

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	20,456,642	(26,257,000)	19,481,324	(22,756,000)
CASH FUNDS	685,000	(500,000)	500,000	(500,000)
FEDERAL FUNDS	(17,441,297)	(17,441,297)	(17,800,531)	(17,800,531)
OTHER FUNDS	541,995	541,995	283,379	283,379
TOTAL FUNDS	4,242,340	43,656,302	2,464,172	40,773,172

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 870 is the Public Debt Recovery Program Act.

Section 2 provides Legislative intent to establish a public debt recovery program to set off against a debtor’s income tax refund, state lottery prize, state pay, state contract payment, and unclaimed property and any other state payment due to a debtor any public debt which is assigned to the program.

Section 3 provides definitions for the Act for the following terms:

- Claimant
- Court
- Debtor
- Income tax refund
- Public debt
- State lottery prize
- Unclaimed property

Section 4 provides exemptions for 1) debts owed to the University of Nebraska or the State colleges, 2) Debts subject to sections 77-27,160 or 22-27,173, and 3) Delinquent property taxes.

Section 5 requires the State Treasurer to develop and implement the program to carry out the intent stated in section 2. All state agencies are required to use the program unless exempt under section 4 of the Act or exempted by the State Treasurer. Any political subdivision is allowed to use the program. The State Treasurer is allowed to adopt and promulgate rules and regulations to carry out the Act.

Section 6 requires each state agency and court to assign a public debt of more than fifty dollars (\$50) to the program. Political subdivisions may do the same. Prior to assignation, the claimant must have documented at least two attempts to notify the debtor of the public debt and the public debt must have been incurred at least ninety days prior to the assignment. Once the debt has been assigned, the claimant shall discontinue all collection actions. Upon recovery, the State Treasurer shall pay any amount recovered less any recovery fees to the claimant.

Under section 7, after a claimant has assigned a public debt to the program, the State Treasurer, with the assistance of the Department of Administrative Services and the Department of Revenue, shall determine if the debtor is entitled to any income tax refund, state lottery prize, state pay, state contract payment, unclaimed property or other state payment. If this is the case, the State Treasurer shall, within twenty days, send written notification to the debtor of an assertion of the rights under the Act to all or a portion of the refund or payment.

Under section 8, if the State Treasurer receives a written application contesting a claim within the time set forth under section 7, the Treasurer shall grant a hearing to the debtor to determine the claims validity.

Under section 9, upon final determination of the amount and validity of the public debt due, the State Treasurer shall certify the amount of debt to the Department of Administrative Services within twenty days. Upon receipt of the certified debt amount, the Department of Administrative Services shall deduct an amount up to the certified debt amount from the income tax refund, state lottery prize, state

pay, state contract payment, unclaimed property, or other state payment due the debtor and shall transfer such amount the to the Public Debt Recovery Program Fund.

Section 10 requires the State Treasurer to reimburse the Department of Revenue and the Department of Administrative Services for all reasonable and necessary costs incurred in setting off debt pursuant to the Public Debt Recovery Program Act.

Section 11 allows the State Treasurer to assess a recovery fee against debtors and claimants unless otherwise prohibited by law. The recovery fee shall not exceed five percent (5%) of the amount recovered from debtors and three percent (3%) of the amount recovered for claimants.

Section 12 creates the Public Debt Recovery Program Fund. It is the intent of the Legislature to transfer five hundred thousand dollars (\$500,000) to the fund from the State Settlement Cash Fund in fiscal years 2014-15 and 2015-16. In addition, an amount equal to the cost of ongoing maintenance expense to interface with the JUSTICE System is to be transferred from the Supreme Court Automation Fund. The remaining funding for the program shall be General Funds until the program is self-sustaining through fees assessed under section 11 of the Act.

