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2016-17 Governor's Budget - Tax Court

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<http://www.taxcourt.state.mn.us>

AT A GLANCE

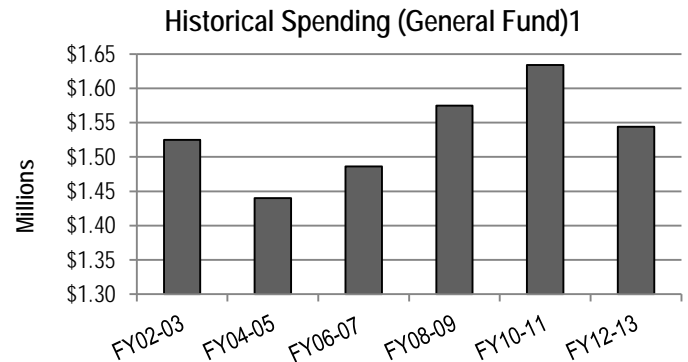
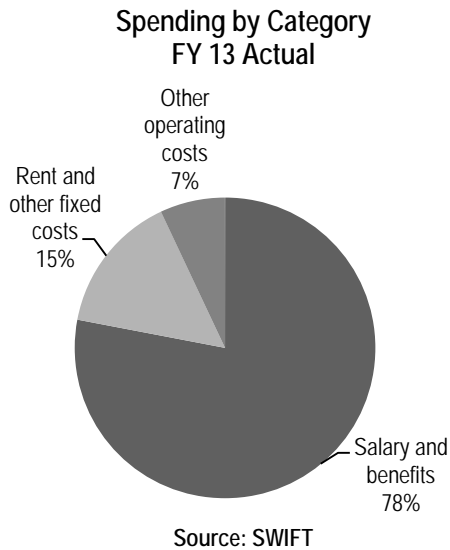
- Eight full-time staff: 3 judges, 3 administrative staff, and 2 judicial law clerks.
- Approximately 5,000 cases are filed with the Court annually, 98% of which are appeals from property tax assessments, and the remainder are appeals from orders of the Commissioner of Revenue.
- A property tax appeal is filed with the district court administrator in the county in which the property is located and then transferred to the tax court; an appeal from an order of the Commissioner of Revenue is filed directly with the Tax Court.
- Generates approximately \$1,500,000 per year in filing fees deposited into the General Fund.
- FY 2014 budget of \$1,035,000.
- Judges travel throughout Minnesota to hear cases where taxpayers reside.
- The Court files written findings of fact, conclusions of law, and an explanatory memorandum in each case within three months of submission.

PURPOSE

The Minnesota Tax Court is a specialized trial court in the executive branch with statewide jurisdiction. By statute, it is "the sole, exclusive, and final authority for the hearing and determination of all questions of law and fact arising under the tax laws of the state."

The Tax Court resolves disputes between property owners and counties concerning the correct value and classification of real property, and adjudicates taxpayer appeals from orders of the Minnesota Commissioner Revenue. By ensuring that property is correctly classified and valued and that taxpayers are correctly taxed, the court helps ensure a thriving economy that encourages business growth and employment opportunities, while providing efficient and accountable government services. The Court's three judges (all appointed between December 2012 and September 2013) are working to ensure that the Court is managed according to best practices. The Department of Administration's Small Agency Resource Team (SmART) assists the Court with human resources and budgeting. The Court's budget now includes line-items for statutorily mandated services such as judicial travel to conduct hearings, the purchase of transcripts for indigent taxpayers, and translators for court proceedings. The Court is also working with MN.IT to ensure that its existing IT infrastructure is stable and secure.

BUDGET



Source: Consolidated Fund Statement
¹ The apparent FY 12-13 reduction is the result of salary-savings from judicial vacancies.

Minnesota Tax Court generates approximately \$1,500,000 annually in non-dedicated revenue from filing fees, which are deposited into the General Fund. All funding for Tax Court operations, in turn, comes from General Fund appropriations. The Tax Court's budget for fiscal 2013 was approximately 78 percent compensation, 15 percent rent and other fixed costs, and 7 percent operating expenditures. During the FY 14-15 biennium, the appropriation was \$1,035,000 per year, of which \$25,000 was specifically appropriated toward

acquisition of a new electronic case management system and another \$161,000 was specifically appropriated toward salary and benefits for two judicial law clerks, specialized continuing legal education, and electronic legal research costs

STRATEGIES

The Tax Court is a specialized trial court. Tax Court actions are governed by the Minnesota Rules of Civil Procedure and of Evidence, and proceed in largely the same manner as civil actions filed in the Minnesota District Courts. Like other trial courts, the Tax Court actively manages its docket, resolves discovery and trial-management disputes, decides dispositive and non-dispositive motions, and conducts trials. Jury trials are not available in Tax Court; the Tax Court files written findings of fact, conclusions of law, and an explanatory memorandum in each case heard.

