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Appropriations Committee
February 26, 2009

[AGENCY 16]

SENATOR HEIDEMANN: Is there anyone else wishing to testify on Agency 93? Seeing none, we will close the public hearing on Agency 93 and open up the public hearing on Agency 16, the Department of Revenue. Welcome. [AGENCY 93]

DOUG EWALD: (Exhibit 1) Thank you. Chairman Heidemann, members of the Appropriations Committee, I'm Doug Ewald, that's D-o-u-g E-w-a-l-d, Nebraska Tax Commissioner. I appear before you today representing the Department of Revenue and the various programs administered by the department. In the two years that I've been Nebraska's Tax Commissioner, my focus has been on creating an agency that is both efficient and effective, with an emphasis on customer service. Following an extensive analysis of the organizational structure, I determined that bold changes were needed to position the agency in the ever-changing arena of state tax administration. Since this time, there have been many positive improvements in both the organization and tax compliance areas, and I believe that the results of our efforts are indicative in our budget submission. The department's reorganization effort has resulted in the elimination of budgeted positions, including five in senior management, and reduced the number of direct reports to the Tax Commissioner from 13 to 5. The reorganization has also produced ongoing savings by eliminating rent charges through the centralization of both human and physical resources. The department requested the reduction of over \$700,000 in General Funds and over \$530,000 in cash funds in fiscal years '09-10 and '10-11 due to the cost savings achieved from the reorganization. After reviewing the Appropriations Committee's preliminary budget recommendation, I appreciate the opportunity to address the committee. I would like to recognize the time and efforts of this committee with respect to establishing a budget. I know you're making tough decisions and I appreciate the committee's overall support for the Governor's budget recommendation as it relates to the Department of Revenue. However, I'd like to address two items where the committee has made preliminary recommendations that differ from the Governor's recommendations. The first item relates to the revenue

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enforcement technology. The Governor's recommendation includes \$250,000 in cash funds for each year of the biennium to enhance compliance technology resources, such as acquiring lists, software, programming, and computer equipment. This additional funding is possible because of the recommended transfer each year from the excess balance in the Severance Tax Administration Cash Fund. Funding for revenue enforcement technology continues the department's reorganization, with an emphasis on the future use of technology in tax administration. During the past year, we have used revenue enforcement technology funds to do the following: We've purchased six blade servers. These servers have replaced 36 existing servers. This has allowed the agency to standardize technology while reducing rent expense and energy costs. We also purchases Informatica. This is identity software for data warehousing, matching, and mining. For example, the agency has identified nonresident taxpayers who received payments from the U.S. Department of Agriculture for land owned in Nebraska but failed to file Nebraska individual income tax returns. An additional item that we did purchase in the last year was Oracle database training. The agency hosted application training for staff development in our dedicated training room. Oracle applications developed internally, for example, have moved tax collection duties from paper files to Web-based, database acceptable...accessible to all agency...to all Revenue agents for more efficient collection of overdue taxes. As a point of reference, the Revenue Enforcement Technology Fund came into existence, along with the Revenue Enhancement Fund, during the 2004 Legislative Session. The Technology Fund is a crucial means to improve the return on investment associated with personnel in the Enforcement Fund. During 2008, the Department of Revenue spent \$750,000 in salaries and benefits on this particular program, this is the maximum allowed under current law, plus an additional \$200,000 in technology hardware, software, and training. If you look at those numbers, our 2008 return on investment is as follows: We collected approximately \$8.8 million in this effort. Our total expenses were approximately \$1 million. Our return on investment is 880 percent or approximately eight times our investment of \$1 million. This results in a collection per employee of approximately \$625,000. Future use of technology...of revenue enforcement technology funds would include replacement of the