The Department of Labor (NDOL) estimates a loss of Federal Funds in the amounts of \$17,411,297 for FY2014-15 and \$17,800,531 for FY2015-16. This is due to federal conformity issues which could jeopardize all federal grants funds paid to NDOL for administration of the Nebraska unemployment program. Section 2(6) of the bill states that an agency must discontinue all collection actions after assigning debt to the State Treasurer. NDOL reports that this directly contravenes the conformity requirement of subsection (m) of section 303 of the SSA. In addition, NDOL reports that the transfer of Unemployment Insurance tax contribution collection duties to the State Treasurer would create a second conformity issue. The NDOL would need to replace lost Federal Funds with General Funds in order to administer the unemployment program. There is no basis to disagree with this assessment.

The Department of Administrative Services (DAS) estimates the need for 4.0 additional FTE and related operating costs at a total of \$541,995 in FY2014-15 and \$283,376 in FY2015-16. According to DAS, under

Section 7 of LB870 State Accounting is to receive public debt data from the Treasurer's Office; build a data base for outstanding public debt, develop and manage a netting process to calculate and manage debt to be offset against selected State payables; maintain a record for all amounts subject to the offset process; and to maintain appropriate accounting records.

DAS states that a new Accounting section will need to be established to develop, manage, maintain and process this debt offset program. DAS identifies three business process and/or application development projects to accomplish this. 1) build an accounts receivable process (\$30,000), 2) build a business process for debt offset (\$195,000), and 3) build an interface with State payroll (\$30,000). The total of these projects is \$255,000.

DAS would bill the State Treasurer for the project and personnel costs, per section 10 of the bill. These would be Revolving Funds; they are therefore, shown as Revolving Fund expenditures AND revenue in the table above. There is no basis to disagree with these estimates.

The Attorney General (AG) estimates costs of \$500,000 per year to address the bill's provisions. The bill provides for a \$500,000 transfer out of the AG's State Settlement Cash Fund. The AG reports that this transfer out of the State Settlement Cash Fund would leave an insufficient balance in the fund to pay the costs for the AG's Consumer Protection Division. Due to this situation, the AG would require General Funds to pay for the Consumer Protection Division. The State Settlement Cash Fund reported a balance of \$1,664,210 as of January 31, 2014. Although this amount appears to be sufficient to handle two transfers of \$500,000 each, this isn't necessarily the case. The fund balance is real, but it is already designated to be used to cover operational appropriation. In addition, some of the dollars in the fund are specified for certain uses per court ordered settlement language. The Attorney General's estimates appear to be reasonable.

The Department of Revenue estimates a General Fund revenue loss due to reduced involuntary tax collections in the following ranges:

Fiscal Year	Range of lost revenue	Midpoint
FY2014-2015	\$17,505,000 to \$35,009,000	\$26,257,000
FY2015-2016	\$17,505,000 to \$28,007,000	\$22,756,000
FY2016-2017	\$17,505,000 to \$21,005,400	\$19,255,000

The Department of Revenue would be able to reduce 14.0 FTE in the Compliance Division due to the suspension of delinquent tax collections after the tax debt has been assigned to the State Treasurer. Revenue would need to add 1.0 FTE (Attorney III) to address the bill's provisions. The net reduction for staffing in the Department of Revenue would be (\$573,000) in FY2014-15, (\$594,000) in FY2015-16, and (\$608,000) in FY2016-17.

Additionally, the Department of Revenue would face the need for one-time programming changes. The Office of the CIO has estimated this cost for the Department of Revenue to be \$739,194. Revenue points out that the timeframe required by the bill is inadequate to make these changes. Therefore, they have included the cost of two contract programmers at a total of \$274,400 in FY2014-15. Finally, Revenue would issue liens against delinquent taxpayers prior to transferring tax debts to the State Treasurer for offset. This cost is estimated to be between \$600,000 and \$1,200,000 annually. Revenue has included the midpoint (\$900,000) of this range for purposes of this note.

There is no basis to disagree with the Department of Revenue's estimates.

The Supreme Court estimates a cost of \$185,000 for programming changes to the JUSTICE system and the Recovery Program. The cost of ongoing maintenance cannot be determined at this time. There is no basis to disagree with the Supreme Court's estimate.

