locate employees in an effective and efficient manner. However, for Bismarck employees the Capitol building has space and configuration limitations. Due to these limitations, some sections cannot be located next to others in their division – sometimes not even in the same building - limiting opportunities to create efficiencies. It would be desirable for all Department employees in Bismarck to be located in the same building. This could be accomplished by obtaining another floor within the tower which would occur only if another agency moved out, which is unlikely.

The Tax Department has an open floor plan in the Capitol building in order to optimize the space available. However, this open floor plan does not provide for adequate waiting areas for taxpayers nor does it allow for sufficient privacy rooms for Department staff to use when meeting with taxpayers. The Department may need to relocate field office employees into the Capitol building if it cannot retain and/or recruit for employees to locate in the field offices. The lack of efficient, configurable space would make this almost impossible and the Department would likely have to seek additional space off campus.

The Tax Department is also committed to providing a safe environment for its employees. However, the design of the Capitol building (tower) and space constraints on the Tax Department floors limits the Department's ability to implement tighter security measures that could limit or restrict access to the Department. Other state agencies (ITD, WSI) and other state revenue departments have much tighter security that restricts direct access and requires authorization to enter.

6. The Tax Department is processing more requests from Canadian shoppers requesting refunds of sales tax on their purchases. This increase in refund requests requires more time on the part of Tax Department staff to review and follow-up on each request. The Tax Department staff are focused on ensuring refund requests are in compliance with the established requirements. Along with the significant increase in volume of requests received is a corresponding increase in workload. It is important that the Tax Department has the resources, specifically funding for temporary employees, to process the requests in a timely manner.

REQUEST SUMMARY127 Office of State Tax Commissioner
Biennium: 2013-2015

Bill#: HB1006

Date: 12/07/2012

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
By Major Program					
Tax Department	34,660,012	26,261,741	(510,713)	25,751,028	3,640,079
Homestead Tax Credit	7,423,660	8,792,788	1,718,212	10,511,000	0
Disabled Veteran Credit	3,603,311	4,243,920	2,934,080	7,178,000	0
Total Major Program	45,686,983	39,298,449	4,141,579	43,440,028	3,640,079
By Line Item					
Salaries and Wages	16,584,084	18,797,710	456,387	19,254,097	1,965,496
Operating Expenses	7,814,796	7,448,031	(1,017,100)	6,430,931	1,674,583
Capital Assets	30,886	16,000	50,000	66,000	0
Homestead Tax Credit	7,423,660	8,792,788	1,718,212	10,511,000	0
Integrated Tax System	10,230,246	0	0	0	0
Disabled Veteran Credit	3,603,311	4,243,920	2,934,080	7,178,000	0
Total Line Items	45,686,983	39,298,449	4,141,579	43,440,028	3,640,079
By Funding Source					
General Fund	45,472,048	39,288,449	4,026,579	43,315,028	3,640,079
Federal Funds	4,361	10,000	115,000	125,000	0
Special Funds	210,574	0	0	0	0
Total Funding Source	45,686,983	39,298,449	4,141,579	43,440,028	3,640,079
Total FTE	133.00	134.00	0.00	134.00	0.00

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
Salaries and Wages					
Salaries - Permanent	11,944,881	13,309,988	260,800	13,570,788	0
Salaries - Other	0	0	0	0	1,965,496
Temporary Salaries	214,402	212,296	(8,057)	204,239	0
Overtime	7,425	1,114	(1,114)	0	0
Fringe Benefits	4,417,376	5,274,312	204,758	5,479,070	0
Total	16,584,084	18,797,710	456,387	19,254,097	1,965,496

Salaries and Wages

General Fund	16,584,084	18,797,710	456,387	19,254,097	1,965,496
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	16,584,084	18,797,710	456,387	19,254,097	1,965,496

