

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**Seventy-Third Session
March 21, 2005**

The Committee on Ways and Means was called to order at 8:33 a.m., on Monday, March 21, 2005. Chairwoman Chris Giunchigliani presided in Room 3137 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Ms. Chris Giunchigliani, Chairwoman
Mr. Morse Arberry Jr.
Mr. Mo Denis
Mrs. Heidi S. Gansert
Mr. Lynn Hettrick
Mr. Joseph M. Hogan
Mrs. Ellen Koivisto
Ms. Sheila Leslie
Mr. John Marvel
Ms. Kathy McClain
Mr. Richard Perkins
Mr. Bob Seale
Mrs. Debbie Smith
Ms. Valerie Weber

COMMITTEE MEMBERS ABSENT:

None

STAFF MEMBERS PRESENT:

Mark Stevens, Assembly Fiscal Analyst
Steve Abba, Principal Deputy Fiscal Analyst
Mindy Braun, Program Analyst
Laura Freed, Program Analyst
Anne Bowen, Committee Secretary
Susan Cherpeski, Committee Secretary

DIVISION OF TOURISM

COMMISSION ON TOURISM (225-1522)

BUDGET PAGE – ECON DEV & TOURISM -21

Bruce Bommarito, Executive Director, Nevada Commission on Tourism (NCOT), identified himself for the record and introduced Ray Pearson, Commissioner, NCOT.

Mr. Pearson stated he was the president and owner of the Winners Hotel and Casino and Legends Casino in Winnemucca, Nevada, as well as the rural commissioner for the NCOT. Mr. Pearson said he was before the Committee to

request that the members look favorably on the NCOT budget and emphasized that it was absolutely vital to the rural communities of the state.

A video of advertising for Nevada was shown for the Committee. [Exhibit B](#), "FY05-07 Biennium Budget Presentation," was presented to the Committee.

Mr. Bommarito stated that two years before when the NCOT had made their presentation there had been no television commercials advertising Nevada. He also mentioned a new television show called "Nevada Passage" which would be aired soon and was expected to provide a lot of exposure for the state.

Chairwoman Giunchigliani asked if the commercial had gone to bid and who had produced the commercials and television show.

Mr. Bommarito replied that the commercials had gone to bid through the NCOT's advertising agency, DRGM Advertising, and "Nevada Passage," the syndicated television show, had been produced through R & R Advertising.

Chairwoman Giunchigliani asked if DRGM Advertising and R & R Advertising were both under contract with the NCOT and Mr. Bommarito replied that they were.

Chairwoman Giunchigliani asked how many bids were submitted for the project. Mr. Bommarito replied that there were approximately 25 bidders.

Mr. Bommarito continued with his presentation on Budget Account 1522 and stated that the Nevada Commission on Tourism had always been resilient, through the stock market crash in the 80s, Indian gaming, recessions in the 90s, September 11, 2001, and the war in Iraq. Throughout the years the NCOT had some ups and downs, but had continued to flourish. Mr. Bommarito commented that the exciting part was that in 2004 Nevada had 50.5 million visitors, the largest number in history. Tourism was still Nevada's number one industry and it had become a \$40 billion industry, of which \$10 billion was gaming.

Mr. Bommarito said those milestones had been achieved with long hours, creative thinking, leadership, vision, dedication, partnerships, and a certain amount of risk. Competition was fierce, according to Mr. Bommarito, and every state in the nation understood what Nevada knew about the value of tourism.

- It was one of the top three economic drivers for every state
- Tourism was the 1st, 2nd, and 3rd largest employer in 29 U.S. states
- Travel and tourism were the nation's 2nd largest services export, 3rd largest retail sales industry, and one of America's largest employers

Mr. Bommarito stated that other states had increased their tourism budgets because the priorities of tourism had become very valuable. For example, Idaho, Utah, and Arizona had all increased their tourism budgets at least \$5 million per year, and Oregon by \$7 million per year. Mr. Bommarito said the competition was tough and Nevada wanted to continue to lead the way.

Mr. Bommarito said everything the NCOT did was from the perspective of four points:

- Generate revenue for the state of Nevada
- Stay ahead of the marketplace
- Educate

- Tie together the marketing efforts throughout the state of Nevada

Mr. Bommarito said the NCOT generated advertising and media impressions which were very important. Overall responses by email, requests by telephone, and requests by mail were up 42.7 percent in 2004 over the previous year. Website visits of over 1 million per year had increased by 12.3 percent. Mr. Bommarito explained that gross advertising impressions were how many times an image of Nevada got in a person's mind or how many times an image of Nevada was seen. There were 419 million images of Nevada generated, and over 1 million pieces of collateral distributed in 2004. Mr. Bommarito said as much as the NCOT tried to encourage people to use their website, because it was less expensive for the Commission, it would never completely replace collateral, because people still wanted a piece of paper.

Mr. Bommarito said that generating unpaid media was one of the things the NCOT believed had been very successful. In media that could be quantified, the NCOT estimated \$22 million in free media in one year and another 265 million gross customer impressions. The NCOT was always looking for new markets and two years ago the Commission had begun advertising for the adventure market. The adventure market had not been emphasized at the expense of golf or gaming, but was an added market which had really taken off all around the state, according to Mr. Bommarito.

Mr. Bommarito continued and said another exciting addition to the adventure market was Cabela's, which was opening a retail store in Reno that would employ 400 people. Historically, Cabela's stores in other areas had brought over 4 million people to the area each year, and 3.2 million of those people were from out of state. Mr. Bommarito noted that Cabela's was called "retail destination tourism" by the Commission and was very successful.

Mr. Bommarito said the Commission was always searching out new international markets.

According to Mr. Bommarito, the NCOT was very different from most State organizations, in that everything that was accomplished affected everyone else within the organization. Mr. Bommarito referred to page 8 of [Exhibit B](#), an organizational chart, and said it was a little unconventional because it consisted of circles within circles. The point was that each circle was dependant upon another to be successful. The Commission divided workload into five divisions:

- Marketing
- Advertising and media
- Education
- Publications
- Administration

Mr. Bommarito explained the Marketing Division was the area that contained domestic and international tour and travel. On page 9 of [Exhibit B](#), Mr. Bommarito pointed out a picture of a trade show booth at the China International Trade Market held in November 2004. Because of the Commission's position in China, they had asked to share the booth with the Travel Industry Association of America, and the United States Department of Commerce.