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interactive voice response system, this is a system that routes calls into Taxpayer Assistance; purchase of a service to assist in fraud detection activities for individual income tax returns, this service uses a national database to determine validity of taxpayers with a focus on identity theft; and thirdly, another item we would do, we would purchase software and training for customer relationship management systems, this focus on Web site development to provide taxpayer information 24/7 with a focus on taxpayer satisfaction and self-service. Illinois Department of Revenue has implemented similar software with results showing a 70 percent decrease in e-mail inquiries in the year after installation. The second item I'd like to address is the lottery contracted vendor services and advertising expenses. I think I spoke with most of you earlier this week on this item. As you know, the lottery is cash funded. Lottery generates revenue that is used to pay its operating expenses and make beneficiary transfers. All profits generated by the lottery are transferred to lottery beneficiaries as required by the constitution and state law. Beneficiaries include the Environmental Trust, the State Fair, education as directed by the Legislature, and Compulsive Gamblers Assistance Program. Lottery funds are not transferred to the General Fund. With this in mind, I'd like to address the lottery's budget proposal. For fiscal year '10-11...or, excuse me, '09-10 and '10-11, lottery has estimated, for budgetary purposes, a 3.25 percent increase in ticket sales during both fiscal years. The vendors under contract with the lottery are paid on a percentage of sales and any increase in sales would require an increase in the amounts paid for contracted vendor services. Based on a 3.25 percent sales increase, there will be a subsequent increase in the vendor payment expense for fiscal years '09-10 and '10-11 of approximately \$938,000 and \$1.22 million accordingly or respectively. If sales do in fact increase by 3.25 percent, then under the Appropriations Committee's preliminary recommendation, the lottery would not be able to meet its contractual obligations. We would therefore ask that the sales growth contractor vendor services be restored. Lastly with respect to the lottery, they have also requested an increase in allowable advertising expenditures. The main reason for this projected advertising increase is the passage of LB1039 in 2006 which requires the lottery to fund compulsive gambling awareness messages at 5 percent of the lottery's

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marketing budget, or approximately \$280,000 in fiscal year '09-10. This expenditure was not previously budgeted. Because of this statutory obligation, we believe the lottery's original proposed advertising increase is still appropriate. Finally, I want to emphasize that lottery's budget has remained relatively stable from the past year. In fact, when you exclude the projected increase due to sales-driven costs, lottery's proposed administrative budget has actually decreased from the fiscal year '08-09 budget. I thank you for the opportunity and I'm more than happy to address any questions you might have. [AGENCY 16]

SENATOR HEIDEMANN: Thanks, Doug. Senator Wightman. [AGENCY 16]

SENATOR WIGHTMAN: Mr. Ewald, I visited with you briefly, as I assume most of the members did. With regard to the lottery, I think you told me you were looked into, what, two-year contracts with vendors? [AGENCY 16]

DOUG EWALD: There's approximately two years left in that contract. It will...the on-line sales and the scratch sales will renew at the same time. At that point in time, we will go to one vendor and that will be renegotiated at that point in time, that contractual obligation. [AGENCY 16]

SENATOR WIGHTMAN: But right now you're basing it upon a percentage of lottery sales. Is that... [AGENCY 16]

DOUG EWALD: Correct. That is correct, Senator. [AGENCY 16]

SENATOR WIGHTMAN: So if you go up then you need...just to comply with the contract. [AGENCY 16]

DOUG EWALD: We would need...exactly. And as a little bit of history, this is really a three-year average with a little cushion. Now if sales don't materialize, we have no

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contractual obligation to pay them whatsoever. But if we take a three-year average with a little cushion, it...we basically don't have to come back here year after year after year for a little increase here or there, nickel and diming from that standpoint. But, like I said, if they don't...if sales don't materialize, there's no contractual obligation, we don't pay them, obviously. [AGENCY 16]

SENATOR WIGHTMAN: Now you deal with other vendors or have. You've had bids, I assume, when you put these out for bids in the past or... [AGENCY 16]

DOUG EWALD: Well, there's only three vendors nationwide... [AGENCY 16]

SENATOR WIGHTMAN: Oh. [AGENCY 16]

DOUG EWALD: ...so it's kind of a limited scope there. We actually deal with two of them, Intralot and GTECH. [AGENCY 16]

SENATOR WIGHTMAN: So the bids don't flood in by any means. [AGENCY 16]

