

**DEPARTMENT OF REVENUE AND REGULATION
FY2011 RECOMMENDED BUDGET**

FY2011 Recommended Budget:

General Funds	\$ 1,142,611
Federal Funds	-0-
Other Funds	<u>69,115,898</u>
	\$70,258,509

The FY2011 Recommended Budget for the Department of Revenue and Regulation is a decrease of \$1,066,357 over the FY2010 budget of \$71,324,866. Funding reflects an increase of \$5,883 in general funds and a decrease of \$1,072,240 in other funds. The FY2011 Recommended Budget reflects a decrease of 4.0 FTE from the FY2010 budget.

Comparison of FY2010 and FY2011 Budgets:

	Budgeted FY2010	Recommended FY2011	Increase/ (Decrease)
Salaries	\$13,607,372	\$13,505,295	\$ (102,077)
Benefits	3,734,290	3,810,451	76,161
Travel	\$ 1,132,573	\$ 1,151,923	\$ 19,350
Con Services	35,767,469	35,867,169	99,700
Sup/Materials	5,247,986	4,097,986	(1,150,000)
Grants	11,175,000	11,175,000	-0-
Capital Assets	392,176	382,685	(9,491)
Other	268,000	268,000	-0-
TOTAL	\$71,324,866	\$70,258,509	\$ (1,066,357)

Salary and Benefits - net decrease of \$25,916 reflects the decrease of 4.0 FTE and corresponding personal services of \$158,359, an increase of \$114,743 in personal services authority for the health insurance rate increase and additional authority of \$17,700 to reflect the actual personal service expenditures for the Real Estate Commission.

Travel – increase of \$19,350 to travel authority reflects the actual travel expenditures for the Real Estate Commission.

Contractual Services – requested increase of \$99,700 in contractual services authority to accurately reflect the expenditures for the Real Estate Commission. Costs for education and training have increased for the instructor development courses which is a new requirement. This also includes \$50,000 for the development of on-line services for real estate licensees.

Supplies and Materials – a reduction of \$1,150,000 in supplies and materials was the budget authority needed in the Division of Motor Vehicles in FY2010 for the 2011 license plate issue.

Capital Assets – requested reduction of \$9,491 in capital assets for the Division of Banking reflects the purchase of furniture and equipment in FY2010 that will not be needed in FY2011.

DEPARTMENT PRIORITIES:

STREAMLINED SALES TAX

- South Dakota has been participating in the Streamlined Sale Tax project since 2000.
- In October of 2005 South Dakota became one of the first Full Member states. This granted SD the right to receive registrations and sales tax from voluntary sellers.
- Currently there are 20 Full Member states and 3 Associate Member states.
- This past year federal legislation was not introduced requiring voluntary sellers to register in all states unless their revenues are below a certain threshold. Congress wants the compensation issue resolved before they introduce legislation. States and businesses are working on an acceptable compensation issue which is where all sales tax license holders will receive compensation. The Streamlined Governing Board continues to work towards more simplification.
- As of December 31, 2009, South Dakota had 1,201 Streamlined registrations.
- Pursuant to SDCL 10-45C-15 the state tax collections received from the Streamlined registrants are deposited into the tax relief fund which is a restricted trust fund. From October 2005 through December 2009 state tax collections from the voluntary sellers were \$4,402,707.
- Municipal taxes collected for the same period were \$1,708,990.

VALUATION OF AG LAND

The 2008 Legislature passed several bills to begin the process of valuing agricultural land using the productivity method. Productivity valuation is a fundamental change in the philosophy of how ag land is valued. Instead of using sales of comparable property to determine the value, ag land will now be valued based upon its ability to produce. This new system is now in place, the first assessment notices for ag land determined using the new system will go out in March 2010.

The basics of the new valuation system:

- For cropland, the productivity value will be determined using countywide average yields and statewide commodity prices over several years. For pastureland, the productivity value will be determined using cash rents.
- The formula will use an 8-year “Olympic average” of the data to determine the values. In Olympic averaging, the high and low years are not used.
- The legislation required that the switch to productivity valuation (1) neither increase nor decrease the total amount of statewide ag value the first year; and (2) minimize any shift between crop and pasture ag values.
- The basic formula is $[\text{gross revenue}] \times [\text{landlord share percentage}] / [\text{cap rate}]$ for the assessed value. The landlord share percentages are 35% for cropland and 100% for pastureland. The cap rate is 6.6%. So, if a county has a gross revenue of \$100 an acre for cropland, the formula would produce a value of \$530.30 an

acre ($\$100 \times .35 / .066$). This is the assessed value; the taxable or "equalized" value is 85% of the assessed value.

