

**To:** Sen. Heidemann, Chairperson – Appropriations Committee

**CC:** Sen. Conrad

Sen. Fulton

Sen. Hansen

Sen. Harms

Sen. Mello

Sen. Nelson

Sen. Nordquist

Sen. Wightman

Doug Gibbs, Legislative Fiscal Office

Lyn Heaton, AS Budget Office

**From:** Doug Ewald, Tax Commissioner

**Date:** January 15, 2010

**Re:** Agency 16 – Department of Revenue

LB 1, Section 10 – Agency Reports to the Legislature

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## **AGENCY 16 – BACKGROUND INFORMATION**

Beginning in 2007, the Nebraska Department of Revenue (Department) staff and I began a thorough introspective review of the Department's **Taxpayer Services**, **Operations**, and **Organizational Structure**.

Changes in these areas have strengthened the Department's ability to respond to the rapidly changing fields of tax administration and technology in times of financial and budgetary uncertainty. The delivery of services and information electronically is a major focus, not only for cost reduction purposes, but also to promote efficient business practices and to make information and services available at all times.

This summary provides a brief overview of the Department's initiatives and actions in response to my vision for the future of the Department.

## TAXPAYER SERVICES

The Department considers taxpayer education and access to information and services a critical element of tax administration; without it, an uninformed public is left to themselves to deal with the myriad of tax laws affecting their personal and business lives.

Processes are constantly being reviewed and developed, and the following list identifies our priority actions to date:

- **Creation of a Communications Section.**  
The role of the Communications Section is to be the conduit to the public for tax-related educational information; not only in written and Web-based format, but also in traditional classroom and public forum settings.
- **Review of Printed Tax Information.**  
An in-depth review of printed information (e.g., forms and information guides) available to the public focused on making this information available 24/7 through the Department's Web site ([www.revenue.ne.gov](http://www.revenue.ne.gov)). Income tax booklets have been redesigned for ease of use and rewritten for clarity. The Web site contains living documents that allow for real-time changes so the public always has the most current information.
- **Creation and Update of Revenue Rulings and Regulations.**  
We have increased our focus on creating and updating revenue rulings and regulations. These give taxpayers more information and guidance on tax and fee programs. The Department is making this process more open and transparent by sharing draft rulings and regulations with interested taxpayers to solicit their comments during the review process.
- **Use of Independent Hearing Officers.**  
Independent hearing officers now conduct Departmental hearings on most larger protested tax cases, bringing an impartial, outside opinion to these cases. Smaller cases are now assigned to various Department attorneys and staff. This change eliminated a full-time Department position.

## OPERATIONS

The streamlining of work processes both for the public and staff translates into cost savings and more responsive products and services. Information technology is playing a key role in process redesign.

Some examples of the strides being made in this area are:

- **Technology Updates.**  
The Department has made a commitment to leverage technology to be more efficient while providing better customer service. Six new blade servers have replaced 36 traditional servers. Blade servers provide rapid data processing and

efficient hardware redundancy in an environmentally sensitive manner. Hardware and software acquisitions, staff training, and cross training reinforce the commitment to streamlining work processes and maximizing cost efficiencies.

- **Electronic Filing and Payment Options.**

Electronic filing and payment options provide efficiencies for both taxpayers and the Department. Mutual benefits include faster refunds and reduced operating costs. The table below compares taxpayer electronic payment and filing activity in 2006 and 2009.

### Growth in E-Commerce from 2006 to 2009

Description	2006 *	2009	%(+/-)
Number of Electronic Funds Transfer (EFT) Payments	233,512	391,479	68%
Amount of EFT Payments	\$2,894,499,414	\$3,408,265,722	18%
Number of E-Filed Income Tax Returns **	492,216	641,964	30%
Number of Income Tax Refunds Direct Deposited	261,919	384,280	47%
Amount of Income Tax Refunds Direct Deposited	\$124,372,226	\$212,204,217	71%
Number of Individual Estimated Tax EFT Payments	135	3,200	2270%
Amount of Individual Estimated Tax EFT Payments	\$128,801	\$4,015,924	3018%
Number of E-filed Withholding Returns	37,095	65,814	77%
Number of E-filed Sales Tax Returns	95,579	133,515	40%

\* Baseline of 2006 shows the progress of the Department's current administration.