Operating Expenses

Travel	264,718	398,081	45,000	443,081	66,631
Supplies - IT Software	1,243,726	79,537	0	79,537	713
Supply/Material-Professional	46,566	92,581	0	92,581	534
Miscellaneous Supplies	4,663	4,979	0	4,979	0
Office Supplies	66,214	67,460	0	67,460	2,083
Postage	797,810	847,099	0	847,099	51,500
Printing	193,626	215,580	0	215,580	6,468
IT Equip Under \$5,000	150,915	48,312	0	48,312	91,937
Other Equip Under \$5,000	3,139	0	0	0	0
Office Equip & Furn Supplies	168,752	69,000	0	69,000	39,000
Insurance	11,788	15,100	(7,100)	8,000	0
Rentals/Leases-Equip & Other	62,241	66,842	0	66,842	0
Rentals/Leases - Bldg/Land	64,554	95,946	0	95,946	18,722
Repairs	238,236	143,474	0	143,474	27,804
IT - Data Processing	1,058,933	1,116,000	0	1,116,000	42,000
IT - Communications	185,369	209,006	0	209,006	4,800
IT Contractual Srvcs and Rprs	2,630,909	3,218,450	(1,000,000)	2,218,450	1,257,789
Professional Development	144,477	151,702	10,000	161,702	35,662
Operating Fees and Services	113,266	131,385	10,000	141,385	3,940
Fees - Professional Services	364,894	477,497	(75,000)	402,497	25,000
Total	7,814,796	7,448,031	(1,017,100)	6,430,931	1,674,583

Operating Expenses

General Fund	7,599,861	7,438,031	(1,082,100)	6,355,931	1,674,583
Federal Funds	4,361	10,000	65,000	75,000	0

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Special Funds	210,574	0	0	0	0
Total	7,814,796	7,448,031	(1,017,100)	6,430,931	1,674,583
Capital Assets					
Motor Vehicles	0	0	50,000	50,000	0
IT Equip/Sftware Over \$5000	30,886	16,000	0	16,000	0
Total	30,886	16,000	50,000	66,000	0
Capital Assets					
General Fund	30,886	16,000	0	16,000	0
Federal Funds	0	0	50,000	50,000	0
Special Funds	0	0	0	0	0
Total	30,886	16,000	50,000	66,000	0
Homestead Tax Credit					
Grants, Benefits & Claims	7,423,660	8,792,788	1,718,212	10,511,000	0
Total	7,423,660	8,792,788	1,718,212	10,511,000	0
Homestead Tax Credit					
General Fund	7,423,660	8,792,788	1,718,212	10,511,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	7,423,660	8,792,788	1,718,212	10,511,000	0
Integrated Tax System					
Operating Fees and Services	10,230,246	0	0	0	0
Total	10,230,246	0	0	0	0
Integrated Tax System					
General Fund	10,230,246	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	10,230,246	0	0	0	0
Disabled Veteran Credit					
Grants, Benefits & Claims	3,603,311	4,243,920	2,934,080	7,178,000	0
Total	3,603,311	4,243,920	2,934,080	7,178,000	0

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Budget Request
Disabled Veteran Credit					
General Fund	3,603,311	4,243,920	2,934,080	7,178,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	3,603,311	4,243,920	2,934,080	7,178,000	0
Funding Sources					
General Fund	45,472,048	39,288,449	4,026,579	43,315,028	3,640,079
Federal Funds	4,361	10,000	115,000	125,000	0
Special Funds	210,574	0	0	0	0
Total Funding Sources	45,686,983	39,298,449	4,141,579	43,440,028	3,640,079

CHANGE PACKAGE SUMMARY

127 Office of State Tax Commissioner
Biennium: 2013-2015

Bill#: HB1006

Date: 12/07/2012

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
Base Budget Changes						
One Time Budget Changes						
A-E 1 Remove GenTax Version 8 upgrade		0.00	(1,000,000)	0	0	(1,000,000)
Total One Time Budget Changes		0.00	(1,000,000)	0	0	(1,000,000)
Ongoing Budget Changes						
A-A 12 Motor Fuels Tax Enforcement Program		0.00	0	115,000	0	115,000
A-A 3 Adjust base request between line items		0.00	(82,100)	0	0	(82,100)
A-A 4 Homestead Tax Credit		0.00	1,718,212	0	0	1,718,212
A-A 5 Disabled Veterans Credit		0.00	2,934,080	0	0	2,934,080
A-A 6 IT Equipment over \$5,000		0.00	16,000	0	0	16,000
A-F 2 Remove capital assets		0.00	(16,000)	0	0	(16,000)
Base Payroll Change		0.00	456,387	0	0	456,387
Total Ongoing Budget Changes		0.00	5,026,579	115,000	0	5,141,579
Total Base Budget Changes		0.00	4,026,579	115,000	0	4,141,579
Optional Budget Changes						
One Time Optional Changes						
A-D 100 Oil impact adjustments	6	0.00	112,364	0	0	112,364
Total One Time Optional Changes		0.00	112,364	0	0	112,364
Ongoing Optional Changes						
A-C 7 GenTax system support & maintenance	1	0.00	1,000,000	0	0	1,000,000
A-C 100 Salary adjustment for compression	2	0.00	1,865,612	0	0	1,865,612
A-C 8 Continue current service level	3	0.00	407,364	0	0	407,364
A-C 11 Cat5 wiring	4	0.00	23,500	0	0	23,500
A-C 9 Taxpayer Access Point (TAP) Projects	5	0.00	1,000,000	0	0	1,000,000
Total Ongoing Optional Changes		0.00	4,296,476	0	0	4,296,476
Total Optional Budget Changes		0.00	4,408,840	0	0	4,408,840