Filings in the Tax Court increased from approximately 1,200 in calendar year 2000 to almost 6,000 in 2010. Filings for each of the last five years average approximately 5,000 cases per year. Even though most cases eventually settle over time, this resulted in a significant backlog of cases.

To reduce its backlog of cases, the Court now issues individual scheduling orders designed to ensure that all cases are either settled or ready for trial in approximately 18 months. As a result of this more active case management (and a modest decrease in filings), the Court has reduced the number of pending cases on its docket by approximately 38%. To further facilitate settlements in property tax cases (in which counties would otherwise have to request special funds to pay for an outside mediator), the judges of the Court have completed training as civil mediators, enabling them to mediate appropriate cases (at no cost to the parties) in hopes of resolving them short of trial. Finally, the court has implemented streamlined procedures that reduce the time (and cost to the parties) of trying cases that cannot otherwise be resolved.

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Jan. 31, 2013</i>	<i>Aug. 25, 2014</i>	<i>Change</i>	<i>Percent Change</i>
Quantity	Pending Cases ¹	7,712	4,754	-2,958	-38.4
Quality/Efficiency	Average Age of Pending Cases ²	-	-	-	-
Quality/Efficiency	Average Trial Length ³	-	-	-	-

1. The number of pending cases represents the Tax Court's backlog of cases awaiting disposition. As used here, "Pending Cases" refers to matters that have been entered into the Tax Court's own electronic case-management system and as to which the parties have not notified the Court of a settlement. Figures do not include cases filed during approximately the previous six months, which are awaiting entry into the tax court's case management system.
2. The Court has only begun to calculate the average age of cases pending before it and does not yet have a base for comparison.
3. The Court has only begun to track average trial length and does not yet have a base for comparison. Anecdotal evidence suggests the Court's streamlined procedures have reduced trial times by as much as half.

The Minnesota Tax Court is authorized by Minn. Stat.Ch. 271.

Expenditures By Fund

	Actual		Actual FY14	Estimate FY15	Forecast Base		Governor's Recommendation	
	FY12	FY13			FY16	FY17	FY16	FY17
1000 - General	764	781	903	1,155	1,035	1,035	2,071	1,860
Total	764	781	903	1,155	1,035	1,035	2,071	1,860
<i>Biennial Change</i>				513		12		1,873
<i>Biennial % Change</i>				33		1		91
<i>Governor's Change from Base</i>								1,861
<i>Governor's % Change from Base</i>								90

Expenditures by Program

Program: Tax Court	764	781	903	1,155	1,035	1,035	2,071	1,860
Total	764	781	903	1,155	1,035	1,035	2,071	1,860

Expenditures by Category

Compensation	629	573	719	831	723	775	852	935
Operating Expenses	135	188	174	319	307	255	1,214	920
Other Financial Transactions		19	10	5	5	5	5	5
Total	764	781	903	1,155	1,035	1,035	2,071	1,860

<u>Full-Time Equivalents</u>	5.7	5.5	6.8	8.0	5.0	6.0	6.0	7.0
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(Dollars in Thousands)

1000 - General

	Actual		Actual FY 14	Estimate FY15	Forecast Base		Governor's Recommendation	
	FY12	FY 13			FY16	FY17	FY16	FY17
Balance Forward In		61		120				
Direct Appropriation	825	825	1,023	1,035	1,035	1,035	2,071	1,860
Net Transfers		(100)						
Cancellations		6						
Expenditures	764	781	903	1,155	1,035	1,035	2,071	1,860
Balance Forward Out	61		120					
<i>Biennial Change in Expenditures</i>				513		12		1,873
<i>Biennial % Change in Expenditures</i>				33		1		91
<i>Gov's Exp Change from Base</i>								1,861
<i>Gov's Exp % Change from Base</i>								90
FTEs	5.7	5.5	6.8	8.0	5.0	6.0	6.0	7.0

Minnesota Tax Court

FY16-17 Biennial Budget Change Item

Change Item Title: New Case Management System

Fiscal Impact (\$000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	799	609	144	144
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	799	609	144	144
FTEs	0	0	0	0

Recommendation:

The Governor recommends funding the replacement of the Minnesota Tax Court's existing case management system.

Rationale/Background:

A case management system is the repository of all information about the cases pending before a court, including the identity of the parties and their legal representatives, the procedural history of the case, communications between court staff and the parties, and orders and decisions of the court. The Minnesota Tax Court's primitive 14-year-old case management system is no longer supported by its vendor, runs on an operating system also no longer supported by its vendor, lacks almost all of the features and capabilities of modern case management systems, and must be replaced.

By way of background, the Minnesota Tax Court was created in 1977 as an independent agency of the Executive Branch statutorily defined as "the sole, exclusive, and final authority for the hearing and determination of all questions of law and fact arising under the tax laws of the state." The vast majority of cases before the court are appeals from property tax assessments. Appeals from property tax assessments are initially filed with the administrators of the various district courts, acting as deputies of the tax court administrator. The district court administrators enter each case into the judicial branch case management system (MnCIS) and assign it a unique case-identifying number. The district court administrator then notifies the tax court administrator, using a paper transfer form, of the filing of the case, including the name of the property owner and its legal representative and the assigned file number. The staff of the tax court then manually enters this information into the tax court's separate case management system. The manual notification process is fraught with the risk of errors, including mistakes in transcribing information from the written appeal form to the paper transfer form and the failure to notify the tax court at all of the filing of a case.