DOUG EWALD: They do not flood in and last year we were able to match up, extend the contract of the one so that they both renew in the same year. Because basically one...the vendors, they want both of them. They don't want one or the other. They want to be able to administer both programs for a state and by marrying up the years, the time which they renew, we'll get far more competitive bids that way as opposed to one staggering renewal. [AGENCY 16]

SENATOR WIGHTMAN: Now does the lottery include the Powerball, the interstate lottery, as well? [AGENCY 16]

DOUG EWALD: Yes, it does, Senator. [AGENCY 16]

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SENATOR WIGHTMAN: And our contract is similar that those... [AGENCY 16]

DOUG EWALD: Yeah, I mean that's the Intralot portion. That's the on-line piece of the component. GTECH is the scratch game. [AGENCY 16]

SENATOR WIGHTMAN: Thank you. [AGENCY 16]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 16]

SENATOR MELLO: Thank you, Commissioner Ewald, for appearing today in front of the committee. I have a couple questions about some recommendations, I guess, that came from your budget or requests. Program 108, the homestead exemption, can you give a little more information on why you requested that large of a decrease in the homestead exemption? [AGENCY 16]

DOUG EWALD: Yes, good question, and the reason behind that is looking at applications, who's qualifying, who's nonqualifying. We had forecasted, obviously, larger number, more participants. Basically what we're seeing right now is that incomes are outpacing the homestead threshold so fewer people are qualifying than what we original thought, as well as the fact that it looks like the deduction for medical expenses is not as great as what we forecast. [AGENCY 16]

SENATOR MELLO: What will happen then if there is a greater increase in applications over the next biennium? [AGENCY 16]

DOUG EWALD: Well, obviously, if there's an increase in applications, we'll be back here asking to fund that program because it is statutorily obligated as well. [AGENCY 16]

SENATOR MELLO: And a deficit request? [AGENCY 16]

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DOUG EWALD: At that point in time, a deficit request would be necessary if it exceeds that. [AGENCY 16]

SENATOR MELLO: Okay. My other question revolves around Program 132, the Property Tax Credit Cash Fund. What kind of reporting mechanisms does the Department of Revenue provide. I know when the inception of this program was created, there was no public hearing on the creation of the Property Tax Credit Program. It was an amendment that came out of the Revenue Committee with no real, I guess, background in regards to how the reporting would go, so to speak, or how everything would be broken down after the fact. And I know within the committee we've had some fairly good debate and conversations about the program and I would just like to know more, more information on where that \$230 million is going, not just to the counties but also how do we find out how much goes to each individually, each individual recipient? [AGENCY 16]

DOUG EWALD: That's the...you're talking about the \$115 million a year, basically from that standpoint? [AGENCY 16]

SENATOR MELLO: Uh-huh. [AGENCY 16]

DOUG EWALD: It, as I understand, it goes out to all the counties to make them whole and it's based on the value basically. It's a certain percentage off the top. And I think most the counties, and I don't...I guess I can't speak for all of them, I'm familiar with Douglas County, they have a separate line item that shows your reduction associated with, and I think Lancaster does as well. But they basically take that, the total value of the state, and what that \$115 million will reduce. And I think this last year it was like \$86 per \$100,000, something along those lines. It's purely statistical in nature. When you start with \$115 million, everything else kind of dominos down underneath it to say, okay, what is this worth, what would the average taxpayer receive in a tax benefit associated or based on their value? [AGENCY 16]

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SENATOR MELLO: Do you...does your department provide any kind of report to the Clerk of the Legislature or to the public at large in regards to where that money goes per county. [AGENCY 16]

DOUG EWALD: I don't know the answer to that. I will check and get back to you though. [AGENCY 16]

SENATOR MELLO: Okay. Thank you. [AGENCY 16]

DOUG EWALD: Yes. [AGENCY 16]

SENATOR HEIDEMANN: Senator Nelson. [AGENCY 16]

SENATOR NELSON: Thank you, Mr. Ewald. I've got a question here on the lottery. What...on what basis are you thinking that you may get a 3.25 percent increase in light of the economy? [AGENCY 16]