CHANGE PACKAGE SUMMARY

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<u>Optional Savings Changes</u>						
A-G 10 3% optional savings package	7	0.00	(768,761)	0	0	(768,761)
Total Optional Savings Changes		0.00	(768,761)	0	0	(768,761)

BUDGET CHANGES NARRATIVE

127 Office of State Tax Commissioner

Bill#: HB1006

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Change Group: A	Change Type: A	Change No: 3	Priority:
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Adjust base request between line items - Decrease operating base to offset increase in salary due to moving employees to minimum of new pay range

(\$82,100) - This change package request increases the Salaries and Wages Line to cover the cost to continue salary adjustments made to bring employees to the minimum of the new pay ranges.

Change Group: A	Change Type: A	Change No: 4	Priority:
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Homestead Tax Credit - Anticipated appropriation need

\$1,718,212 - The budget change package reflects the projected increase in funding necessary to fully fund the Homestead Tax Credit program at the current income limit for eligibility. There is no provision in the Homestead Tax Credit law to allow for prorating remaining available funds. Therefore, if this program is not fully funded, applications will be processed on a "first-come, first-served" basis until the funds are depleted or a deficiency appropriation is received.

Change Group: A	Change Type: A	Change No: 5	Priority:
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Disabled Veterans Credit - Anticipated appropriation need

\$2,934,080 - The budget change package reflects the projected increase in funding necessary to fully fund the Disabled Veterans Credit program. There is no provision in the Disabled Veterans Credit law to allow for prorating remaining available funds. Therefore, if this program is not fully funded, applications will be processed on a "first-come, first-served" basis until the funds are depleted or a deficiency appropriation is received.

Change Group: A	Change Type: A	Change No: 6	Priority:
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IT Equipment over \$5,000 - High volume scanner - reinstate capital assets

\$16,000 - The Department anticipates the need to replace one high-volume scanner during the 2013-15 biennium at a cost of \$16,000. This scanner will be used to scan tax returns and related correspondence.

Change Group: A	Change Type: A	Change No: 12	Priority:
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Motor Fuels Tax Enforcement Program - Additional federal funds available for motor fuel tax enforcement activities

\$115,000 - The Tax Department is expecting to receive \$115,000 in additional federal funds for the Department's motor fuel tax enforcement program. The Department already is receiving federal funds for this program so this request is for additional federal fund spending authority for an existing grant program.

This program and agreement with the Federal Highway Administration is for intergovernmental highway use tax compliance efforts with emphasis on motor fuel taxes. This will be achieved by:

- raising the priority given to collecting motor fuel taxes by providing resources to foster coordination among State and Federal tax examination and investigation activities;
- Participating as part of an organized intergovernmental group, to ensure that the fuel tax compliance effort receives priority attention of tax enforcement agencies and to ensure that the increased emphasis on fuel tax compliance will be a continuing part of Federal and State tax agency programs;
- Assisting in the development of computerized auditing tools that can be used by State and Federal governments to enhance compliance; and
- Evaluating and reporting on the effectiveness of motor fuel tax enforcement activities.

BUDGET CHANGES NARRATIVE

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During the fall and summer of fiscal year 2012, the Department worked with the Highway Patrol and the Department of Transportation to implement a program to conduct dyed diesel fuel compliance checks in association with the Highway Patrol throughout the state. The purpose of the compliance effort was to make sure that drivers using North Dakota's roads are paying the appropriate taxes. Some drivers fill their diesel vehicle's tank with fuel that has not been taxed at the full rate.