The State Treasurer estimates the need for 14 new FTE to administer the bill's provisions. In addition to personnel costs, operational costs, capital outlay (computers, etc.), and leased space would be needed to house the new staff. Due to the potentially large, yet unknown, quantity of work required, there is no basis to disagree with these estimates. The Treasurer notes that their cost estimates do NOT include DAS nor DOR estimates that would be charged back to the Treasurer. Since the Treasurer is unable to estimate the amount of revenue generated by the bill's provisions, all costs are attributed to the General Fund. The exception to this is the inflow of \$500,000 from the State Settlement Cash Fund. In all likelihood, there will be cash fund revenue to address at least portions of the program's costs. This will reduce the General Fund impact, but the amount cannot be determined at this time.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 870	AM:	AGENCY/POLT. SUB: Department of Administrative Services
REVIEWED BY: Lyn Heaton	DATE: 2/12/2014	PHONE: 402.471.4181
COMMENTS: It is difficult to evaluate and comment on the individual fiscal impact estimates of the impacted agencies, including the DAS Accounting Division, in isolation due to the interdependent responsibilities provided in the bill. Development of a thorough fiscal analysis of the impact of LB 870 would benefit from a collaborative, interagency working group.		

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 870	AM:	AGENCY/POLT. SUB: State Treasurer's Office
REVIEWED BY: Lyn Heaton	DATE: 2/12/2014	PHONE: 402.471.4181
COMMENTS: It is difficult to evaluate and comment on the individual fiscal impact estimates of the impacted agencies, including the State Treasurer's Office, in isolation due to the interdependent responsibilities provided in the bill. Development of a thorough fiscal analysis of the impact of LB 870 would benefit from a collaborative, interagency working group.		

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 870	AM:	AGENCY/POLT. SUB: Department of Labor
REVIEWED BY: Lyn Heaton	DATE: 2/11/2014	PHONE: 402.471.4181
COMMENTS: No basis to disagree with the Department of Labor's analysis.		

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 870	AM:	AGENCY/POLT. SUB: Attorney General's Office
REVIEWED BY: Lyn Heaton	DATE: 2/10/2014	PHONE: 402.471.4181
COMMENTS: Assuming the bill is referencing the State Settlement Cash Fund when it cites the "State Settlement Fund", it would appear that based on the current cash balance and appropriation authority provided by the Legislature during the 2013 session, unless a large settlement increases the unobligated balance of the fund, the fund would have difficulty sustaining the two \$500,000 transfers out called for by the bill and therefore would require an offset of General Fund appropriations. This analysis assumes it is not the intent of the bill to reduce funding for the AGO's consumer division and State Settlement Funds program.		

Please complete ALL (5) blanks in the first three lines.

2014

LB⁽¹⁾ 870

FISCAL
NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Department of Labor

Prepared by: ⁽³⁾ Debbie Kay Ward Date Prepared: ⁽⁴⁾ 01/21/2014 Phone: ⁽⁵⁾ 402-471-2492

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	<u>17,411,297</u>	<u> </u>	<u>17,800,531</u>	<u> </u>
CASH FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FEDERAL FUNDS	<u>(17,411,297)</u>	<u> </u>	<u>(17,800,531)</u>	<u> </u>
OTHER FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Explanation of Estimate: As introduced, LB 870 presents two federal conformity issues, either of which jeopardizes all federal grant funds paid to NDOL for the administration of the Nebraska unemployment program. In order to be certified as eligible for the receipt of grants for administration a state unemployment program a state must conform to the administration requirements of section 303 of the Social Security Act (SSA) (42 U.S.C. 503).

Subsection (2) of section 6 of LB 870 provides that an agency must discontinue all collection actions after assigning debt to the State Treasurer. This directly contravenes the conformity requirement of subsection (m) of section 303 of the SSA which requires that all state unemployment programs “shall” collect unpaid unemployment tax contributions and certain benefit overpayments through the Treasury Offset Program (TOP).

