



THE NAVAJO NATION

RUSSELL BEGAYE PRESIDENT
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OFFICE OF THE NAVAJO TAX COMMISSION

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FY 2016 Second Quarter Report
(January, February, March 2016)

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I. EXECUTIVE SUMMARY

Program & Departments

1. Compliance Department, Larieta Tso, Sr. Compliance Officer (928) 871-7131
2. Audit Department, Lawrence Sorrell, Principal Tax Auditor (928) 871-7606
3. Valuation Department, Ethel House, Sr. Minerals Assessment Specialist (928) 871-7513
4. Accounting Department, Susie Bizade, Principal Accountant (928) 871-7888
5. Legal Department, Tax Attorney – Vacant (928) 871-7507

In 1974, the Navajo Tribal Council established a three member tax commission to study sources of wealth and income within the Navajo Nation and sources of taxation. Based on the authority of the Navajo Tax Commission, the Office of the Navajo Tax Commission was funded for the purpose to carry out this authorization by providing professional management, training, technical expertise, supervisory and administrative support in the administration of all Navajo Nation taxes.

The Office of the Navajo Tax Commission (ONTC) is established within the Executive Branch of the Navajo Nation Government. The five-member Navajo Tax Commission provides the general direction and guidance to the Office of the Navajo Tax Commission. The Budget and Finance Committee of The Navajo Nation Council is the legislative oversight committee.

The ONTC currently has a staff of twenty (20) in six (6) departments or sections that provide the various functions within ONTC. Those departments are Administration - 4, Valuation - 1, Accounting - 2, Compliance - 7, Audit - 5 and Legal – 1. The most current Plan of Operation was approved by Naa’bik’yati Committee resolution NABIJY-39-14. The total operating budget for FY 2016 is \$1,626,967.

II. CRITICAL ISSUES

1. Navajo Tax Commission (NTC) currently has four officially appointed members with one vacancy.
 - Need vacant position appointed by the Office of the President and Vice President.
 - Expected completion date, as soon as practical. Several follow up made with OPVP on the status.
2. Healthy Dine Nation Act of 2014 – Junk Food Tax or Unhealthy Food Tax. ONTC and elected officials are receiving numerous complaints regarding the implementation of

this tax. ONTC initially received support from OPVP to amend the legislation/statute to provide clarity to the implementation and administration.

- ONTC staff attorney drafted the proposed amendments and need to review with OPVP prior to identifying a sponsor for the legislation. This is still a continuing recommendation by ONTC to amend.
3. ONTC drafted Chapter Tax Ordinance template, presented to the Navajo Tax Commission and received acceptance, processed through the 2 NNC Sub-section 164 review and is currently at DOJ. DOJ reviewed the template and has verbally informed that what Title 26 is authorizing is for the Tax Code to be amended. Written response and recommendation is still forthcoming from DOJ.
 4. The ONTC collects over \$100 million plus in taxes from the nine Navajo Nation taxes approved. Of the \$100 million plus in taxes, approximately \$65-70 million goes to the Navajo Nation General Fund. For Fiscal Year 2016 the General Fund Tax Revenue Projection was \$66.983 million. Due to the economic conditions, ONTC reexamined the original projection and has made a revised projection of \$63.984 million a decline of approximately \$3 million. Based on this projected decline, ONTC will continue to monitor the actual tax revenues received monthly.
 5. Maintaining or getting out of the Navajo Nation's Intergovernmental Agreement (IGA) with the Arizona Department of Revenue (ADOR) for joint enforcement of the Navajo Tobacco Products Tax.
 - The Navajo Tax Commission has tabled this IGA with ADOR and is reconsidering.
 - ONTC Executive Director has met with Gila River Indian Community Treasurer on their administration of tobacco tax. ONTC is using information provided to review alternatives to the IGA with ADOR.
 6. ONTC staff attorney position is vacated on January 8, 2016 and ONTC started the advertising to hire another in-house staff attorney. ONTC is working with DPM and the Office of the Attorney General on this hiring. In the interim, ONTC is getting assistance from the Office of the Attorney General on any legal issues that may arise.