DOUG EWALD: (Laugh) Right. That's a great question and the 3.25 percent is, like I say, it's the three-year average and plus a little bit of cushion and I think if you looked at a three-year average it's probably close to 2.5 percent with what looks like a .75 of a percent cushion. Currently right now we're running somewhere .05 to 1 percent increase currently. You know, other states are all over the board with respect to this. We see it, my lottery director is behind me, we track this quite significantly or on a frequent basis. It's all driven by, you know, a lot of the on-line stuff obviously is driven by Powerball sales, you know, jackpot size and stuff like that. But the one thing I'll mention there, as the jackpot gets higher, we do more advertising for the compulsive gambling, encouraging people to play responsibly. [AGENCY 16]

SENATOR NELSON: Okay. I haven't done the math but your advertising budget is

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about 4 percent of sales? [AGENCY 16]

DOUG EWALD: Correct. Yes, sir. [AGENCY 16]

SENATOR NELSON: What does that add up to for advertising if we... [AGENCY 16]

DOUG EWALD: Well, I guess if you look at \$120 million worth of sales, so you're talking \$4 million, \$4.8 million, something like that. [AGENCY 16]

SENATOR NELSON: And I think you were asking for an increase of almost \$500,000 then in... [AGENCY 16]

DOUG EWALD: That's... [AGENCY 16]

SENATOR NELSON: You don't think you can absorb that in your existing budget, advertising, since it's a little uncertain as to whether you're going to really have increases or not? [AGENCY 16]

DOUG EWALD: Right. I mean that's a good question. I think there's some models out there that showed the return on investment from an advertising dollar consistently. Now if we had to, sure, we could probably get by with a little bit less there, you know, from that standpoint. [AGENCY 16]

SENATOR NELSON: And finally on the top of your third page here, I'm kind of intrigued by enforcement technology. Number two is purchase of a service to assist in fraud detection activities for individual income tax returns. Now these are Nebraska income tax returns? [AGENCY 16]

DOUG EWALD: Correct. [AGENCY 16]

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SENATOR NELSON: Okay. Could you give me an idea what fraud? You know, you suggested... [AGENCY 16]

DOUG EWALD: Well, I could tell you but I'd have to...no. (Laugh) Great...that's a great question. Well, we...this is actually a national service that we would subscribe to who is very much in tune with all the fraud and schemes going out there on a nationwide basis. So we would push them some information and they would say, well, is this...looking at all the nationwide databases, is this a legitimate person? And last year, honestly, we got dinged a little bit in this area, in the fraud area. [AGENCY 16]

SENATOR NELSON: Is that because they're trying to get refunds that they're not entitled to? [AGENCY 16]

DOUG EWALD: Exactly. [AGENCY 16]

SENATOR NELSON: Okay. [AGENCY 16]

DOUG EWALD: They're filing fraudulent tax returns. [AGENCY 16]

SENATOR NELSON: Okay. [AGENCY 16]

SENATOR HEIDEMANN: Senator Hansen. [AGENCY 16]

SENATOR HANSEN: Thank you, Commissioner Ewald, for being here today. I have the same...about the same question as Senator Nelson, but do you have...isn't there some report due tomorrow that we're all waiting for and it's going to do with fourth quarter numbers? Do you have any fourth quarter lottery numbers that would indicate that the 3.25 percent increase is accurate? [AGENCY 16]

DOUG EWALD: It's the charitable gaming report that's due out. Is that correct?

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[AGENCY 16]

_____: Right. [AGENCY 16]

DOUG EWALD: And... [AGENCY 16]

_____: As far as the 3.25 percent? [AGENCY 16]

DOUG EWALD: Yeah. [AGENCY 16]

_____: The 3.25 percent was based on the year ago projections and things have changed significantly since then. [AGENCY 16]

DOUG EWALD: That's why I said right now we're running a .5 percent to 1 percent over last year in the current fiscal year. [AGENCY 16]

SENATOR HANSEN: In returns? [AGENCY 16]

DOUG EWALD: In additional sales, sales growth. So sales are up slightly this year. [AGENCY 16]

SENATOR HANSEN: So people are spending that stimulus money. [AGENCY 16]