Chairwoman Giunchigliani asked how representatives in China were selected. Mr. Bommarito replied that most international representatives were found in cooperation with Las Vegas, with the exception of China. For that position,

several people in China were interviewed, and people with specific skills relative to the travel industry had been selected. The person who had been hired had worked for 10 years with a Chinese airline, been an international representative, opened an international office, been in charge of the travel service, and had been involved in governmental relations.

Chairwoman Giunchigliani asked about the cooperation between Las Vegas and the NCOT. Mr. Bommarito replied that Las Vegas went through the selection process and the NCOT was part of that process.

Mr. Bommarito continued with his presentation and said the Marketing Division focused on group travel, tour operators, travel agents, tour and travel associations, and meeting planners. The staff attended national and international trade shows, and quite often tourism professionals from other parts of Nevada would attend as well. Mr. Bommarito explained that in the United Kingdom recently, the NCOT had shared a booth with representatives from Las Vegas as well as other regional areas.

Mr. Bommarito stated that the NCOT focused on five international markets, United Kingdom, Japan, South Korea, Mexico, and the People's Republic of China.

Mr. Bommarito commented that the NCOT had truly been the leaders in tourism in the People's Republic of China. The United States Deputy Secretary of Commerce was in China at the present time to meet with the Chinese government in an attempt to expedite travel; the day before he had met with the NCOT's representative to get advice on the best way to proceed. Mr. Bommarito noted that the People's Republic of China was a nation of 1.4 billion people with the fastest growing economy in the world. In 2004, 100 million Chinese traveled overseas, but there were 300 million middle-class Chinese citizens ready and willing to travel. Mr. Bommarito said 250,000 Chinese traveled to the United States last year and over 300,000 were expected in 2005. By United States standards, there were 50 million millionaires in the People's Republic of China and they were the highest spending international tourists in the world, averaging \$5,200 per person, per trip. Las Vegas was the number one destination in the United States for the Chinese.

Mr. Bommarito stated that in June 2004, Nevada joined the ranks of 13 countries, the United States not included, and became the first state to open a government-sanctioned tourism office in the People's Republic of China. Nevada owned the only United States license that allowed outbound destination marketing in all of China. Mr. Bommarito said the goal was, that by the time the NCOT was finished, Chinese people would think that Nevada was the United States. McCarran International Airport recently hired a consultant to work with the Civil Aviation Administration of China to bring flights directly to Nevada. Mr. Bommarito said that since the NCOT had received the license, China and the United States had reached an agreement that could triple the number of flights to the United States. The Chinese government had signed a Memorandum of Understanding (MOU) to expedite travel and had improved the visa situation.

Recreational vehicles were part of the marketing strategy of the NCOT, according to Mr. Bommarito. While most people thought of motor homes when referring to recreational vehicles, the category included all-terrain vehicles, dirt bikes, jet skis, motorcycles, and snowmobiles, anything that could be ridden

that was fun. Recreational vehicles worked very well with the adventure campaign.

Mr. Bommarito stated there was a huge market of motorcycle riders to address and a recently expanded program to include Geocaching, a new rapidly growing activity.

Sports Marketing and Development included all recreational and adventure sports, which were perfect for rural Nevada. Those activities included:

- Skeet shooting
- Golf
- Skiing
- Hiking, biking, climbing, and marathons
- Sandboarding
- Kayaking and whitewater sports
- Motor sports

Mr. Bommarito stated that the television program "Nevada Passage" would be released in May 2005. The program would go to six different cities in Nevada to film adventure challenges for television.

The NCOT continued to place ads about Nevada travel in magazines and the response continued to grow. Mr. Bommarito pointed out that magazine ads for Nevada did not contain a lot of pretty pictures. Every state in the country had pretty pictures in their ads, while Nevada had action shots with people doing things and pretty pictures in the background. Mr. Bommarito said that strategy seemed to be working out for the NCOT.

Chairwoman Giunchigliani asked if the NCOT had finally gotten minority and diversity representation in the pictures used for advertising as that had previously been a problem. Mr. Bommarito responded that the NCOT was very conscious of that and all the new advertisements included minorities.

Chairwoman Giunchigliani interjected that she did not want to disrupt Mr. Bommarito's presentation, but wanted to ask some questions in the interest of time.

Chairwoman Giunchigliani said she wanted to be sure that Decision Unit E-175, the Advertising and Promotion Enhancement, was dealt with because room tax receipts had been underprojected even with the new numbers that had been submitted. She also wanted to discuss the reserve in the second year, the new accounting position in Decision Unit E-250, and the Reno-Tahoe Winter Games in Decision Unit E-176.

Chairwoman Giunchigliani requested that Mr. Bommarito begin with the Advertising and Promotion Enhancement in Decision Unit E-175. Mr. Bommarito replied that the results received with advertisements had been very successful. The NCOT did conversion studies and, in fact, studied results in every way possible. When the NCOT ran a television ad, access to the information about that advertisement was available the next day, such as graphs, charts, how many people watched it, and how many people called for a response. Mr. Bommarito said the NCOT had become very scientific and knew what worked and what did not work.

Chairwoman Giunchigliani asked how the NCOT assessed what was working and what was not working. Mr. Bommarito stated the NCOT polled people

through the Internet and polled people who had requested information, some with an outside source and some internally. When information was requested the NCOT polled approximately 12,000 of those people and asked questions such as, "Did that information get to you, did that information impact your decision to come here, and did you come to Nevada." Mr. Bommarito said the NCOT had found that responders who said the information had made a difference in their decision to come to Nevada had increased from 17 percent to 52 percent.

Chairwoman Giunchigliani noted that none of that information was demonstrated in the performance indicators. She asked exactly what "responses to ad campaign" meant. Mr. Bommarito said "responses to ad campaign" was a combination of all the campaigns the NCOT did together. The response to the ad campaign was a combination of visits to the website. Chairwoman Giunchigliani asked if those responses were from who visited the website or who visited Nevada. Mr. Bommarito replied from the website, and those responses were converted to who visited Nevada. Chairwoman Giunchigliani asked where those figures were shown and Mr. Bommarito explained that was the conversion rate, the 52 percent, but while it was not in the measurement indicators, he would provide those figures. Chairwoman Giunchigliani indicated it would be helpful to have those figures. Mr. Bommarito continued and said the NCOT was very conscious of what was done and how the results were tracked.