\*\* Over 70% of individual taxpayers now file electronically through either the Department's NebFile program or the Fed/State E-file option.

- **Internal Development of Software Applications.**

An Automated Collection System was developed internally by the Department. The Department's programming staff designed and developed a program to automate individual income tax collections and is currently working on a similar system for business tax collections.

An electronic, paperless case management system was designed by Department staff for internal use. Manual work processes have been eliminated and the amount of delinquent taxes collected has increased.

Property Assessment is redesigning the State Sales File (a system that contains all real property sales in the state) to achieve efficiency and transparency.

Overall, internal system development provides custom applications and saves significant funds, when compared to purchasing canned software products.

- **Reduced Printing and Mailing Costs.**

Increased e-file activity has allowed the Department to reduce printing and mailing costs. This year, approximately 550,000 taxpayers will not receive paper individual income tax mailings resulting from their choice to file electronically. Printing and mailing of sales tax and withholding returns will also be reduced as new e-file programs are developed.

Web site use by taxpayers has also significantly reduced the number of forms printed and mailed. The printing and mailing of Department reports has been eliminated by the use of e-mail.

- **Creation of an Electronic Document Review Process.**

An electronic document review process was implemented for review of all forms, rulings, information guides, studies, and press releases. Previously, these documents were reviewed via paper files that were approved separately by many reviewers. The new “shared review” process allows all reviewers, including those from the Department's regional offices, to add comments and language changes at the same time. This change has added new viewpoints and participation, while reducing review time, paper, and storage costs.

- **Remodel of Employee Office Space.**

The Department's worn and outmoded office space was renovated to enhance a culture of collaboration, visioning, and transparency while addressing necessary ergonomic and environmental needs. Motor Fuels, Taxpayer's Assistance, and the Property Assessment Division were consolidated with the majority of Department employees on the second floor of the Nebraska State Office Building in Lincoln. The floor plan returned to the “open office” concept, with minimal full-height walls, honoring the original design of the building. The consolidation of space reduced the need for approximately 13,000 square feet and related rent cost.

## **ORGANIZATIONAL STRUCTURE**

The Department's leadership structure has been transformed for responsiveness, a renewed focus on the public, accountability, leanness, and visioning for the future. The Leadership Team (Tax Commissioner and five division directors) regularly reviews the structure of the Department to ensure maximum effectiveness.

- **Program 102 – Revenue Administration.**

Structural changes reduced the membership of the Leadership Team from a 14-member team to five members (see attached organization charts).

Assignment of operating areas to the division directors centralized common work functions and increased innovation and collaboration.

- **Program 111 – Motor Fuels.**

The restructuring of the Motor Fuels Division reduced the number of management positions from six to three. Additionally, the restructuring of work processes in this division led to the elimination of three staff positions in Lincoln. Motor Fuels continues to work in cooperation with the State Patrol, resulting in a federal grant for expanded motor fuel tax enforcement.

- **Program 112 – Property Assessment.**

A key component of this restructuring, LB 334 (Effective July 1, 2007) was passed merging the Department of Property Assessment and Taxation back into the Department of Revenue. In August 2008, Property Assessment moved from the Gold's Galleria Building to the State Office Building, reducing rent expenditures and creating other operational efficiencies. Additionally in 2009, LB 121 was passed returning the assessment functions in the nine state-assessed counties back to local control by July 1, 2013. Currently, efforts are progressing that will merge Property Assessment staff into existing functional areas of the Department that are similar in scope and responsibility.

- **Programs 160 and 165 – Lottery and Charitable Gaming.**

The Lottery, Charitable Gaming, and Investigative Services Divisions merged into one organizational unit. Among other efficiencies, this allowed for a substantial reduction in staff and Personal Services Limitations (PSL).

The successful negotiation allowing online ticket vendors to process scratch ticket transactions saved the Lottery over \$6 million in future vendor costs. Beneficiaries continue to see record transfers in a down economy, reflective of the creativity and efficiency upon which the Lottery operates.

- **Athletic Commission.**

The Athletic Commission is responsible for the licensing and regulation of amateur and professional boxing, mixed martial arts, and professional wrestling. Cost saving measures include: requiring inspectors to travel together and share hotel rooms when feasible, flex-time for staff to save overtime or compensatory time, and the elimination of excess phone lines and e-mail accounts.