Proposal:

The proposal is to select and implement a new case management system that will interface electronically with the case management system used by each of the 87 district courts, allowing information about new cases to be electronically transferred to the tax court's case management system. In addition, the new case management system will permit electronic filing of pleadings and other documents in the case, and ultimately allow for electronic filing of new cases directly with the tax court, eliminating the need for the cumbersome and inaccurate transfer process currently used.

IT Related Proposals:

The funding for this proposal is solely for the purchase, installation and on-going maintenance of an IT project.

Results:

This proposal will be successful when the new case management system is fully operational and the existing legacy data has been converted to the new format. The expected completion date is June 30, 2017.

Statutory Change(s):

None.

Minnesota Tax Court

FY16-17 Biennial Budget Change Item

Change Item Title: Budget Increase for Statutorily Mandated Expenditures

Fiscal Impact (\$000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	152	131	131	131
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	152	131	131	131
FTEs	0	0	0	0

Recommendation:

The Governor recommends an increase of \$152,000 for FY 2016 and \$131,000 for FY 2017 to the Minnesota Tax Court for increases in operating costs related to judicial salaries, technology costs and other statutorily mandated expenditures.

Rationale/Background:

By statute, the Minnesota Tax Court is required to travel to the taxpayer's county of residence; to provide translators where necessary; to pay for transcripts of court proceedings for indigent taxpayers, and to pay unemployment compensation. In addition, by statute, salaries of the three judges of the court are fixed at 98.52% of the salary of a district court judge. The judicial branch is requesting a 5% increase in salary for district court judges for each of FY 2016 and FY 2017. Should the Legislature grant the judicial branch request, increases for tax court judges will be statutorily mandated. During FY 2014 and FY 2015, the court was able to absorb these costs through salary savings generated by judicial vacancies. Approximately 95 percent of the court's budget, however, is fixed costs (salaries, benefits, rent). Now that the court is fully staffed, salary savings are no longer be available to cover these cost increases.

In addition, effective with the FY 2016-17 biennium, Minnesota Tax Court will be required to begin receiving IT services from MN.IT Services, rather than from an outside contractor. According to figures provided by MN.IT Services, this will increase the court's information technology budget by approximately \$96,000 in FY 2016 and \$44,000 in FY 2017 (compared to FY 2015). The additional expenditures in FY 2016 largely reflect the cost of replacing the court's existing telephone system with one capable of handling calls using VOIP (voice over internet protocol), and conversion of the court's existing website.

Proposal:

The requested increase in base budget will allow the tax court to comply with its statutorily mandated obligations.

IT Related Proposals:

Part of the impact of this change item reflects the cost of ongoing IT support, using figures supplied by MN.IT Services.

Results:

Funding for this proposal will allow the court to fulfill its statutory obligations to taxpayers and to comply with the requirement to obtain IT-related support from MN.IT Services.

Statutory Change(s):

None.

Minnesota Tax Court

FY16-17 Biennial Budget Change Item

Change Item Title: Addition of a Third Judicial Law Clerk

Fiscal Impact (\$000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	85	85	85	85
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	85	85	85	85
FTEs	1	1	1	1

Recommendation:

The Governor recommends funding for a third judicial law clerk to assist the Tax Court's three judges in managing the court's docket, preparing cases for hearings and trials, conducting legal research and timely drafting and filing findings of fact, conclusions of law and supporting memoranda in cases heard.

Rationale/Background:

Approximately 5,000 cases are filed annually in the Tax Court (approximately 1,700 cases annually per judge). The court's three judges must prepare written findings of fact, conclusions of law, and supporting memoranda in every case heard within three months. Historically, the court never had law clerks. This was workable in 2000, for example, when only 1,200 cases were filed. Since then, however, the court's caseload has more than quadrupled, making law clerks essential to the court's proper function. Minnesota Tax Court's experience with the two existing clerks demonstrates that the court's caseload justifies the addition of a third clerk. Minnesota Tax Court now seeks funding for a third position, so that each judge has a dedicated clerk.

Proposal:

The addition of a third judicial law clerk will further improve the efficiency of the court, the quality of its written decisions, and its service to taxpayers. The additional clerk will:

- Free judicial time by handling routine scheduling matters
- Enhance the quality of hearings by preparing bench memoranda
- Improve the quality of the court's decisions by conducting legal research and checking the court's decisions for factual and legal accuracy
- Increase efficiency by preparing draft findings and memoranda

Results:

The principal performance measure will be the average age of cases on the court's docket. The additional law clerk will allow the court to process cases more promptly and efficiently, and should thus cause the average age of cases on the court's docket to decline.

Statutory Change(s):

None.