Chairwoman Giunchigliani asked how the figures for local room tax, as they applied to gaming, were separated from the NCOT room tax figures. Mr. Bommarito replied that the figures for gaming were not available on a local basis, but were available on an overall basis. Twenty-five years ago gaming had been 75 percent of the tourism industry and non-gaming was 25 percent. Mr. Bommarito commented that in 25 years, gaming had gone up every single year without fail, but now gaming represented only 25 percent of the tourism industry in Nevada.

Assemblyman Marvel asked how close the NCOT was on the room tax projections. Mr. Bommarito replied that with the re-projections the NCOT believed they were conservative, but close.

Mr. Marvel asked what the re-projections were. Mr. Bommarito referred to [Exhibit C](#), "Room Tax Receipts by Fiscal Year," and said it showed a forecast of \$15 million for the first year of the biennium and \$15.6 million for the second year, leaving a surplus of \$1.4 million.

Chairwoman Giunchigliani noted that Mr. Bommarito had used the term "conservative" in answer to Assemblyman Marvel's question and she disagreed with that term. Chairwoman Giunchigliani asked if there was a problem the Committee should know about since the NCOT was forecasting 9.49 percent and currently they were at 14 percent. Mr. Bommarito replied there was not a problem. Chairwoman Giunchigliani said there was a problem in that the budget was not built correctly, and asked the NCOT to "reforecast" their forecast. She continued and said that if the 3 percent and 4 percent for the budget authority were considered, it would be 10 percent. Mr. Bommarito explained that when the budget was built, the NCOT looked at the number of rooms coming online and a flat average rate, as well as normal trends. Chairwoman Giunchigliani asked for a definition of a normal trend. Mr. Bommarito replied that the NCOT had looked at national trends and trends in Las Vegas. Las Vegas and Nevada had had the best year in history in 2004. Chairwoman Giunchigliani interjected that the NCOT budget did not reflect that, nor did the revisions, and stated that

either the NCOT revised their budget or the Committee would do it for them. Mr. Bommarito replied that the Commission would be happy to revise the budget.

Chairwoman Giunchigliani asked if the projects requested in Decision Unit E-175 had been prioritized. Mr. Bommarito replied that there were some very diverse items in Decision Unit E-175. One of those items was enhancing the website, and the Internet, because that situation was under the category of deferred maintenance and much was needed. The other important item in Decision Unit E-175, according to Mr. Bommarito, was connectivity with rural Nevada. It was easy to find a company to provide a booking engine for Las Vegas, at their own expense, but rural Nevada did not have that kind of volume and if a booking engine was to be provided for that area it would have to be installed by the NCOT. Mr. Bommarito said it was a two-year plan to enhance computer ability, with the ultimate goal of being able to access the NCOT website through a rural website to book a room.

Chairwoman Giunchigliani commented that the NCOT had had a large increase of approximately \$3.9 million to expand into development areas. Mr. Bommarito acknowledged that it would take that amount to build rural Nevada into connectivity. Chairwoman Giunchigliani stated that was close to a 50 percent increase and the NCOT would have to provide better documentation to the Committee on how the money was being spent and the justification for spending the money. Chairwoman Giunchigliani continued and said she understood the needs of rural Nevada and the need to properly market rural Nevada, but the NCOT had a large increase in print collateral, e-subscriptions, and contracts. Mr. Bommarito noted that there had been large increases in television advertising, but television advertising showed such a large return on the investment. Chairwoman Giunchigliani asked how the NCOT knew it provided such a large return on the investment. Mr. Bommarito responded that the conversion ratio had been studied and it had gone from 17 percent of people who stated their choice to come to Nevada had been impacted by the commercials to 52 percent. Chairwoman Giunchigliani asked how the NCOT knew it was their television commercials and not the local television commercials that determined their choice. Mr. Bommarito responded that those people had been asked. Chairwoman Giunchigliani requested a sample of what questions the NCOT had asked.

David Peterson, Analysis and Research Manager, NCOT, stated that the Commission had performed an ad marketing effectiveness study which was done online. The NCOT used the largest online panel for travelers in the United States. Nevada travelers, and people who had seen Nevada advertising, were sought out and presented with a series of questions. Mr. Peterson said that at the end of the study the participants were shown NCOT's commercials and print ads and asked if those ads were the ones they had seen. Expenditure questions were asked of the participants as well. Chairwoman Giunchigliani asked if the participants were asked if they would have come to Nevada whether or not they had seen the commercial. Mr. Peterson responded that the question was asked.

Mr. Peterson said the NCOT was looking for (1) people who had seen the NCOT's television commercial; and, (2) the commercial influenced their decision to visit. The NCOT would then quantify that information with the expenditure data. Chairwoman Giunchigliani stated she believed the NCOT needed to provide an actual work program in writing promotion and advertising for projections for FY2006 and FY2007.

Mr. Bommarito said the biggest portion of the budget was for television. Chairwoman Giunchigliani asked the dollar amount for the television advertising. Mr. Bommarito replied it was \$1.2 million. Chairwoman Giunchigliani asked what the dollar amount for the television advertising had been last session and Mr. Bommarito replied there had been none. Chairwoman Giunchigliani asked how the television commercials had been funded. Mr. Bommarito replied that the NCOT had cut print ads, juggled funds, and worked within the existing budget to run television advertising. Chairwoman Giunchigliani asked if the advertising in *Nevada Magazine* had been cut and Mr. Bommarito replied no, because *Nevada Magazine* was completely separate. He continued and said that previously the NCOT had placed more print ads in magazines such as *Sunset* and *Outdoors*, but last session had cut many of those print advertisements to try television advertising. Mr. Bommarito said he believed testing the concept of television advertising before going into it full time was a good idea.

Chairwoman Giunchigliani asked how long the contract with the television company was for. Mr. Bommarito responded that the contract was for one year with nationwide direct response cable. There was a lot of flexibility provided with the contract and since it was direct response, if something did not work, it could be moved to another station.

Mr. Bommarito stated producing two new television commercials per year would cost approximately \$380,000. Chairwoman Giunchigliani asked what percentage the advertising agency received for their work. Mr. Bommarito replied that the fee was mostly hard costs paid to a film company and the advertising agency received very little.