DOUG EWALD: They're spending their discretionary dollars to the same degree as they have in the past on lottery stuff. [AGENCY 16]

SENATOR HANSEN: Thank you. [AGENCY 16]

SENATOR HEIDEMANN: Senator Wightman, then Senator Mello. [AGENCY 16]

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SENATOR WIGHTMAN: Do you keep track of any trends? In a downward cycle, as we're experiencing in the economy, do lottery sales pick up or go down? [AGENCY 16]

DOUG EWALD: Well, it's a...that's a great question. Lottery has been around for 15 years and I think my lottery director would tell you that in a softer economy, sales tend to be flat or possibly trend downward a little bit. We hope that people aren't out there buying tickets, looking for that home run, if you will, from that standpoint. That's why we do the advertising, to ask people to play responsibly when it gets to...the jackpots get to a certain level. [AGENCY 16]

SENATOR WIGHTMAN: It wouldn't have surprised me to hear that they went up during that period of time, quite frankly, but... [AGENCY 16]

DOUG EWALD: Well, that's...I mean that might...yeah. [AGENCY 16]

SENATOR WIGHTMAN: They thought they might catch just the tail end of the lottery... [AGENCY 16]

DOUG EWALD: Sure. You know,... [AGENCY 16]

SENATOR WIGHTMAN: ...and make themselves economically well, but... [AGENCY 16]

DOUG EWALD: You know the Powerball rolled last night. The forecast for Saturday night is \$173 million, so. [AGENCY 16]

SENATOR WIGHTMAN: So I still didn't lose if I didn't get my Powerball ticket (inaudible). [AGENCY 16]

DOUG EWALD: No, you're still okay. That's right. Play responsibly though. (Laugh)

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[AGENCY 16]

SENATOR WIGHTMAN: I know that I have a bill, LB121 I think it is, that would change this property revenue from Property Assessment Division Program 112. I think that's the one where you have the state provides the assessor's office duties for the... [AGENCY 16]

DOUG EWALD: Uh-huh, yes. [AGENCY 16]

SENATOR WIGHTMAN: ...for the nine counties. [AGENCY 16]

DOUG EWALD: Yes. [AGENCY 16]

SENATOR WIGHTMAN: And I realize that wouldn't have any effect for a year or two. Eventually, hopefully, if that passes, that division would be...although not of the employees under Program 112 are engaged in the nine counties, but probably two-thirds of them as I recall might. [AGENCY 16]

DOUG EWALD: Yeah, there's a...there's a fair number out there. I think it was 42 or something like that. Senator, I think you had asked. [AGENCY 16]

SENATOR WIGHTMAN: Forty-two or forty-five, somewhere in the neighborhood. [AGENCY 16]

DOUG EWALD: Forty, yeah, something along those lines. You know, we took over those counties. Honestly, we pretty much brought the people on board that were doing it in the counties and, honestly, I would expect the same thing for those, probably go back to the counties, since those people have the expertise in that area, that the counties would want to hire them back. [AGENCY 16]

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SENATOR WIGHTMAN: Uh-huh. But I realize and it will be actually...I guess it will affect your expenditures because... [AGENCY 16]

DOUG EWALD: Absolutely. [AGENCY 16]

SENATOR WIGHTMAN: ...you would... [AGENCY 16]

DOUG EWALD: If that happens, we would need to phase that in accordingly. [AGENCY 16]

SENATOR WIGHTMAN: ...eliminate that many employees. But thank you. [AGENCY 16]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 16]

SENATOR MELLO: Commissioner Ewald, we've discussed I think before a little bit about the Revenue Enhancement Fund and some of the analysts or the auditors in regards to the amount of revenue that they end up finding through this enforcement. How much more return on investment do you think we can see with that fund? Right now, the current law says we can only allocate \$750,000 for salaries. How much more do you think you would need before we would stop seeing that significant return on investment? [AGENCY 16]

DOUG EWALD: When? You know, when do we get to the point where we have diminishing returns on... [AGENCY 16]

SENATOR MELLO: Diminishing returns. [AGENCY 16]