**AGENCY 16 - DEPARTMENT OF REVENUE FUNDING REDUCTIONS**

**FY10                  FY11**

**General Fund Reappropriation Reductions**

Program 102 - Revenue Administration	553,128	
Program 112 - Property Assessment	81,005	
	<u>634,133</u>	

*Reappropriation reductions represent funds that are currently unobligated. Because they are unobligated, this action will have no impact on operations.*

**Cash Fund Reappropriation Reductions**

Program 102 - Revenue Administration	143,885	
Program 111 - Motor Fuels	518,343	
Program 112 - Property Assessment	286,204	
Program 160 - Lottery Administration	673,282	
Program 165 - Charitable Gaming	441,221	
	<u>2,062,935</u>	

*Reappropriation reductions represent funds that are currently unobligated. Because they are unobligated, this action will have no impact on operations.*

**Cash Fund Transfers To The General Fund**

Revenue Enforcement Cash Fund	27,919	56,151
Property Assessment Cash	1,250,000	1,000,000
Marijuana & Controlled Substances Tax	578	1,162
Waste Reduction & Recycling Incentive	1,328	2,671
Petroleum Release Remedial Action Collection	3,748	7,800
Severance Tax Administration	100,000	-
Nebraska Incentives Fund	7,748	15,583
Miscellaneous Receipts Fund	1,717	3,453
Charitable Gaming Operations	556,734	116,817
Tobacco Products Administration	500,000	500,000
Motor Fuels Tax Enforcement & Collection Cash	905,300	94,700
Athletic Commission Cash	300,000	-
Miscellaneous Services Revolving Fund	30,716	-
	<u>3,685,788</u>	<u>1,798,337</u>

*Reductions in cash funds currently represent balances considered to be excess.*

**Reductions to Aid Programs Administered by the Department**

Program 104 - County Property Tax Relief (General Fund)*	-	75,000
Program 110 - Home Energy Improvement (Cash Fund)**	213,680	427,360
	<u>213,680</u>	<u>502,360</u>

*Reductions represent the actions directed by LB 1.*  
*\*This reduction is a proportionate reduction to the counties.*  
*\*\*This reduction relates to unobligated appropriations in this program.*

**AGENCY 16 - DEPARTMENT OF REVENUE FUNDING REDUCTIONS (continued)**

	FY10	FY11
<b>General Fund Appropriation Reductions</b>		
Program 102 - Revenue Administration	614,560	1,234,098
<u>Specific Program Reductions:</u>		
- Reduce/eliminate tax season temporary workers	(157,169)	(314,338)
- Eliminate seven vacant positions	(265,277)	(281,765)
- Reduce printing	(50,000)	(75,000)
- Reduce postage	(100,000)	(300,000)
- Eliminate the Multistate Tax Commission nexus membership	-	(20,000)
- Reduce fixed asset purchases	(20,000)	(64,500)
- Reduce conference expenditures	(5,000)	(20,000)
- Reduce data processing, legal services, and office and educational supplies	(17,114)	(158,495)
	<u>(614,560)</u>	<u>(1,234,098)</u>
Program 112 - Property Assessment	119,344	208,140
<u>Specific Program Reductions:</u>		
- Eliminate two vacant positions	(119,344)	(137,023)
- Reduce travel expenditures	-	(10,000)
- Reduce temporaries and interns	-	(36,117)
- Eliminate IT consulting	-	(25,000)
	<u>(119,344)</u>	<u>(208,140)</u>