III. PROJECT STATUS

1. ONTC Audit staff prepared the audit schedule for FY 2016 that reflects 26 audits to be performed this fiscal year, two (2) HOT, 6 (6) FET, 6 (6) SEV and 12 (12) Sales. Audit Department conducted 5 taxpayer audits (5 Sales Tax) this quarter. Audit Department issued one Field Audit Assessments totaling \$72,062 and also received two Field Audit Assessment Collections totaling \$79,344.
2. ONTC has a dialog with the Arizona Department of Revenue (ADOR) regarding the Tobacco Products Tax discussing reconciliation of all retailers on ADOR's and ONTC's list. On-going discussion with ADOR on renewing the Intergovernmental Agreement was brought before the NTC.
3. ONTC staff (Compliance Department and Valuation Department) continued to provide procurement clearances that are requested and review of the 3,500 plus taxpayer files. Compliance Department performed 5,018 desk audits this quarter for the eight taxes. Compliance staff also performed 22 office audits and issued 204 assessments and issued 80 FET refunds.

4. Compliance Department has processed 99% for the FET Licenses for 2016. Compliance staff also provided education to the public and potential taxpayers on a daily basis regarding Navajo Nation taxes and assisted 4,524 clients. Compliance staff made presentations at two requested workshops.
5. ONTC provided an overview of the responsibilities it has in carrying out administration of the nine Navajo Nation taxes at the Executive Branch planning session. This overview included how the operations relate to the four strategic planning pillars and the nine priorities established by the Executive Branch and the Legislative Branch for Fiscal Year 2016. The overview of operations resulted in an allocation from the Executive Branch to cover ONTC operations in FY 2016.
6. ONTC, as of 2nd quarter FY 2016, collected a total of \$56.2 million in tax revenues; this represents 53% of the total FY 2016 Tax Revenue Projection. Of the entire tax revenues collected, \$33.2 million is considered Navajo Nation General Fund Revenue and represents 50% of the General Fund Revenue Projection.
7. ONTC in lieu of Tax Attorney staff addressed 6 taxpayer appeals, comprising 2 assessments.
8. ONTC in lieu of Tax Attorney staff closed 4 cases and opened 2 new cases.
9. ONTC provided the Fiscal Year 2017 Preliminary Tax Revenue Projections to the Office of the Controller and there is a decrease from Fiscal Year 2016 of \$6.9 million.
10. Valuations Department is continuing parameter research for Tax Year 2016 valuations, continuing to update all PIT forms and provide on ONTC website and also mail out to PIT taxpayers. Valuations Depart staff attended Utah Tax Commissions annual meeting with oil & gas operators.
11. The Navajo Tax Commission (NTC) held a meeting on March 8, 2016 primarily to discuss reorganization, restructure recommendation for the Office of the Controller (OOC) and the Office of Management and Budget (OMB). The restructure of OOC and OMB was recommended to include ONTC as ONTC is responsible for bringing in revenues to the Navajo Nation. The recommendation by the NTC is being finalized to be sent to OOC and OMB.
12. ONTC Executive Director served on the Title 26 Amendment Task Force. The task force prepared a power point presentation on the recommendation for Regionalization and the Office of Government Development and the Division of Community Development made presentations at various community meetings. Executive Director continues to participate in the Task Force meetings.
13. Navajo Nation Council resolution CS-39-15 approving the Fiscal Year 2016 Navajo Nation Comprehensive Budget included Exhibit "H" Condition of Appropriations (COA). ONTC is responsible for COA #2 and #3 and has prepared responses to the two assigned.

IV. BUDGET STATUS

1. General Fund				
Personnel	\$1,397,523	Balance:	58%	
Operating	\$229,444	Balance:	59%	
Personnel:	18 Active	2 Vacant	20 Budgeted	
2. Federal Highways Administration (FHWA) Grant				
Operating	\$0	Balance:	0%	
Grant Expired:	9/30/2015			

V. OPERATIONAL & PROCESS IMPROVEMENT INITIATIVE STATUS

1. ONTC to coordinate with other departments and draft procedures regarding the Procurement Clearance Review within ONTC to expedite or improve the Procurement Clearance review process.
2. ONTC attempted to get additional funds in the FY 2016 Budget for:
 - a. Minerals Assessment Specialist to assist with the administration of the Possessory Interest Tax currently handled by one staff.
 - b. Hire a consultant to evaluate our internal processes to identify areas of improvement to further maximize tax revenues.
 - c. Purchase software specifically to capture all incoming tax revenues furthering the ease of report generation for various requests. ONTC is using MS Access database to record incoming tax revenue data that is subject to “loss or damage” if not properly secured.
 - d. Initiate an off-site secure storage of our tax revenue data and records to prevent loss due to infrastructural issues related to security breach or technological failures.

The request did not get funded so it is difficult to fully address the operational & process improvement without funding. Request for funding these were made in the past as well.