DOUG EWALD: Right. That's a good question. Honestly, this is our best model that we have out there for return on investment, because a lot of these people, when you go out

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there you'll do...we have Revenue agents that go out there. They don't go out and do a full-blown audit. They'll go out there for half a day, a day, maybe two days at the most, and they're very focused in what they review and, honestly, taxpayers for the most part know that they...we do some education at the same time. They know they have an obligation and they understand what they've been doing wrong. They don't protest and they pay, from that standpoint. So it's our better model than our traditional, what I'll say, audit model is, from that standpoint. And what I would expect to happen over time, where I'd like to see this evolve is I'd like to see this model evolve and drive where our auditors go. And maybe we move more auditors over into that revenue agent methodology, I guess if you will, because we know the return on investment is better. So from that standpoint, I think it's not necessarily adding people. It might be just the return or a reallocation of resources over to an area that gets you...that gets the state a better return on its investment. [AGENCY 16]

SENATOR MELLO: Okay. Thank you. [AGENCY 16]

SENATOR HARMS: Danielle, did you have a question? [AGENCY 16]

SENATOR NANTKES: Yes. Hi, Commissioner. Thank you for coming in. Your testimony is always informative. And I want to go back just to the advertising in regards to the lottery and that budget item and issue. You talked a little bit about your contractual obligations and I am just trying to get a better sense on what our actual liabilities would be if we were not able to provide an appropriation that would meet the projections. Are those spelled out in the contract with the vendor? [AGENCY 16]

DOUG EWALD: Well, I think that what would happen here is we are contractually obligated to pay that amount and we would either need to come back here and ask for a deficit or we'd have to find something else to cut, obviously. And actually a follow-up to that, if I can, say we...instead of 3.25 say it's 2 percent sales growth, and basically instead of \$938,000 and \$1.22 million, our additional encumbrance would be \$836,000

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and \$1,000,004,000, something along those savings of \$102,000 and \$218,000 in the two years respectively. So you can see it's purely mathematical driven. But to answer your question, we still have a contractual obligation to pay that amount with or without the appropriation and...like...but at the same time, if sales growth doesn't materialize at that rate, we don't pay. It's purely cash funded. [AGENCY 16]

SENATOR NANTKES: But I guess is...what's the...what exactly is the liability if that is not met under the existing contractual obligation? Is that spelled out in the contract, do you know, or just traditional contract remedies apply and imagine... [AGENCY 16]

DOUG EWALD: I think...I don't...I think it's traditional contract remedies with respect to that particular obligation. [AGENCY 16]

SENATOR NANTKES: Okay. Thanks. [AGENCY 16]

SENATOR HARMS: Okay. Are there any other questions? I have one, one question I'd like to ask. It deals with electronic filing. [AGENCY 16]

DOUG EWALD: Yes, sir. [AGENCY 16]

SENATOR HARMS: Let's go out to western Nebraska, for example. You live in Scottsbluff, Nebraska, and you work in Torrington, Wyoming, which is about 15 miles from where I live, and the company that you work for pays the Nebraska taxes. You cannot electronically...you cannot electronically file. Why is that? Because up until this year you could. [AGENCY 16]

DOUG EWALD: That is a good question. Up until this year you could using NebFile or using another...a third party? [AGENCY 16]

SENATOR HARMS: No, using NebFile, whatever system you have that's up. [AGENCY

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DOUG EWALD: Okay. [AGENCY 16]

SENATOR HARMS: You cannot...you cannot file. It will not take it. [AGENCY 16]

DOUG EWALD: In the past, in fact we've done more things this year to allow more first-time filers to use the NebFile system and, so far, our results are actually up. But I can follow up on that. It might be a situation where we've had some abuse and we had to shut that particular component down, but I can...I will find out and follow up with you. [AGENCY 16]

SENATOR HARMS: It's really kind of inconvenient for people because they want to go ahead and NebFile and all of a sudden they can't. And they get...they fill it all out and everything and it's rejected and then it comes up on the screen and says we no longer can do this. I would surely like to have an answer for that. [AGENCY 16]

DOUG EWALD: I will...I will... [AGENCY 16]