The cooperative effort of the agencies involved enabled the state to stop and test the tanks of diesel vehicles traveling on state, county or local roadways. During the dyed fuel checks, 2,817 vehicles were tested and 55 samples were taken for possible violation. Of the possible violations, 47 were confirmed violations. The rate of violations at different inspection locations ranges from 0 percent up to over 18 percent. The violations are overwhelmingly found in personal and agricultural pickup trucks.

In the fall of fiscal year 2012, the Department entered into an agreement with the Internal Revenue Service to cooperate in dyed fuel enforcement efforts on a State and Federal level. North Dakota was the forty sixth state to enter into such an agreement. Through this agreement, the Internal Revenue Service will provide some supplies and offers free lab inspections of fuel samples at their certified lab and forwards the results to us.

The Tax Department will use the additional federal funds for the following activities:

- expand efforts to enhance motor fuel tax enforcement which may include training, travel, the purchase of specially-equipped vehicles, testing equipment and supplies necessary for conducting compliance checks;
- supplement motor fuel tax examinations and criminal investigations;
- evaluate and implement registration and reporting requirements for motor fuel taxpayers;
- analyze and implement programs to reduce tax evasion associated with other highway use taxes;
- address issues related to Indian tribes and State motor fuel taxes; and
- analyze and implement programs to reduce tax evasion associated with foreign imported fuel.

Change Group: A	Change Type: C	Change No: 7	Priority: 1
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GenTax system support & maintenance - To fully fund system support & maintenance contract for GenTax software

\$1,000,000 - The Department provided testimony during the 2011 Legislative session on the potential of savings of \$160,000 by bundling the cost of GenTax software maintenance, on-site support, and version upgrades into one contract for services. The budget request of \$1,000,000 for a version upgrade remained in the Department's budget request as a one-time expenditure despite the adjustment made for the potential savings. The cost for future upgrades is now included as part of the bundled contract. The Department is requesting with this optional adjustment package that the \$1 million be restored in order to fund the ongoing bundled contract services cost for GenTax software maintenance, on-site support, and version upgrades. The Department is projecting no increase to the bundled cost for contract services in the 2013-15 biennium.

Change Group: A	Change Type: C	Change No: 8	Priority: 3
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Continue current service level - Increase in rates and usage for operating expenses

\$407,364 - Total of all Operating Objects: The Tax Department's operational needs are impacted by its responsibility to effectively administer the tax laws of North Dakota, the additional operation costs resulting from Legislative changes for which no additional funding is provided, and increased rates and usage for such things as audit travel, printing, and postage.

The Operating budget is approximately 28% of the total general fund budget (excluding special lines). In addition, almost 65% of the Operating line items are for expenses to other state agencies, expenses for dues and memberships to tax organizations that are critical in the formulation of tax laws and policy at both the state and federal level to ensure meeting ongoing commitment to fairly and effectively administer the tax laws of North Dakota, or for information technology related contractual services (data

BUDGET CHANGES NARRATIVE

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processing and telephone to ITD and third party vendor contract services). For all of these types of expenditures, the Department has little or no control over the rate increases charged.

Any increase in rates in operating expenses has a significant adverse impact on the Department's budget and it is difficult to absorb these increases at the 100% budget request level. In order for the Department to fairly and effectively administer the tax laws of North Dakota, it is important that it be provided with an appropriation that will allow it to sustain the current service levels.

Specifically by operating object the changes that are being requested are:

Travel increase of \$58,951: The Department is anticipating an increase in rates for travel-related expenses such as airline tickets and out of state lodging. The Tax Department is also experiencing difficulty in obtaining state rates for in-state lodging, especially in western North Dakota. Funds are requested to cover training and educational trips necessary to provide employees with opportunities for professional growth and to expand their tax knowledge. The Department has one of the highest average years of service to the state of North Dakota. Over 30% of staff currently are eligible for retirement under the rule of 85 or by age. The Department must be proactive in its progression planning to ensure the knowledge transfer and ongoing training to employees for a seamless transition when long-tenured employees start retiring. Travel expenses included in this request cover the CLE requirements for Attorneys and CPAs, required trips for participating in the Streamlined Sales Tax program, and training workshops covering a multitude of tax issues.