Mr. Bommarito continued with his presentation and stated that the NCOT wanted to exploit China because they were currently the only entity that could advertise in China. Hawaii had been applying for a license to advertise in China for seven years and it still had not been granted, but someday they might receive the license. Mr. Bommarito said he wanted to really advertise in China while Nevada was the only game in town and that would cost another \$250,000 over the biennium.

Mr. Bommarito addressed Internet advertising and said the NCOT placed actual ads on the Internet that received a response. Those ads were not on the website, but were "blast" ads.

Mr. Bommarito went on to state that advertising in publications had done very well. In the past, most rural areas would purchase a small ad in the back of a magazine, such as *Sunset*, but the NCOT had created a co-op program where for half the price of a small ad, a rural area would share space with the NCOP and receive a much larger advertisement as shown on page 21, [Exhibit B](#). Mr. Bommarito indicated the co-op plan was working very well, and the responses received were 10 times better than anything the NCOT had attempted previously. The NCOT had \$450,000 per year earmarked for print advertising. Because the NCOT had been working with a fixed budget for so many years, they had to cut back on print advertising in order to remain within their budget when they began trying television advertising. According to Mr. Bommarito, when the NCOT cut print advertising in order to fund television advertising, their responses went way down.

Chairwoman Giunchigliani asked if the NCOT had done a complete electronic conversion of all their print material. Mr. Bommarito replied no, because it cost too much, but some had been converted. Mr. Bommarito said one of the

biggest challenges was as the NCOT reached more people, the demand for both print and electronic collateral continued to grow.

Chairwoman Giunchigliani requested that the NCOT ensure that the projects contained in Decision Unit E-175 were prioritized.

Chairwoman Giunchigliani asked for a description of the duties for the Project Analyst II position requested in Decision Unit E-175, and if that position would be responsible for the redesign of the agency's website or if someone else would be doing that work. Mr. Bommarito responded that the position was essentially a media person. Chairwoman Giunchigliani restated her question as to what duties were assigned to the requested Project Analyst II position. Mr. Bommarito replied that the Project Analyst II title was a State government title, but that person would work in media relations. Chairwoman Giunchigliani asked if the person in that position had duties. Mr. Bommarito responded that the position had duties. Chairwoman Giunchigliani requested a list of duties assigned to that position and also asked if the position would have any responsibility for the re-design of the website. Mr. Bommarito said the Project Analyst II position would not have any responsibility for the re-design of the website. Chairwoman Giunchigliani asked who would be responsible for the re-design of the website and Mr. Bommarito said it would be NCOT's Information Technology Department.

Chairwoman Giunchigliani asked if NCOT contracted for their website services. Mr. Bommarito replied that NCOT contracted for a portion of website services, but a large portion was done internally. Chairwoman Giunchigliani asked where she could see the cost for the portion that was handled by contract. Mr. Bommarito said the cost was within the contract with the advertising agency. Chairwoman Giunchigliani asked where it could be seen within the budget. Mr. Bommarito replied that it was not in the budget, but the NCOT could break it out for the Committee. Chairwoman Giunchigliani requested written documentation of the duties for the Program Analyst II position, who would be responsible for re-designing the website, and the breakout of the cost for the website re-design.

Chairwoman Giunchigliani asked why the Program Analyst II position was slated to be unclassified. Mr. Bommarito replied that according to state law, most of the NCOT's positions were designed to be unclassified.

Chairwoman Giunchigliani asked what state law governed the requirement for unclassified personnel.

Nancy Dunn, Deputy Director, NCOT, explained that the legislative bill that created the Nevada Commission on Tourism in the 1980s required that all employees, with the exception of clerical, would be in unclassified service. Ms. Dunn said the reason for that requirement had been that the job descriptions for the NCOT personnel had not fit neatly into civil service. People working in the tourism industry needed to be proactive, not reactive, therefore the position descriptions in the NCOT would frequently change based upon the needs of the tourism industry. Ms. Dunn stated that in civil service a job description was written and someone performed that job description for years. It had been by design that the positions at the NCOT had been created within unclassified service.

Mr. Bommarito commented that NCOT employees had to remain agile all the time. Chairwoman Giunchigliani responded that she understood that, but believed civil servants were quite capable of being agile if management wrote

the job description and duties correctly, as there was nothing to prevent management from changing duties from time to time. Mr. Bommarito said part of the challenge was that employees of NCOT worked long hours, holidays, and weekends. One of the largest trade shows the NCOT went to was over the Thanksgiving holiday. Chairwoman Giunchigliani requested a list of staff, who was classified, and who was unclassified.

Chairwoman Giunchigliani inquired about out-of-state travel to trade shows by employees of NCOT. Mr. Bommarito responded that NCOT employees attended trade shows which allowed them to expose their product and the state to thousands of decision makers at one time. Chairwoman Giunchigliani wondered if the local governments were already attending trade shows. Mr. Bommarito responded that Las Vegas usually attended, but they only represented Las Vegas and not other parts of the state. Chairwoman Giunchigliani asked if some sort of agreement could be worked out between the NCOT and representatives from Las Vegas to pool resources for the trade shows. Mr. Bommarito said the NCOT had solicited Las Vegas to include Reno, Sparks, and other areas for trade shows, but that was not acceptable to them. Chairwoman Giunchigliani remarked that perhaps receiving money from the State would not be acceptable to Las Vegas either. Mr. Bommarito stated that the NCOT worked well with Las Vegas, but they really represented Las Vegas and that was all.

Chairwoman Giunchigliani referred to the in-state travel section of Decision Unit E-175 and asked how participation in sporting events would increase tourism. Mr. Bommarito pointed out the Hollywood Shoot in Boulder City, Nevada, was one example of many small sporting events being promoted by the NCOT. The other item in in-state travel that was very important to the NCOT was the Nevada Tourism University, according to Mr. Bommarito. The Nevada Tourism University was on-the-road, practical, training classes for rural Nevada. Mr. Bommarito stated the NCOT was very proud of the Nevada Tourism University but it required much travel within the state to provide that education.

Chairwoman Giunchigliani requested more information regarding the Nevada Tourism University. Mr. Bommarito explained that it was a loose term because the NCOT was a marketing agency, but in rural Nevada there were many volunteers and there was also a great need for practical education, such as writing a grant application, working with the Internet, and public relations. There was a great need for education in rural Nevada and the Nevada Tourism University provided a vehicle for that education. Mr. Bommarito commented that the concept had been very well accepted and appreciated by rural Nevada, and all course teaching was performed by NCOT employees.