The transfer of UI tax contribution collection duties to the State Treasurer would create a second conformity issue. Section 303 of the SSA requires that the administration of state unemployment agencies must be performed by staff selected on a “merit basis.” (See also, UIPL 12-01). The State Treasurer is a constitutional officer and employees of the State Treasurer are not merit staff (classified employees under the State Personnel Rules or the Bargaining Agreement).

Federal grant funds lost would need to be replaced by state General Funds in order to continue to administer the unemployment program.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS		2014-15	2015-16
	14-15	15-16	EXPENDITURES	EXPENDITURES
Various	<u> </u>	<u> </u>	<u>7,702,448</u>	<u>7,875,753</u>
Benefits.....	<u> </u>	<u> </u>	<u>2,223,989</u>	<u>2,274,029</u>
Operating.....	<u> </u>	<u> </u>	<u>7,171,164</u>	<u>7,332,515</u>
Travel.....	<u> </u>	<u> </u>	<u>201,696</u>	<u>206,234</u>
Capital outlay.....	<u> </u>	<u> </u>	<u>112,000</u>	<u>112,000</u>
Aid.....	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital improvements.....	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL.....	<u> </u>	<u> </u>	<u>17,411,297</u>	<u>17,800,531</u>

Please complete ALL (5) blanks in the first three lines.

2014

LB⁽¹⁾ 870

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ _____

State Treasurer _____

Prepared by: ⁽³⁾ Jason Walters

Date Prepared: ⁽⁴⁾ February 7, 2014

Phone: ⁽⁵⁾ 402-471-2793

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>\$632,349</u>	<u>Can't determine</u>	<u>\$591,604</u>	<u>Can't determine</u>
CASH FUNDS	<u>\$500,000*</u>	<u>Can't determine</u>	<u>\$500,000*</u>	<u>Can't determine</u>
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>\$1,132,349</u>	<u>Can't determine</u>	<u>\$1,091,604</u>	<u>Can't determine</u>

*According to Section 12 (1) of LB 870, \$500,000 would be transferred from the State Settlement Fund. There is a State Settlement Cash fund and multiple State Settlement Trust funds in the accounting system. We don't know if the intent of this bill is to use cash funds or trust funds.

Explanation of Estimate:

This bill would create a new program within the office of the State Treasurer. The requirements of the bill would require a new staff of employees to operate the set-off program. Based upon these requirements, 14 employees would be required by this new program. The supervisor would be in charge of this group, the IT business system analyst would work with the Department of Administrative Services, the Office of the Chief Information Officer and all agencies participating in this program to ensure that the interfaces are working correctly. Six hearing officers would need to be hired to participate in all the hearings for state agencies and courts who shall participate in this program, plus political subdivisions who may participate. These hearing officers would need four administrative assistants to send out notices and schedule hearings as required by LB 870. The program would also require two accountants to calculate the allowable offsets and maintain records of debt submitted to the program, amounts held and set-off against debt.

In fiscal year 2015-16, we applied a 2.5% pay increase to all salaries. To calculate benefits, we applied 32% of all program salaries to benefits for each year.

The new employees will need office space, equipment, furniture, copy machines and other items. The following are included in the operating costs:

- \$23,925 per year for rent of between 1,500 and 2,000 square feet of office space.
- \$7,000 per year for lease of 2 copier/printer/fax machines.
- \$2,500 per employee for start-up costs (desk, chair, phone, file cabinet, computer and dual monitors)
- \$1,800 per employee for ongoing expenses (phone, supplies, printing and publication and other miscellaneous costs).
- \$25,000 per year for paper, envelopes and mailing costs in sending notices as required by this bill, plus extra notices that may be required after program rules have been written.
- \$15,000 in start-up costs for custom programming in the state accounting system to put a hold on payments and lock the payment status so that it can't be changed on the agency level

There will be Capital outlay costs of \$16,000 in start-up costs for sequel server and raid array

Section 10 of the bill states that The State Treasurer shall reimburse the Department of Administrative Services and the Department of Revenue for all reasonable and necessary costs incurred by them in setting off debts pursuant to the Public Debt Recovery Program Act. The Treasurer's Office does not know how to account for the amounts that the Department of Revenue and the Department of Administrative Services will show as expenditures on their fiscal notes. Whatever

amounts they show, should be added to this fiscal note.