IT Software increase of \$713: The Department utilizes a number of smaller software in the course of doing business. It is expected that there will be slight increases in the cost of the audit sampling software that is used and in obtaining licenses for QuickBooks which provides field auditors with the opportunity to obtain transaction information from taxpayers using QuickBooks. This object also includes the cost for Microsoft Software Assurance licenses which are projected to be part of a state contract so the hope is that the cost will not increase and GIS software which is utilized by taxpayers to determine the sales and use tax rate in effect in any location. The GIS software is billed through ITD.

Professional Supplies and Materials object increase of \$534: This request will cover the increased cost for tax service subscriptions needed to remain current with changes affecting state laws, property valuation subscriptions, legal books, and reference materials necessary for tax attorneys.

Office Supply increase of \$2,083: The Department is projecting an increase in printing of worksheets, billings, statements and other correspondence which will result in an increased need in paper supplies. In addition, general office supplies are increasing in cost as well.

Postage increase of \$51,500: The Department streamlines as many mailings as possible. However, as it utilizes the functionality presented with GenTax, the volume of mailings continues to increase. The unprecedented growth in the oil industry has resulted in an increase in the number of taxpayers registering and filing tax returns and a corresponding increase in outgoing Department mailings. The postage request does not provide for future postage rate increases which, if that occurs, will have a significant impact on the Department's postage costs.

Printing increase of \$6,468: Printing costs are anticipated to increase 3% per year per OMB guidelines. With the increased volume of outgoing mail there will be a corresponding increase in the number of envelopes purchased. The quantity of major tax forms and booklets printed is reviewed each year and the number printed has been reduced and/or made available online whenever possible.

IT Equipment under \$5,000 of \$91,937: Desktop PCs are replaced every four years and notebook PCs are replaced every three years. This object includes the cost to replace the desktop personal computers and network printers which are on schedule for replacement during the 2013-15 biennium. The replacement schedule for personal computers, laptops, and shared network printers has been in place for some time. It is a common timeframe to take advantage of enhanced technology and more importantly to provide equipment with the level of speed and capacity needed to handle multiple computer applications.

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Other Equipment and Furniture of \$39,000: The Department has several areas that have an older style workstation setup which does not have electrical corridors for equipment cords making it less efficient and a higher safety risk. The Department would like to update these workstations. The request for funding also provides for needed chair and other equipment replacements in the next biennium. Currently, over one-third of Department chairs are in excess of 15 years of age and will need to be replaced over the next four to six years.

Leases/Rents - Buildings of \$18,722: This request will cover the increased cost to lease office space in Fargo, Grand Forks, Minot, Williston, and Dickinson. Rate increases in Dickinson and Williston were substantial.

Repairs - \$4,304: This request will cover the rate increases for service contracts on office equipment such as fax machines, high-volume printer, copiers, slicer, and folder as well as services contracts for janitorial services. It also includes the cost of scan kits for the scanners; toners, fuses and equipment parts for office equipment.

IT – Data Processing - \$42,000: This request covers the increase in number of Electronic Data Management System users and ongoing costs for tax applications on the Oracle server.

IT – Contractual Services - \$26,550: This increase covers the cost of maintenance contracts on the Department high-volume scanners and software customization with third party vendors.

Professional development (conference fees, dues) of \$35,662: The Department has one of the highest average years of service to the State of North Dakota. Over 30% of staff currently are eligible for retirement under the rule of 85 or by age. The Department must be proactive in its progression planning to ensure the knowledge transfer and ongoing training to employees for a seamless transition when long-tenured employees start retiring. Professional development expenses included in this request cover the CLE requirements for Attorneys and CPAs, conference fees for seminars, workshops and conferences covering a multitude of tax issues. This request also covers the dues and membership fees for the Department to participate in the Streamlined Sales Tax program, Multistate Tax Commission and Nexus programs, and the Federation of Tax Administrators program.

Operating Fees & Services - \$3,940: This request represents the increased costs associated with conducting background checks on potential employees, employee service awards, advertising for position vacancies and legal notices, shredding services for the proper disposal of records approved for destruction which is available for all field offices and the tower, and fees paid to county Sheriffs for serving garnishments, summons and complaints, and notice of hearings.

Professional Services - \$25,000: This request covers the increased cost to participate in Multistate Tax Commission (MTC) audits, cover litigation costs of expert witnesses, and increased rates of the Office of Administrative Hearing. The return on investment for participating in MTC audits has been as high as 18 to 1 with the past 6 years averaging around 6 to 1.