Chairwoman Giunchigliani asked if the NCOT could provide figures that showed the amount of room tax generated by the rural counties, and how much of that room tax went back to them. Mr. Bommarito replied that he did not have that information. Chairwoman Giunchigliani asked if Mr. Bommarito could get that information and he replied that he could.

Chairwoman Giunchigliani asked about the operating and postage segment of Decision Unit E-175. Mr. Bommarito responded that the NCOT had previously performed an experiment regarding postage. Research had shown there were 20 million people in the United States who made the decision as to where to take a trip or vacation within two weeks. Historically, the NCOT had produced a bulk mailing that took four to eight weeks to distribute. Mr. Bommarito said responses had increased from people who used that information to plan a trip to

Nevada. With the present blended rate from the post office, distribution averaged approximately eight days. The experiment worked very well and the NCOT went to the Interim Finance Committee (IFC) for funds for the balance of 2005 and funds were granted. Mr. Bommarito commented that the request in Decision Unit E-175 was to be used to meet the increased demand for print collateral.

Chairwoman Giunchigliani asked if the three- to seven-day turnaround had been achieved. Mr. Bommarito replied that it had been achieved.

Chairwoman Giunchigliani commented that promotion and advertising in Decision Unit E-175 had been briefly discussed and the NCOT had promised delivery of the breakout of the actual numbers as requested. The Executive Budget recommended \$3.35 million in FY2005-06 and \$3.53 million in FY2006-07.

Mr. Bommarito commented that the NCOT had created collateral that had not existed three years ago and it had been very successful.

Chairwoman Giunchigliani said regarding the contract issue that the Committee did not see the detail to justify the new expenditures and she suggested the NCOT have detail for each of those expenditures, or the Committee would not recommend them.

Chairwoman Giunchigliani requested information regarding the Host Fund included in Decision Unit E-175. Mr. Bommarito explained that the NCOT was very strict regarding how the Host Fund was used, it required pre-authorization, use for family and friends was strictly forbidden, and even volunteers from rural Nevada were not allowed to utilize the Host Fund. The Host Fund was used only to generate business. Chairwoman Giunchigliani said it had been difficult to determine the number of tours and the cost per tour and requested the NCOT provide the formula for determining those figures.

Chairwoman Giunchigliani requested a definition of "private entity." Mr. Bommarito replied it was a private company, not part of State government. Chairwoman Giunchigliani asked if the NCOT used private companies that charged registration fees. Mr. Bommarito explained that when the NCOT went to trade shows other entities were invited to take part along with them. It was more economical and provided a stronger presence at the trade shows.

Chairwoman Giunchigliani inquired as to what the private entities were, and if they were charged for the registration fee. Mr. Bommarito replied that costs were shared. Chairwoman Giunchigliani asked if those costs were distinguished in the budget so it could be determined what was coming from a private entity as opposed to what was coming from the State. Mr. Bommarito replied that could be provided.

Chairwoman Giunchigliani asked if the recommended dollar amount for registration fees reflected in The Executive Budget would pay for four more trade shows. Mr. Bommarito replied that was correct. Chairwoman Giunchigliani asked if the NCOT could provide figures reflecting the amount that could be saved if the Legislature did not approve the requested funds for registration fees. Mr. Bommarito replied that he would provide those figures, but encouraged the Committee to fund the trade shows because they were very valuable to the NCOT.

Chairwoman Giunchigliani noted in the Rural Grants Program that the requests for the program had exceeded the available funding by 50 percent. Mr. Bommarito said the Rural Grants Program was a training program as well. The rural areas had grown so much and when those areas wanted to do some marketing, they submitted a grant application to the NCOT. The rural grants had become more sophisticated, according to Mr. Bommarito, and the requests for those grants had doubled. The increases in the rural grants that the NCOT had requested were earmarked for technology. Chairwoman Giunchigliani said she wanted to see what the program really entailed and noted that normally it was a matching grant program. Mr. Bommarito replied that in most cases it was matching grants, but in this case the requested increase was 100 percent for technology. Chairwoman Giunchigliani asked where the technology was housed and if there was a match to the grant. Mr. Bommarito responded that the ultimate goal was that in two years someone could access the Nevada website, look at any city in the state, and be able to book a room in that city. Chairwoman Giunchigliani said she could understand that, but wanted to know what technology was being purchased, where was it being placed, and who owned the technology. Mr. Bommarito replied that it was software-driven and technology-driven. The rural areas would have to purchase the hardware, but would have to interface with the NCOT to accomplish the result. Chairwoman Giunchigliani stated she wanted to see a breakout of exactly what was being purchased, what the match in funds was, if there was no match why it was deemed to be no match, where it was going to be housed, and what the State's responsibility was as far as ownership, because the NCOT's request represented a 17 percent increase in the budget.

Assemblyman Hogan inquired about the NCOT's plans for establishing an office in Mexico in partnership with the Las Vegas Convention and Visitors Authority. He asked where and when the office would be opened and whether there would be expenses for translating into Spanish. Mr. Bommarito replied that part of the request for Internet funding increases was for translation into six or seven languages. Las Vegas had already established, with a small amount of help from the NCOT, an office in Mexico City and in Guadalajara. Mr. Bommarito said the NCOT wanted to fully participate in the Mexico offices because that market went throughout all of Nevada and not just Las Vegas.

Chairwoman Giunchigliani asked when the offices in Mexico had been established. Mr. Bommarito replied they had been established toward the end of 2004. The NCOT had contributed a small amount of funding just to be able to use the offices, but the NCOT wanted to contribute \$100,000 per year to fully access the market. Mr. Bommarito stated that the Las Vegas Convention and Visitors Authority (LVCVA) was contributing \$300,000 per year.

Chairwoman Giunchigliani asked why the LVCVA had chosen Mexico to open an office. Mr. Bommarito replied that it was a huge market, Mexico's economy was picking up and their travelers spent money.

Chairwoman Giunchigliani remarked that she believed the Committee should look into the international trade category more closely because the NCOT was going from a \$372,000 budget to a \$622,000 budget over the biennium. Mr. Bommarito pointed out that the budget was for Mexico and China. Chairwoman Giunchigliani commented that \$200,000 could be removed from the budget and the LVCVA could keep the office in Mexico.