**AGENCY 16 - DEPARTMENT OF REVENUE FUNDING REDUCTIONS (continued)**

	FY10	FY11
<b>Cash Fund Appropriation Reductions</b>		
Program 102 - Revenue Administration	39,290	79,019
<u>Specific Program Reductions:</u>		
- Revenue Enforcement	(27,919)	(56,151)
- Marijuana & Controlled Substances	(578)	(1,162)
- Nebraska Incentives	(7,748)	(15,583)
- Miscellaneous Receipts	(1,717)	(3,453)
- Tobacco Products Administration	(1,328)	(2,670)
	<u>(39,290)</u>	<u>(79,019)</u>
<i>Will reduce time allocated to the administration of these programs. Corresponding expenses (e.g., travel, printing, postage, etc.) will be reduced.</i>		
Program 111 - Motor Fuels	56,146	115,908
<u>Specific Program Reductions:</u>		
- Eliminate two vacant positions	(56,146)	(75,482)
- Reduce travel, conferences, printing, and postage	-	(40,426)
	<u>(56,146)</u>	<u>(115,908)</u>
Program 112 - Property Assessment	15,222	61,270
<u>Specific Program Reductions:</u>		
- Eliminate one vacant position	-	(50,039)
- Reduce printing and mailing	(15,222)	(11,231)
	<u>(15,222)</u>	<u>(61,270)</u>
Program 160 - Lottery Administration	419,716	866,609
<u>Specific Program Reductions:</u>		
- Eliminate one vacant position	(39,686)	(40,678)
- Reduce advertising based on revised sales estimates	(155,400)	(268,486)
- Reduce contractual obligations based on revised sales estimates	(182,630)	(473,445)
- Eliminate the winning numbers hotline	(42,000)	(84,000)
	<u>(419,716)</u>	<u>(866,609)</u>
Program 165 - Charitable Gaming	56,734	116,817
<u>Specific Program Reductions:</u>		
- Eliminate two vacant positions	(56,734)	(114,134)
- Reduce printing and mailing	-	(2,683)
	<u>(56,734)</u>	<u>(116,817)</u>
<b>AGENCY 16 - Total Appropriation Reductions &amp; Cash Transfers</b>	<u><u>7,917,548</u></u>	<u><u>4,982,558</u></u>

**DEPARTMENT OF REVENUE ACTIONS  
FOR FISCAL YEARS 2010 and 2011**

**LB 1 Action Plan - Vacant Positions Eliminated**

Job Code	Position Description	Prog	FTE	PSL Amount*	FY10	FY11
					PSL & Benefits**	PSL & Benefits
A29621	REVENUE TAX SPECIALIST	102	1	44,483	56,417	57,828
A13253	STATISTICAL ANALYST III	102	1	41,585	52,742	54,061
X29212	REVENUE TAXPAYER SVCS. SPEC II	102	1	30,318	28,840	39,414
S01113	OFFICE CLERK III	102	3	66,629	84,504	86,619
A21211	INCENTIVE ANALYST	102	1	33,726	42,774	43,843
X29222	REVENUE AGENT	111	1	30,987	39,300	40,283
S29112	REVENUE OPERATIONS CLERK II	111	1	27,076	16,846	35,199
G31115	AGENCY LEGAL COUNSEL	112	1	72,096	83,601	93,725
A27333	PA&T APPRAISER I	112	1	38,492	-	50,039
A27332	PA&T APPRAISER ASST II	112	1	33,306	35,743	43,298
S09112	STAFF ASSISTANT II	160	1	31,291	39,686	40,678
A29622	REVENUE TAX SPECIALIST SENIOR	165	1	51,401	56,734	66,820
A21212	AUDITOR	165	1	36,396	-	47,314
<b>Total LB 1 Actions</b>			<b>15</b>	<b>537,786</b>	<b>537,187</b>	<b>699,121</b>

**Agency Reorganization Actions Completed\*\*\***

Job Code	Position Description	Program	FTE	PSL Amount	FY10	FY11
					PSL & Benefits	PSL & Benefits
G21262	REVENUE AUDIT DIVISION ADMIN.	102	1	79,231	95,616	95,616
G29232	REVENUE FLD.SERVICES DIV.ADMIN	102	1	93,140	111,633	111,633
G29700	FINANCE & MGMT SERVICE ADMIN.	102	1	79,844	105,386	105,386
G31350	REVENUE ADMINISTRATIVE COUNSEL	102	1	87,882	105,367	105,367
X29211	REVENUE TAXPAYER SVCS SPEC I	102	1	24,500	38,274	38,274
G21261	REVENUE AUDIT DIVISION MANAGER	111	1	79,058	95,325	95,325
G29720	REVENUE MOTOR FUELS ADMIN.	111	1	79,234	101,299	101,299
S01610	CLIENT INTAKE CLERK	112	0.8	22,665	36,108	36,108
S07111	DATA ENTRY OPERATOR	112	1	24,925	38,368	38,368
V29313	PROP.ASSESSMENT &TAX.TECH.SUPV	112	1	59,950	80,661	80,661
N00260	LOTTERY DIRECTOR	160	0.5	46,609	59,194	59,194
S07042	IT COMPUTER OPERATOR	160	0.5	15,566	17,988	17,988
G29730	REV.CHARIT.GAMING DIV. ADMIN.	165	0.5	32,803	43,298	43,298
X29222	REVENUE AGENT	165	1	37,608	53,552	53,552
X29722	REV.CHARITABLE GAMING INVEST. I	165	2	73,248	112,346	112,346
<b>Total Agency Reorganization Actions Completed</b>			<b>14.3</b>	<b>836,263</b>	<b>1,094,415</b>	<b>1,094,415</b>