Change Group: A	Change Type: C	Change No: 9	Priority: 5
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Taxpayer Access Point (TAP) Projects - Enhancements or expansion of the use of TAP software

\$1,000,000 - The Department is proposing the expanded use of Taxpayer Access Point (TAP), a module within GenTax which has already been purchased. It is a self-serving application that allows taxpayers to register their business, file and pay their taxes, and maintain their accounts online. The application will be available to those who file and/or pay sales tax, lodging tax, restaurant & lodging tax, and/or withholding taxes. The application will include the ability to submit applications, request permits and licenses, file returns, make payments, maintain account information, view correspondence, and communicate more easily with the Department.

FAST Enterprises will manage the project and provide the necessary resources alongside of Department's IT staff. This expansion has been a request by taxpayers for some time and a much needed enhancement to the Department's operation.

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Cat5 wiring - Upgrade network wiring per recommendation by ITD

\$23,500 - ITD has requested state agencies with Category 3 network cabling to upgrade their wiring in the next biennium to meet current networking standards (currently Category 5e or Category 6). This upgrade is needed to properly utilize the network speeds being offered and to support existing & future technologies that the State is deploying. Upgrading our remaining Category 3 network cabling will create a consistent network environment throughout our agency. This will allow existing as well as future applications and technology to perform efficiently and at a speed necessary to do business. If we do not upgrade, the network limitations of Category 3 wiring may hinder application performance and will impact the use of current and future technologies implemented by the State.

Change Group: A	Change Type: C	Change No: 100	Priority: 2
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Salary adjustment for compression

\$1,865,612 – During the 2009-10 interim the legislative council was directed to study the classified state employee compensation system. The study was to also include a review of pay grades and classifications. and the Hay Group was contracted to conduct the study. The legislature determined that it was not practical to revise salary appropriations to fund the implementation of the Hay Group recommendations in July of 2011. HRMS continued to work with the Hay Group on an alternative plan which provides for adopting the revised classification plan, grades and ranges on July 1, 2012 with the hope that agencies can address the salary issues from savings within their current budget.

Salary compression is the situation that occurs when there is only a small difference in pay between employees regardless of their skills or experience. It is the result of the market rate for a given job outpacing the increases historically given to high tenure employees. Therefore, new hires can only be recruited by offering them as much or more than senior professionals. The changes to the salary ranges resulting from the Hay Group study, had a significant impact for Department employees. Many of the salary ranges for classifications in the Department increased between 4.5% and 28.5%. These increases in salary ranges are considerably higher than the 3% per year appropriation for salary increases in the 2011-13 biennium. The 3% general salary appropriation was insufficient to provide adjustments necessary to relieve the Department's current salary compression situation and the increase in the salary ranges further compounded the salary compression throughout the Department.

The Department was able to make the salary adjustments for ten employees who were below the minimum of the new salary ranges. However, it was not able to address the salary compression for 100 employees, or 86% of its employees, as a result of the implementation of new salary ranges.

The Department feels that existing employees should be high enough in their salary range to avoid new hires starting at equal or higher salary rates. It has been our goal to move employees within their salary range based on skills and years of experience so they could be at the midpoint of their range within 10 years of employment. As of July 1, 2012, the Department has 18 employees with more than 20 years of service who are not at midpoint of the new salary ranges. Four of these have over 30 years of service.

This package represents the cost to move Department employee's salaries to the level they should be based on their skills and years of experience. It is important to note that 63% of the requested salary dollars would go to employees in the auditors, compliance officer, and collection officer classifications. All of these positions have a substantial role in the collection of revenue, discovery of nonfilers, and ensuring compliance with North Dakota tax laws. It is important that the Department do what it can to retain its employees to maintain the high level of customer service, for progression within the Department, and to continue with knowledge transfer from long-tenure employees.

Change Group: A	Change Type: D	Change No: 100	Priority: 6
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Oil impact adjustments

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\$112,364 - This request will provide much needed assistance to existing employees in the Minot, Williston and Dickinson field offices who are impacted by the significant growth in the energy industry. It includes an adjustment for salaries as well as operating expenses to cover increased travel costs for Department employees in western North Dakota.