SENATOR HARMS: Where I live, there's a lot of people that go... [AGENCY 16]

DOUG EWALD: Sure. [AGENCY 16]

SENATOR HARMS: ...they'll go across that line and (inaudible) appreciate. [AGENCY 16]

DOUG EWALD: You bet. And we want them to use NebFile because it's free and it's a good model. It was developed internally. And early on, we know we had some bugs, but we were able to kind of track people, who was on there, and we actually picked up the phone and called a few of them and helped them along in the process. But I will...I'll get

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you that answer. [AGENCY 16]

SENATOR HARMS: Okay. Thank you. Are there any... [AGENCY 16]

SENATOR NORDQUIST: Just real quickly. [AGENCY 16]

SENATOR HARMS: Jeremy. [AGENCY 16]

SENATOR NORDQUIST: Mr. Ewald, on the Enforcement Fund, what...do you know the history behind why we put a cap on it at that (inaudible)? [AGENCY 16]

DOUG EWALD: Yeah, I don't know the history. I was not here at that point in time. [AGENCY 16]

SENATOR NORDQUIST: Were they just...maybe just trying to pilot it, not (inaudible)? [AGENCY 16]

DOUG EWALD: Yeah, I think it was maybe a pilot from that standpoint there. The amnesty programs were a hot topic during those years and Nebraska had an amnesty program back at that point in time as well. And honestly, I don't think Nebraska needs an amnesty program today because I, last year, we passed legislation to give me authority to waive interest and do those type of things. So I can enter into settlements today, so you don't need an amnesty program or I don't need an amnesty program to do that. [AGENCY 16]

SENATOR NORDQUIST: Thank you. [AGENCY 16]

SENATOR HARMS: Are there any other questions? [AGENCY 16]

SENATOR NANTKES: I'm sorry. This just occurred to me. I've always been interested,

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in filling out our tax forms, you could give just maybe the committee a general overview about do people really utilize the different checkoff options for, say, the...I think there's one for campaign finance available, there's maybe a wild game or bird piece. Do Nebraskans utilize those checkoffs? [AGENCY 16]

DOUG EWALD: I think the campaign finance is specifically a federal one, I believe. [AGENCY 16]

SENATOR NANTKES: Is it? Is that under federal? [AGENCY 16]

DOUG EWALD: And I know there's...I think so. [AGENCY 16]

SENATOR NANTKES: Okay. I'm sorry. [AGENCY 16]

DOUG EWALD: And I think that there's...well, there's two of them in Nebraska, I believe. Game and Parks... [AGENCY 16]

SENATOR HARMS: Wildlife. [AGENCY 16]

DOUG EWALD: ...and wildlife, those two. I can get you those numbers of how many returns and the dollars associated with them. I don't...I didn't bring those with me but I'll definitely...I don't know how much they're used though. [AGENCY 16]

SENATOR NANTKES: Right. [AGENCY 16]

DOUG EWALD: So... [AGENCY 16]

SENATOR NANTKES: No, I appreciate that. [AGENCY 16]

DOUG EWALD: Uh-huh. [AGENCY 16]

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SENATOR NANTKES: It was just something that I'd always wondered about and then I thought, wow, here you are right here, I can just go right to the source and ask him, but...and I've heard other senators talk about the possibility, for example, of utilizing more checkoffs for kind of a dedicated revenue source for a variety of different programs and I just wondered if people really utilized that. [AGENCY 16]

DOUG EWALD: Right. That would be a good question and maybe I'll dig up the history, how long they've been around, and maybe track the participation numbers as well as dollars associated with that and get it back to you. [AGENCY 16]

SENATOR NANTKES: That would be great. Thank you. [AGENCY 16]

DOUG EWALD: You know, and it's one of those things that how much is it being utilized? [AGENCY 16]

SENATOR NANTKES: Yeah. [AGENCY 16]

DOUG EWALD: Is it worthy of administration? You know, there's a number of programs we have in the state that...from a...I understand why they're there but we spend more money administering the program than we actually pay out. [AGENCY 16]