Potentially, the largest cost associated with the creation of this program would come from the custom interfaces that would need to be done with each agency that is reporting debt. An RFP would likely be issued to gather bids and determine the cost to create a system which would let each agency and political subdivision report their certified debt to a central database, which would also be used to compare to another database showing state payments as described in Section 2 of LB 870. The OCIO was unable to provide us with an estimate of what such a system might cost

The revenues from this new program would come from the successful setoff of public debt. At this time, we don't have any information on the current debt levels or on what percentage of that debt we can expect to recover (and thus, how much revenue can be collected).

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15</u>	<u>2015-16</u>
	<u>14-15</u>	<u>15-16</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Business enterprise program supervisor	1	1	\$53,283	\$54,615
IT business systems analyst	1	1	\$58,758	\$60,227
Hearing officer/attorney	6	6	\$393,744	\$403,588
Administrative assistant II	4	4	\$170,096	\$174,348
Accountant	2	2	\$89,440	\$91,676
Benefits.....			\$244,903	\$251,025
Operating.....			\$106,125	\$56,125
Travel.....				
Capital outlay.....			\$16,000	\$0
Aid.....			\$0	\$0
Capital improvements.....			\$0	\$0
TOTAL.....			\$1,132,349 *	\$1,091,604 *

*Plus the cost of creating the interface systems (see above), and the amounts that will be payable to the Department of Revenue and the Department of Administrative Services as required by Section 10 of LB 870. Once a winning bid for creation of the system has been received, a deficit appropriation for that amount will be needed, in addition to the expenditure specified in this fiscal note.

Please complete ALL (5) blanks in the first three lines.

2014

LB⁽¹⁾ 870

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

05 Supreme Court

Prepared by: ⁽³⁾ Eric Asboe

Date Prepared: ⁽⁴⁾ 2/11/13

Phone: ⁽⁵⁾ 1-4138

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	185,000	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>185,000</u>	_____	_____	_____

Explanation of Estimate:

LB 870 requires an interface be developed between JUSTICE, the Supreme Court case and financial management computer system, and the computer system to be created for the Public Debt Recovery Program. Computer programming will need to be completed by both systems in order to fully establish the proper connection. Estimated Cash Fund expenditures for JUSTICE programming is \$135,000. Recovery Program computer programming is to be funded through an amount transferred from the Supreme Court Automation Fund. Based only on the estimated cost of an interface for a State agency, the amount that could be transferred may be approximately \$50,000. The cost of ongoing maintenance is also to be transferred, but that cost is unknown at this time.

Revenue to the General Fund, political subdivisions such as school districts, and various cash funds could increase from any funds intercepted, but the amount that would be received by each entity is indeterminable. Although the amount due the court system, based on last fiscal year, is estimated to be less than \$3.5 million, the amount that would be claimed to the Recovery Program is unknown. In addition, the amount that would be recovered is also unknown; however, it is not estimated to be significant.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15 EXPENDITURES</u>	<u>2015-16 EXPENDITURES</u>
	<u>14-15</u>	<u>15-16</u>		
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	185,000	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	185,000	_____

Please complete ALL (5) blanks in the first three lines.