- The formula will produce the starting point for the assessed value. The local assessor will still be required to make adjustments based upon topography, rocks, etc.

Although the statewide amount of ag value will be the same as the status quo, some counties will experience significant increases or decreases in ag valuation.

To prevent sudden large changes in ag values, the Legislature limited county-wide ag value increases or decrease to no more than 10% a year. This is a limitation on the total crop and non-crop valuations in the county, not on any individual landowner's valuation.

EDUCATION

The Department places a high priority on the education of licensees/taxpayers. Education classes, workshops and seminars are available in the areas the Department administers and regulates.

Sales, Use and Contractor's Excise Taxes

- In FY2009 32 seminars and workshops were held in various locations in SD and cities bordering SD like Sioux City and Fargo.
- The Department also provides presentations for special interest groups. In FY2008 the Department presented at 38 special interest group meetings. Some of these special interest groups were Electric Cooperatives, SD Auto Dealers, Municipal League, SD Land Title Association, several trade classes at vocational schools and private businesses as requested.
- The Department also uses every taxpayer contact, licensee review and audit as a means to educate taxpayers on SD tax laws and taxpayers' responsibilities. The Department publishes a sales tax guide and a contractors' excise tax guide each year and currently has over 50 Tax Facts available. Tax Facts are publications addressing taxation issues for a specific industry (i.e. attorneys, hunting and fishing services, funeral homes, etc.)

Real Estate

- The Real Estate Commission sponsors educational seminars in the spring and fall. These seminars are held in six locations across the state and address current industry trends from meth awareness to green buildings. From 700 to 850 licensees attend these seminars which provide the continuing education credits needed.

Banking

- The Division of Banking reviews the completed bank exam with the bank's Board of Director using this as an opportunity to educate and promote best industry practices. The Division recently extended this practice to other institutions licensed or chartered by the Division. These include mortgage lenders, money lenders, money transmitters, loan originators and trust companies.

Property Tax

- Property Tax staff provides education for the County Directors of Equalization at the annual Assessors' School and at the annual Assessors' Conference. Property Tax also tests and certifies the Directors of Equalization.
- Property Tax staff provides educational classes to the County Commissioners, Auditors, Register of Deeds and Treasurers at their annual workshop and again at their annual conference.
- During 2009 Property Tax staff developed presentations specific to the new process for valuing ag land. These were made available to county assessors and officials and the taxpayers at twelve separate locations during 2009. Over 960 people attended these meetings. The department continues to work on educational material for the public officials and the public regarding this new system.

Special Taxes

- Special Taxes staff present information on alcohol regulations and laws at the City Finance Officers' School, Newly Elected Officials' School, Malt Beverage Wholesalers' Meetings and Retailers' Train the Trainer Meetings.

Motor Vehicles

- DMV staff provides system and law updates to County Treasurers at the annual county workshop and at the annual conference.
- DMV staff provides training to car dealers on an annual basis.
- Train Financial Institutions on the electronic titles.

Lottery

- The Sales Representatives from Lottery provide continuous training to the retailers.
- Lottery offers monthly training and certification for individuals who desire to be video lottery terminal technicians.

Gaming

- In April Gaming provides a training session for race horse trainers in Fort Pierre and Aberdeen.

Insurance Fraud

- Insurance Fraud staff provides presentations to promote the awareness of insurance fraud insurance to Senior Citizen Centers, service groups and organizations.

Appraiser Education

- In accordance with the rules adopted in January 2009 staff of Appraiser Licensing directed the development of the mandatory training course and exam course for the supervisors and their trainees. They continue to provide technical assistance to the providers of the course ensuring materials are up-to-date and instructors are qualified to teach the course. The staff review and audit appraiser education

courses for compliance with course offering requirements, administrative rules as well as instructor quality.

In addition the Department considers employee education critical to customer service. Employees are provided with classroom training, on the job training and on-going training on a regular basis. Many employees are required to maintain certifications and/or licenses allowing them to provide expertise and guidance to the licensees and taxpayers of the department.

COMPUTER SYSTEMS

The Department of Revenue and Regulation depends on technology to assist with licensing, registration, education, communication, compliance, revenue collection, data entry and auditing. During the past five years the Department has been in various phases of proposing, defining, designing and implementing a number of new computer systems. These systems have been in response to legislation, replacing manual systems, combining information and systems into one integrated system and providing additional conveniences to the Department's taxpayers and licensees. The Department continually strives to use technology to provide better customer services to the public, to find process efficiencies and to allow staff to be more productive as the taxpayer/licensee numbers continue to grow.