Chairwoman Giunchigliani asked what the costs were for China without the costs for Mexico included. Mr. Bommarito said it was fairly economical, about \$150,000 per year, and no one could advertise in China except the NCOT.

Chairwoman Giunchigliani asked that the request for a new accounting position be addressed. Mr. Bommarito replied that the NCOT needed that position because the agency presently had one clerical position. In 2003 the agency had six audits which could have employed another person just to work with the auditors. The NCOT ran parallel accounting systems because everything the agency did was assigned and had a return on investment analysis performed on it.

Chairwoman Giunchigliani asked if the new position was classified or unclassified. Mr. Bommarito replied that it really depended upon whether the position was funded or not.

Chairwoman Giunchigliani asked if the NCOT had been relieved of responsibility for Administrative Services to the Lt. Governor's Office. Mr. Bommarito replied that the NCOT still had that responsibility. Chairwoman Giunchigliani asked if the NCOT charged the Lt. Governor's Office for the Administrative Services. Mr. Bommarito replied that they did not.

Chairwoman Giunchigliani asked what the justification for the new Accounting Assistant III position was, if it was not increased workload. Mr. Bommarito replied that when the agency became responsible for Administrative Services for the Lt. Governor's Office it had been an increase in workload on a temporary basis, and the agency had juggled duties in order to accommodate the added responsibility. Now that it appeared that the assignment would be permanent, another position would be necessary. Chairwoman Giunchigliani said the Committee needed a breakdown on the audits and the amount of time required to justify the need for the new position.

Assemblyman Seale asked if the new accounting position that had been requested could be classified as performing cost accounting. Mr. Bommarito replied that would be a very accurate classification.

Mr. Seale asked if cost accounting could be accomplished in the State accounting system the way it was currently configured. Mr. Bommarito replied that was correct, the NCOT had installed an internal accounting system that allowed them to monitor projects on a day-to-day basis.

Chairwoman Giunchigliani requested information from the NCOT which would explain what work the current accounting position was doing and what work the new accounting position would do.

Chairwoman Giunchigliani requested information regarding Decision Unit E-176, the Reno-Tahoe Winter Games. Mr. Bommarito explained there was a plan to bring the Winter Games to the Reno-Tahoe area and the NCOT had been involved for quite some time. Mr. Bommarito said that he sat on the board, the Lt. Governor sat on the board, and 2018 would be the targeted date for the games. He stated The Executive Budget recommended \$75,000 for each year of the biennium to support the functions and activities associated with the Reno-Tahoe Winter Games. Chairwoman Giunchigliani questioned what board Mr. Bommarito was referring to. Mr. Bommarito replied that it was a committee from northern Nevada attempting to bring the Winter Olympics to the Reno-Tahoe area. Chairwoman Giunchigliani asked why the State should contribute \$150,000 for people to be on a board. Mr. Bommarito replied that the money was needed to attempt to acquire the Winter Games. Chairwoman Giunchigliani stated the Committee needed more information regarding the request.

Mr. Seale asked if the board was a 501(C)3 organization that had been formed exclusively to bring the Winter Games to northern Nevada. Mr. Bommarito replied that was correct. He further commented that the Winter Games could not be referred to as an Olympic function at this point in the process, which was why they were referred to as the Winter Games. Mr. Seale asked if the board had been seeded with any private funds. Mr. Bommarito replied that at this point in time it had not; however, the board had a very detailed fundraising plan which had not yet been executed.

Chairwoman Giunchigliani requested more detail and information regarding Decision Unit E-176.

Chairwoman Giunchigliani requested clarification of the transfer of \$125,000 to *Nevada Magazine* from the NCOT budget account in FY2003-04. Mr. Bommarito replied that it was actually a purchase for which the NCOT received product. Chairwoman Giunchigliani stated the NCOT had circumvented the IFC. Mr. Bommarito responded that had not been the intention. *Nevada Magazine* was a publication that published other publications, such as *Open Road*. NCOT had purchased some of those publications to use at trade shows as part of the print collateral and that was what the transfer of funds represented, according to Mr. Bommarito.

Chairwoman Giunchigliani stated that the NCOT was budgeted to transfer \$125,000 to the budget account of *Nevada Magazine*. The actual transfer had been \$145,833, an additional \$20,833, which meant the NCOT had transferred more money than had been approved by the IFC.

Stephen C. Woodbury, MPA, Operations and Finance Manager, NCOT, explained that the transfer had been recommended by the Controller's Office. The NCOT had been paying in arrears for product that *Nevada Magazine* had developed. The transfer had been in the budget for many previous biennia, according to Mr. Woodbury. *Nevada Magazine* had identified that the NCOT had been paying for product after it had been developed. Mr. Woodbury said *Nevada Magazine* had proposed, and it had been worked out with the Controller's Office, that NCOT would pay for the product in advance to enable *Nevada Magazine* to have the funds to pay for development. It had been a one-time correction, according to Mr. Woodbury.

Chairwoman Giunchigliani noted that the transfer had come from the promotion and advertising category. Mr. Bommarito acknowledged that was correct, because the NCOT purchased product to use in promotions. Chairwoman Giunchigliani said she still did not understand why the NCOT had not used a simple work program if that was the case. Mr. Bommarito explained that the transfer had always been done in that manner, but he would attempt to find out why.

Chairwoman Giunchigliani requested additional details regarding the replacement equipment requested in Decision Unit E-710. Mr. Woodbury said the replacement request was a routine 3-year replacement schedule, but the NCOT would provide a detailed list.

Rich Moreno, Publisher, *Nevada Magazine*, identified himself for the record and presented an overview of Budget Account 530-1530.

Mr. Moreno said that *Nevada Magazine* served as the publications division for the Nevada Commission on Tourism and had submitted a status quo budget for FY2006-07. Budget Account 1530 requested no new programs, no new positions, nor were there any proposed significant changes or additions. For nearly 70 years *Nevada Magazine's* job had been to promote tourism and travel in Nevada. While the magazine had evolved over the years, from its early days as a black and white digest, its basic mission had remained the same; to educate the general public about what made Nevada special and encourage readers to explore the state. Mr. Moreno said *Nevada Magazine* spotlighted the state's fascinating history, interesting people, natural wonders, culture, heritage, entertainment, special events, and recreational activities. *Nevada Magazine* complemented and enhanced the Nevada Commission on Tourism's mission of attracting visitors.