2014

LB⁽¹⁾ 870

FISCAL
NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Administrative Services/ State Accounting

Prepared by: ⁽³⁾ Hari Kadavath Date Prepared: ⁽⁴⁾ 1/15/2014 Phone: ⁽⁵⁾ 402-471-0600
Curtis Youngman 402-471-0602

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	<u>541,995</u>	_____	<u>283,379</u>	_____
TOTAL FUNDS	<u>541,995</u>	_____	<u>283,379</u>	_____

Explanation of Estimate:

In accordance with Section 7 of LB870 State Accounting is to receive public debt data from the Treasurer's office; build a data base for outstanding public debt; develop and manage a netting process to calculate and manage debt to be offset against selected State payables (pay, contract payments, and all other state payments due); maintain a record for all amounts subject to the offset process; and to maintain appropriate accounting records. These are new requirements to the existing accounting system processes require developing new business processes and provide ongoing automated and manual processes. It is anticipated that a new Accounting section will need to be established to develop, manage, maintain and process this debt offset program. Based upon the requirements contained in the bill, four FTE's - two Accountant I's, one Accountant II, and a State Accounting Operations Supervisor position will be required by this new unit. The two Accountant I positions would determine if a vendor record exists in the system for any debts received, track it for possible offsets to process, and maintain the offsets database. The Accountant II position would calculate the allowable offset, record the necessary transaction in the system, and coordinate offset transactions with Revenue and Lottery. The Operations Supervisor would supervise the section, research and resolve questions arising regarding offsets, provide offset reporting to the Treasurer's Office and assist with processing as needed.

The estimated costs for these positions are \$286,995 for FY14-15 and \$283,379 for FY15-16. These costs include salary and benefits (health insurance is budgeted using the State's current share of the highest cost family plan); and ongoing annual operating costs (communication/data processing, printing/publication and supplies). There would also be a onetime cost in FY14-15 for the purchase of new equipment and set up costs of \$2,500 per FTE for a total of \$10,000.

Three business process and/or application development projects have been identified; build an accounts receivable process for this activity (200 development hours x \$150 = \$30,000), build a business process for debt offset (1,300 development hours x \$150 = \$195,000; and an interface with State payroll (200 development hours x \$150 = \$30,000). Total applications development costs total \$255,000.

State Accountings costs of \$541,995 in FY2014-15 and \$283,379 in FY2015-16 would be billed to the State Treasurer. Per Section 10 of this bill the State Treasurer shall reimburse Administrative Services for these expenses. State Accounting will require additional Revolving Fund appropriation in these amounts respectively to pay the expenses.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15</u>	<u>2015-16</u>
	<u>14-15</u>	<u>15-16</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Accountant I	2	2	68,534	70,247
Accountant II	1	1	39,599	40,589
State Acct'g Operations Supervisor	1	1	49,201	114,256
Benefits.....			111,805	113,545
Operating			7,856	7,856
Operating - Development			255,000	
Travel.....				
Capital outlay.....			10,000	
Aid.....				
Capital improvements.....				
TOTAL.....	4	4	541,995	283,379

State Agency Estimate

State Agency Name: Department of Revenue

Date Due LFA:

Approved by: Kim Conroy

Date Prepared:

Phone: 471-5896

	<u>FY 2014-2015</u>		<u>FY 2015-2016</u>		<u>FY 2016-2017</u>	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$1,340,983	(\$26,257,000)	\$305,810	(\$22,756,000)	\$292,444	(\$19,255,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$1,340,983	(\$26,257,000)	\$305,810	(\$22,756,000)	\$292,444	(\$19,255,000)

LB 870 (Public Debt Recovery Program Act) establishes a state and local debt offset program. The program is administered by the State Treasurer. Every state agency (claimant) must submit a debt exceeding \$50 to the State Treasurer for offset and collection unless the agency is otherwise exempted from the program by the State Treasurer. A political subdivision may also participate in the program.

A debt is defined as any liquidated amount due and owing which has accrued through assignment, contract, subrogation, court judgment, or operation of law, regardless of whether there is an outstanding judgment. An agency must notify the debtor of the debt and the debt must be at least 90 days old before the debt is assigned to the State Treasurer.

Once a debt is assigned to the State Treasurer, the State Treasurer, with the assistance of the Department of Administrative Services (DAS) and the Department of Revenue (Department), must offset the debt against any income tax refund, state lottery prize exceeding \$500, state pay, state contract payment, unclaimed property, or other state payment. An income tax refund cannot be delayed beyond the period prescribed in Neb. Rev. Stat. § 77-2794.