Change Group: A	Change Type: E	Change No: 1	Priority:
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Remove GenTax Version 8 upgrade - Removal of one-time funded item per OMB guidelines

(\$1,000,000) - Remove GenTax Version 8 upgrade - Removal of one-time funded item per OMB guidelines

During the legislative session, the Department testified of the potential savings that would occur if it could negotiate a "bundled" price which would cover GenTax software maintenance, on-site support and version upgrades. The funding provided by the Legislature was based on the assumption that the savings would be accomplished. The Department met that requirement. However, the amount for the version upgrade remained as a one-time item which now is included in the bundled costs going forward and this needs to be included in the base budget. An optional adjustment package is being requested to rectify this.

This adjustment is made per OMB guidelines.

Change Group: A	Change Type: F	Change No: 2	Priority:
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Remove capital assets - Removal of appropriation for capital assets per OMB guidelines

(\$16,000) - This budget change package removes the current biennium appropriation from the base budget for equipment over \$5,000. This adjustment is made per OMB guidelines.

Change Group: A	Change Type: G	Change No: 10	Priority: 7
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3% optional savings package - Options to reduce spending

(\$768,781) - The Office of State Tax Commissioner strives to be as efficient as possible and a good steward of the funding entrusted to it, which makes specifying a 3% reduction package a very difficult task. The Department collects the greatest percentage of general fund dollars for the State. In order to do that, the Department must have trained and knowledgeable staff to administer the tax laws and have the associated funding needed cover the essential expenses to operate the Department. The objects with high dollar funding requests are areas that are critical to the operation of the department, such as travel, printing, postage, membership dues and audit fees. Once we remove these items from consideration, little remains for a 3% reduction package.

The Department has identified, with reluctance, a reduction to the ongoing GenTax software maintenance, on-site support, service packs, and upgrades. The Department feels it is critical to the operation of GenTax to be current on service packs. Failure to fully fund the amount needed for a full two years of maintenance, on-site support, service packs, and upgrades, will delay implementing needed corrections and changes to the GenTax software program. This would result in delays in processing tax returns and refunds.

Change Group: R	Change Type: A	Change No: 1	Priority:
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Continuation of GenTax Bundled Contract

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This recommendation adds \$1.0 million to the department's ongoing budget to continue the bundled contract for support, maintenance, and upgrades of the GenTax system.

Change Group: R	Change Type: A	Change No: 2	Priority:
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Inflationary Increases - Operating Expenses

This recommendation adds \$240,903 for inflationary increases in travel, postage, and rent; IT equipment replacements; and increased ITD charges.

Change Group: R	Change Type: A	Change No: 3	Priority:
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Additional Cost to Continue Homestead Tax Credit

After the budget request was submitted, the estimated cost to continue the current Homestead Tax Credit Program was revised. This recommendation adds \$174,000 to reflect the revised cost estimate.

Change Group: R	Change Type: A	Change No: 4	Priority:
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Expanded Homestead Tax Credit Program

This recommendation adds \$20.0 million to provide for an expansion of the Homestead Tax Credit Program, including eliminating the asset test, excluding Social Security benefits from the calculation of income, and increasing the household income threshold to \$50,000 per year.

Change Group: R	Change Type: A	Change No: 100	Priority:
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Executive Compensation Package Adjustment

This budget change provides funding for recommended 2013-15 compensation adjustments. Compensation adjustments for each agency were calculated following the recommendations of the Hay Group developed through the 2011 study of the state's classified employee compensation system. Pursuant to those recommendations, compensation adjustments were calculated to provide funding to allow for both performance-based salary adjustments and market-based salary adjustments. This funding allows for increases of 2% to 4% for employees in the first quartile of the pay range and 1% to 2% for those in the second quartile of the range. For employees in the third and fourth quartiles, which are above the market policy position, no market policy increase is funded. Performance-based increases are assumed to be 3% for employees meeting performance standards and up to 5% for employees exceeding performance standards. No performance-based increases are provided for employees that fail to meet performance standards.

Change Group: R	Change Type: B	Change No: 1	Priority:
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TAP Project

This recommendation adds \$1.0 million for implementation of the Taxpayer Access Point (TAP) module of GenTax. The TAP module will provide improved service for taxpayers and was ranked fourth in the statewide ranking of IT projects by the SITAC.

Change Group: R	Change Type: B	Change No: 2	Priority:
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Oil Patch Housing and Compensation Adjustments

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This recommendation adds \$112,364 for housing allowances, compensation adjustments, and additional travel costs for department employees living in or traveling in oil-impacted areas of the state.