The new systems developed or currently being developed include:

- Insurance Licensing System – Implemented in May 2007 provides resident and non-resident insurance agents the ability to apply for a license, renew a license and print these licenses on-line. In addition this system allows agents to look up continuing education courses and this on-line system also maintains each agent's continuing education credits for their records.
- Motor Vehicle System – Implemented in July 2008 in response to the 2005 Legislation that changed the state's current practice of vehicle license plate transferring with the vehicle when ownership changes to the license plate staying with the owner in an ownership change. This change required a rewrite of the motor vehicle titles and registration system. This system is a customer centric system, a system that recognizes the owner and lists all vehicles registered to the owner allowing multiple renewals by an owner opposed to the old way of renewing vehicles which was to identify each vehicle individually. This new system also supports the ability for dealers to enter vehicle sales/new purchase/customer information on-line. Since September 2008, dealers have added over 150,000 titles on the system. This function has assisted the counties in expediting the collection of the taxes. With the new system \$848,000 was collected in penalty and interest, the majority of this would not have been collected with the old system.
- Tax System – This system was implemented in January 2009. It combined the sales and excise tax system, the motor fuel tax system, the audit system and a

variety of databases to be integrated into one system. The system has provided many benefits to both the department users and the businesses licensed in this system. One of the greatest advantages is the ability to access these tax types in one system providing taxpayer assistance faster and more completely. In addition, the system provides real time information allowing current information to be provided to the taxpayers. The systems has automated several processes reducing time spent on compiling reports, preparing taxpayer notices, audit selection and taxpayer leads. While the system is in operation, the Department does have future plans to add some of the special tax types to this system allowing for an even better integration of tax licensee information.

- **Banking Registration System** — The Division of Banking implemented a new information and technology system for its licensing and regulation areas in March of 2009. The transition to this database continued through FY 2009 and into FY 2010. This system reduces dependency on paper based filing and manual processes, eliminates redundant processes and data entry, and it allows for consistent and more accessible information in the Division. This system was acquired realizing that the Division needed to interface with the National Mortgage Licensing System (NMLS) by accepting the licensing data entered on the national system. Moving forward, the Division will focus on further refining the interface with the NMLS along with the Division's website to gain efficiencies by eliminating additional paper processes and data entry by both the Division and by the financial institutions that the Division regulates. As more experience is gained on the system, the Division will expand the configuration of the licensing system to handle banking, trust and the examination functions by enhancing the reporting and monitoring capabilities.
- **IRP/IFTA System** – Development continued on the International Registration Plan/International Fuel Tax Agreement system with the implementation date of December 2010. This system is used to register interstate vehicles and record reports and payments of motor fuel tax from interstate carriers. The new system will allow carriers to register their interstate vehicles on line as well as file and pay their returns on line. The system will also interface with the Department of Transportation's permitting system, the title and registration system and the electronic screening system currently operating at the Jefferson Port of Entry.

ON-LINE SERVICES

The Department uses the Internet site to provide many customer service and education opportunities for the users. The site is easy to navigate for Department forms, publications and information. The Department also has and will be implementing additional on-line services allowing users to conduct business with the Department via the Internet.

- All Department forms can be found on the site, some can be completed and submitted electronically, others can be completed on-line, printed and mailed.
- Department publications, guides, annual reports and other information are on the website.
- SDQUEST, the system that allows taxpayers to file and pay their sales, use and contractors' excise taxes electronically via the internet has been available since 1999. In FY2009 over 20% of all tax returns filed were filed electronically and 57% of the collections were remitted electronically.
- In March 2009 the internet renewal system for vehicle registration was implemented. From March 8, 2009 through January 31, 2010 over 3% of all registrations were renewed through the on-line system. Minnehaha County had over 50% of the 37,242 total registrations renewed on-line. During the next year beta testing will be done on self service terminals (SST) with the Pennington County Treasurer. These SST's will provide 24/7 service for vehicle owners to obtain renewal decals for their plates.
- The Division of Banking is developing a plan that would provide for additional interaction between the Division and the banks, trust companies and licenses. It is anticipated the features would allow for on-line retrieval for trust company data, on-line application/renewal and fee collection through ACH/electronic funds.
- The Real Estate Commission is researching various options to allow for on-line services for their agents. The first priorities are to provide on-line renewal, continuing education and errors and omissions services to real estate licensees.
- Department's website also links to national registry services that allow industries and businesses to register, apply, pay, renew at one location with information and appropriate fees returned to the state.
- A number of locations on the Department's website allow consumers to file complaints on-line.