Mr. Moreno explained that *Nevada Magazine* had been involved in a pilot program with newsstand distributor/consultants in the past year and a half to get the magazine distributed in more places. The magazine was now distributed at Wal-Mart, Barnes & Noble, Borders Books, airport gift shops, and various cities. Magazine distribution was a very specialized field, according to Mr. Moreno, and it was difficult to accomplish distribution without help from organizations that did that work full time.

Mr. Moreno said *Nevada Magazine* also had created and published *Open Roads*, a guide to RVing in Nevada. *Open Roads* was a joint project with the NCOT, which produced a 32-page guide. The response had been positive, both from advertisers and the Commission staff who used it, as well as consumers who picked it up. Mr. Moreno said the guide had been so successful it was being scheduled as an annual publication.

In the past year and a half the format of *Nevada Magazine* had changed significantly. Mr. Moreno commented that the magazine had responded to some reader suggestions for improvement by going to "perfect binding," which was a square binding. Perfect binding made the magazine stand out better on the newsstand and looked somewhat more prestigious, according to Mr. Moreno. Mr. Moreno explained that *Nevada Magazine* produced the "Nevada Events and Shows" column which was historically bound in the center of the magazine. Readers had complained that when reading stories they would get to the large events section in the middle of the magazine, and then have to go to the back of the magazine to get to the rest of the story. By changing to perfect binding, the magazine no longer had to place the events column in the middle of the magazine; it could be placed toward the end. Mr. Moreno said he believed that change improved the readability of *Nevada Magazine*.

Mr. Moreno indicated that he and the *Nevada Magazine* staff were constantly tinkering with the design and layout to improve readability. A new program had been initiated in partnership with other State agencies. In the program, agencies that had a lot of contact with the public, such as State Parks, would be distributing a brochure which offered a subscription to *Nevada Magazine*. In return, State Parks would receive 35 percent of every subscription sold through their auspices. Chairwoman Giunchigliani asked how much a yearly subscription cost. Mr. Moreno replied it cost \$19.95 for six issues.

Chairwoman Giunchigliani asked if *Nevada Magazine* had made an adjustment to the budget for the 35 percent that State Parks would receive. Mr. Moreno

replied that no adjustment had been made because \$19.95 was the advertised price, but the magazine frequently discounted that price to subscribers. A normal subscriber would receive \$2 off the regular subscription when they renewed the subscription. Mr. Moreno said the magazine tested many different rates to get responses. The circulation manager monitored mailings and responses to attempt to determine what worked best.

Chairwoman Giunchigliani asked what 35 percent of the magazine subscription worked out to in money. Mr. Moreno said approximately \$3 off a \$19.95 subscription. Chairwoman Giunchigliani asked if that 35 percent would be showing up in the State Parks budget. Mr. Moreno replied that he believed the way State Parks was handling it was to give the money to the nonprofit Friends of the Parks for promotional use. Chairwoman Giunchigliani said that money needed to be tracked.

Mr. Seale commented that in looking at the actual expenditures of \$1.8 million for FY2003-04, the approved work program for that year was \$2.4 million, and in every category *Nevada Magazine* underperformed on the revenue side. Mr. Seale continued and said when looking at the work program for FY2005-06 it was above what was approved last session, and he wondered what made *Nevada Magazine* believe they could produce to that level in the coming biennium.

Mr. Moreno replied that historically the budget was compiled based on numbers that were higher than produced because the magazine wanted to have the flexibility to be responsive in certain areas. If the magazine brought in more than the previous year, all costs went up; therefore, the budget was developed with a cushion in every category. Mr. Moreno said if the magazine did a particularly good job with the golf guide, for instance, there was not enough time to be able to go to the IFC to request the authority to accept additional funds.

Ms. Giunchigliani commented that *Nevada Magazine* inflated their budget and Mr. Moreno replied that the magazine did not inflate their budget, but they put in figures that had been reached in the past in order to provide flexibility. Mr. Moreno pointed out that *Nevada Magazine* did not spend up to the maximum on expenditures; the magazine essentially spent what they brought in.

Mr. Seale commented that it had been mentioned earlier that *Nevada Magazine* was difficult at best. Mr. Moreno acknowledged the magazine was a challenge, but maintained it was operated as a "break-even" publication. Product and services were sold to the NCOT. *Nevada Magazine* did not receive a subsidy, according to Mr. Moreno, but sold an overrun of the Nevada events section to the NCOT. The magazine also sold approximately 27,000 subscriptions, at cost, to the NCOT.

Mr. Bommarito asserted that the NCOT watched the finances of *Nevada Magazine* very carefully. He admitted it was a challenge, and the challenges would continue.

Mr. Seale asked what *Nevada Magazine* produced in terms of benefits for the state. Mr. Bommarito replied that the magazine had a great historical, rural background that the reader could learn from, however, if he were to publish a magazine purely for profit that would not be the direction in which to go. If the magazine continued to break even, Mr. Bommarito said he would rather have the magazine than not have it.

Chairwoman Giunchigliani said the question was whether *Nevada Magazine* was breaking even because in the past it had not. Mr. Moreno said that was not correct as he had been the publisher for 13 years and the magazine had broken even every year during that period. Some years the "carry forward" from the previous year had been used.

Mr. Bommarito commented that *Nevada Magazine* was on the NCOT's "action step program" where they were reviewed for steps they had taken to generate revenue, both in magazine sales and marketing for advertisements, and they were a very accountable organization.

Chairwoman Giunchigliani noted that *Nevada Magazine* had a shortfall in FY2003-04 for advertising, calendar, and merchandise sales. Projections for subscription sales showed an increase from 60,000 in FY2003-04 to 61,000 in FY2005-06, which should have generated \$20,000 but the budget showed \$36,000. Chairwoman Giunchigliani requested some clarification regarding the figures presented.

Mr. Moreno cited an example that two years previously *Nevada Magazine* had produced the visitor's guide for the NCOT, which generated approximately \$105,000 in advertising revenue and the magazine had the ability to accept that money. The NCOT put the visitor's guide out to bid the next year. *Nevada Magazine* bid on the job but did not get it, so they lost the ability to raise that money and produce that publication. Mr. Moreno maintained that *Nevada Magazine* was run like a business within the NCOT, and they were treated that way by the NCOT.