SENATOR NANTKES: Well, that being said, I'd encourage you to work with Senator Mello and some other members of this committee as we engage in some alternative budgeting processes over the interim. (Laugh) [AGENCY 16]

DOUG EWALD: Very well. [AGENCY 16]

SENATOR HARMS: Are there any other questions? Well, thank you very much. Appreciate you coming. [AGENCY 16]

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DOUG EWALD: All right. Thank you for the opportunity. [AGENCY 16]

SENATOR MELLO: Thank you, Commissioner. [AGENCY 16]

SENATOR HARMS: Is there anyone else who would like to testify on Agency 16? If not, we'll close... [AGENCY 16]

SENATOR NANTKES: Oh, oh. [AGENCY 16]

SENATOR WIGHTMAN: We do have... [AGENCY 16]

SENATOR HARMS: Okay, one more? All right. Thank you. [AGENCY 16]

MARK INTERMILL: (Exhibit 2) Thank you, Senators. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today to represent AARP and speak to Program 108, the homestead exemption. Homestead Exemption Program is a program that we're very fond of at AARP. It provides much needed property tax relief for about 49,000 people over the age of 65 and those who have a disability. As was mentioned by Commissioner Ewald, there has been a reduction in the number of people who are using the homestead exemption over the last two years. We attribute that to Medicare Part D, which has reduced the medical deduction in the homestead exemption, and also we're at a period of time when the 65-plus population is not growing in Nebraska. I would point out, though, that in 2011 we will see the oldest baby boomer turn 65, and at that point then we will see substantial growth in the 65-plus population. I come here today just to make an observation or raise a concern about the proposed budget for the Homestead Exemption Program. We have noted that the primary predictor of the cost of the Homestead Exemption Program in any given year is the amount of residential property tax paid. For as long as I can go back and look, until about the mid-1990s, the homestead exemption costs between 4.1 and 4.4 percent of residential property taxes

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paid. What we see here in the proposal for the next biennium is substantially below that. So we just want to raise this as a concern. We have a feeling if this budget goes through we will be back next year with a deficit appropriation for the homestead exemption and we just wanted to bring that to your attention. [AGENCY 16]

SENATOR HARMS: Thank you very much. Are there any questions, please? [AGENCY 16]

SENATOR FULTON: Thank you, Mr. Intermill. Last year we had a little debate within the committee about where we might be able to find some additional dollars for, I believe it was, agencies on aging, and I believe you and AARP were those who suggested that we could probably find that money, which caused me to recall how accurate you were. I guess what is your...just come right...come right out, what is your comfort level with what we have done right now with regard to the homestead exemption? [AGENCY 16]

MARK INTERMILL: With the...for the projection for the next...? [AGENCY 16]

SENATOR FULTON: Yeah. I understand that you have some concern but you guys, you were right on the money last year and so this is an opportunity. Do you think we're going to be coming back for a deficit? Do you have the high certitude that that will be the case or...? [AGENCY 16]

MARK INTERMILL: Yes, I do. I do believe you'll be coming back for a deficit. I think it's going to be about \$7 million in both years. I think...I looked at the Budget Division original document that was provided. The agency request I think is very close to what will be needed, maybe a little bit high. But I think I would say that you'll probably be looking at a deficit, in my estimation, of about \$7 million in both years. [AGENCY 16]

SENATOR FULTON: Okay. Thank you. [AGENCY 16]

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SENATOR HARMS: Okay. Thank you. Are there any other questions? [AGENCY 16]

SENATOR NELSON: Do you mean by that over the biennium or \$7 million each year?
[AGENCY 16]

MARK INTERMILL: Each. Each year. Yeah. [AGENCY 16]

SENATOR NELSON: Each year. Okay. [AGENCY 16]

SENATOR HARMS: \$14 million. Are there any other questions? Okay. Well, thank you
very much. Appreciate it. [AGENCY 16]

MARK INTERMILL: Thank you. [AGENCY 16]

SENATOR HARMS: Do we have anybody else who would like to testify on Agency 16?
If not, then this hearing on Agency 16 is closed. We'll now open up Agency 54.
[AGENCY 16]