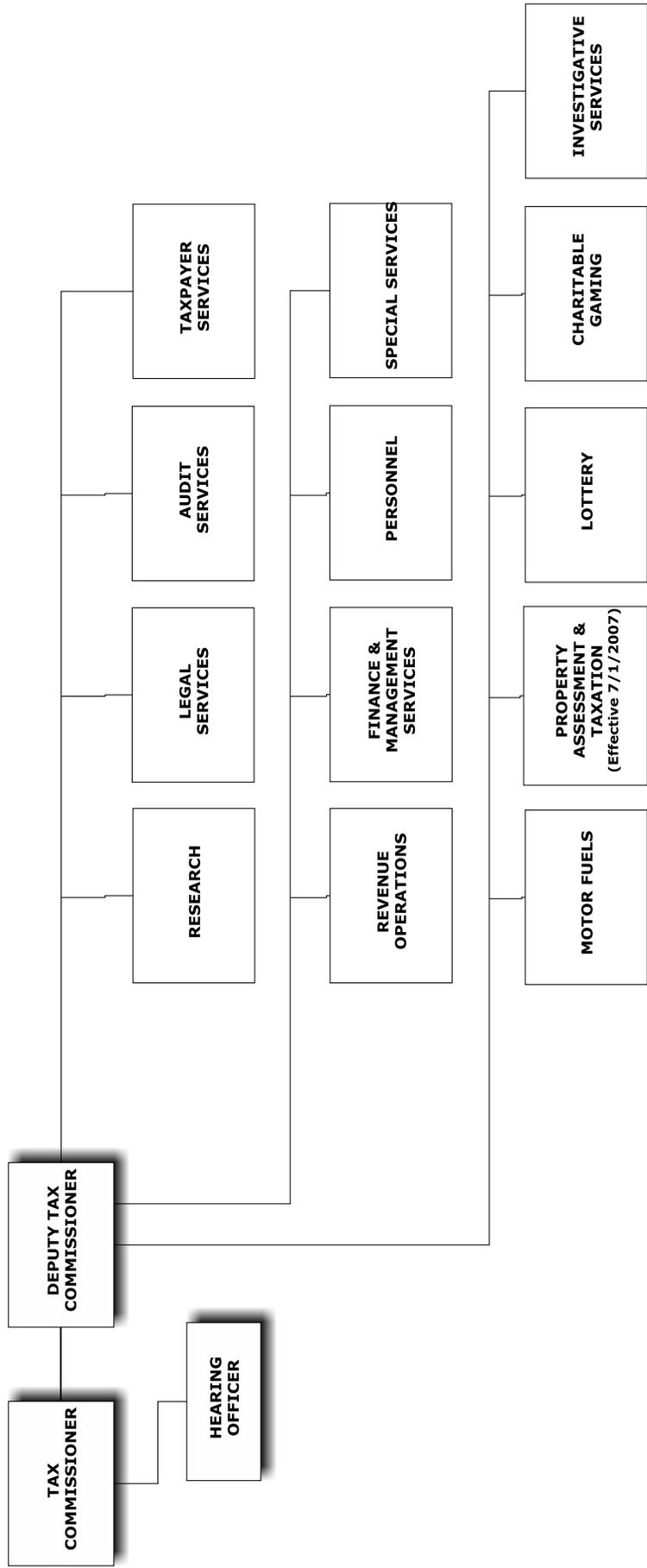
	FTE	PSL Amount	FY10	FY11
<b>Total Planned and Implemented Actions</b>	<b>29.3</b>	<b>1,374,049</b>	<b>1,631,602</b>	<b>1,793,536</b>

\*Represents full PSL amount for FY11.

\*\*FY10 PSL amount may be prorated due to when vacancy occurred.

\*\*\*Prior to LB 1: LB 315 2009 Regular Session.

# Nebraska Department of Revenue January 1, 2007



**NEBRASKA DEPARTMENT OF REVENUE**  
January 1, 2010