Once a debt is assigned to the State Treasurer, the claimant agency must cease all collection actions until the debt is reassigned to the agency by the State Treasurer. The State Treasurer will not reassign a debt until he or she determines that the debt is uncollectable.

If the State Treasurer determines that a payment is subject to offset, the Treasurer must notify the debtor of the offset within 20 days and notify the debtor of his or her rights of appeal. The debtor has 60 days to appeal the offset and request a hearing to contest the debt. There is no deadline for the State Treasurer to schedule the hearing. A debtor may appeal the determination of the State Treasurer in accordance with the Administrative Procedures Act.

Upon final determination of the debt, the State Treasurer must certify the debt to DAS within 20 days of the final determination. DAS must then offset any income tax refund, state lottery prize, state pay, state contract payment, unclaimed property, or other state payment against the debt. The amount deducted is limited to 25% of state pay or a state contract payment. A payment to state vendors may only be set off for public debts due state agencies. The State Treasurer may enter into a payment agreement with a debtor for periodic payment of a public debt.

The State Treasurer may assess a recovery fee against debtors and claimants unless otherwise prohibited by law. The fee may not exceed 5% of the amount recovered or 3% of the amount recovered for an agency. The State Treasurer must notify a debtor once a debt has been satisfied.

The State Treasurer must reimburse the Department and DAS for all reasonable and necessary costs incurred by each agency. The State Treasurer must transfer offsets to the Department and other claimants on a quarterly basis.

LB 870 allows the Department to disclose information relating to income tax returns or return information to the State Treasurer. LB 870 also allows this disclosure for bingo, pickle, and keno licensee or applicant information for purposes of the Act but not for Lottery information.

The Department expects a reduction to General Fund revenue due to reduced tax collections in the following range:

Fiscal Year	Range	Midpoint
FY 2014-2015	\$17,505,000 - 35,009,000	\$ 26,257,000
FY 2015-2016	\$17,505,000 - 28,007,000	\$ 22,756,000
FY 2016-2017	\$17,505,000 - 21,005,400	\$ 19,255,000

The Department will reduce positions in the Compliance Division due to the suspension of delinquent tax collections by the Department after the tax debt has been assigned to the State Treasurer. The reduction in staff will result in a net reduction in expenditures of \$573,000 in FY2014-15, \$594,000 in FY2015-16, and \$608,000 in FY2016-17.

LB 870 would require a one-time programming charge of \$739,194 paid to the Office of the Chief Information Officer (OCIO) for mainframe, web development, and programming costs; however, the Department would be unable to make those changes within the time period proscribed in the legislation. The Department would need to hire two contractors to update the Department’s General Processing System and data warehouse. The OCIO estimates the costs of hiring those contractors would be \$274,400 for a one-year period. The Department will also issue liens against delinquent taxpayers prior to transferring tax debts the State Treasurer for offset. The Department estimates increased costs associated with additional lien filings of \$600,000 to \$1,200,000 annually.

Major Objects of Expenditure

Class Code	Classification Title	14-15	15-16	16-17	14-15	15-16	16-17
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
X29222	Revenue Agent	(9.5)	(9.5)	(9.5)	(\$313,918)	(\$320,986)	(\$328,206)
X29223	Revenue Senior Agent	(2.5)	(2.5)	(2.5)	(\$95,455)	(\$97,605)	(\$99,800)
V62724	Revenue Agent Supervisor	(2.0)	(2.0)	(2.0)	(\$90,908)	(\$92,954)	(\$95,044)
G31113	Attorney III	1.0	1.0	1.0	\$63,359	\$64,785	\$66,243
Benefits.....					(\$144,189)	(\$147,430)	(\$150,749)
Operating Costs.....					\$1,913,594	\$900,000	\$900,000
Travel.....							
Capital Outlay.....					\$8,500	\$0	\$0
Aid.....							
Capital Improvements.....							
Total.....					\$1,340,983	\$305,810	\$292,444