Chairwoman Giunchigliani reiterated that she wanted to know how the magazine arrived at the difference between \$20,000 and \$36,000 in projected revenue. Mr. Moreno replied that figure would vary depending upon how many bulk calendars were sold. The flexibility was left in the budget because if a large vendor came along the magazine would need the authority to accept that revenue.

Chairwoman Giunchigliani stated that in the performance indicators the budget showed 1,000 subscriptions over the actual number of 60,000. She wondered how the performance indicators were projecting \$36,000 when a subscription was \$20 and there were 1,000 subscriptions projected, making it appear like overinflated revenue.

Chairwoman Giunchigliani went on to inquire about barter income. Mr. Moreno said barter income was a program that allowed *Nevada Magazine* to accept airline transportation, but they had not been able to negotiate a transfer with an airline.

Assemblywoman Weber asked if it would be possible to procure a copy of the subscription distribution. Mr. Moreno replied he could provide those figures.

Ms. Weber inquired as to whether *Nevada Magazine* was part of the China campaign and if it was translated into other languages. Mr. Moreno replied that *Nevada Magazine* was not translated into other languages. As part of the subscription purchase by NCOT, a small portion was distributed to their international offices. The majority of subscribers to the magazine were in every state and Canada.

Assemblyman Denis asked for information concerning the calendar and who it was popular with. He went on to say he knew state agencies received calendars and wanted to know how much that distribution amounted to. Mr. Moreno said most state employees purchased the calendars, and while a few were distributed for advertising purposes, they were generally not distributed to State agencies.

Chairwomen Giunchigliani closed the hearing on Budget Account 1530.

Chairwoman Giunchigliani opened the hearing on Budget Account 1523.

DIVISION OF TOURISM

TOURISM DEVELOPMENT – (225-1523)

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Mr. Bommarito said that Budget Account 1523 provided \$200,000 for grants to stimulate tourism by assisting with the infrastructure needs of communities. The program was for rural Nevada and the NCOT usually received approximately \$1 million in requests.

Chairwoman Giunchigliani asked if the NCOT accounted for what infrastructure the money was spent on, and asked how the term “infrastructure” was defined. Mr. Bommarito replied there was a committee set up between Economic Development and NCOT. A great project example was “Locking your Love in Lovelock,” according to Mr. Bommarito. Lovelock had built a gazebo and placed a chain around the courthouse. There would be a tradition in Lovelock where anyone could go, put a lock on the chain, and symbolically lock their love. Mr. Bommarito said those were the kinds of things silly enough to work.

Chairwoman Giunchigliani said she would still like to see a written definition for infrastructure. Mr. Bommarito said he would provide a list of the grants.

Chairwoman Giunchigliani asked about the \$10 million in Decision Unit E-151, General Fund for regional development. Mr. Bommarito replied that was not related to the NCOT, it was in the budget of the Division of Economic Development. Chairwoman Giunchigliani asked how that was different, and Mr. Bommarito stated the NCOT and the Division of Economic Development were separate agencies and NCOT had nothing to do with Decision Unit E-151.

Chairwoman Giunchigliani stated that she had always promoted consolidating the Division of Economic Development and the NCOT because she believed it was nonsensical to have two different agencies that complemented each other so well. Mr. Bommarito said all tourism was economic development, but all economic development was not tourism.

Chairwoman Giunchigliani agreed with Mr. Bommarito’s comment, but maintained that both functions could be performed jointly and the use of funds could be maximized. Chairwoman Giunchigliani asked for clarification that Mr. Bommarito knew nothing about the \$10 million in Decision Unit E-151 and Mr. Bommarito stated that he knew nothing about it.

Chairwoman Giunchigliani requested comment on S.B. 5.

Ms. Dunn explained that S.B. 5 was a “housekeeping effort.” When the program was originally created that was the fund that went into the tourism development projects, Budget Account 1523; the language in the bill said that it would require the IFC’s approval. There was a cap of \$200,000 of Lodging Tax

funds that could go into the program and it would require Interim Finance approval before the NCOT could move that money. Because it was in its own budget account and it was accounted for through the State Budget Act, Ms. Dunn explained that it had seemed duplicative to go before the IFC when the actual budget, or the \$200,000, had been approved by the full Legislature.

Chairwoman Giunchigliani commented that every State agency could argue that it was “duplicative” when they had to appear before the IFC. She asked what problems had been encountered.

Mr. Bommarito replied there had been no problems, simply the duplicative effort.

Chairwoman Giunchigliani recessed the meeting at 10:00 a.m. and reconvened at 10:07 a.m.

DIVISION OF ECONOMIC DEVELOPMENT
COMMISSION ON ECONOMIC DEVELOPMENT (101-1526)
BUDGET PAGE – ECON DEV AND TOURISM – 1

Bob Shriver, Executive Director, Commission on Economic Development, identified himself for the record. [Exhibit D](#), “Assembly Ways and Means, Budget Hearing, Agency Presentation,” was presented to the Committee.

Mr. Shriver stated he wanted to go through Budget Account 101-1526, which was the Economic Development portion of the budget. He informed the Committee that 100 percent of the administrative funding for Budget Account 101-1526 came from the General Fund. Within that budget account was Business Development, Global Trade and Investment, the “Made in Nevada” Program, and Marketing. Mr. Shriver said the purpose and primary goal of the Commission was to foster a healthy business climate for the state of Nevada, and one of the ways that was accomplished was by measuring the impact of dollars into the state. The real numbers that helped the agencies’ audience, citizens, and policy leaders better understand the Commission’s activities showed that economic development was a process, not an event. Much of what the Commission did took months to years to germinate and produce a new company locating in Nevada, or in the case of an existing business, helping them expand their operations.

In the past biennium, the Commission had undertaken a statewide marketing campaign with the Nevada Development Authority, the Economic Development Authority of Western Nevada, Northern Nevada Development Authority, and Sierra Pacific Power Company, to focus on an integrated marketing effort in California. California was the primary target for business development. Mr. Shriver stated a limited budget of \$560,000 had allowed the Commission to use the Internet, and some advertising media. What had transpired was a remarkable return on investment in which that \$560,000 advertising campaign generated more than \$10 million in leveraged media. Mr. Shriver stated that public relations stories, stories on news broadcasts from CBS national news, regional stories in the *L.A. Times*, and *USA Today* were all leveraged media. If the Commission had to purchase that advertising it would cost about \$10.2 million. The advertising campaign focused on small to mid-size California businesses. [Exhibit D](#) provided an example of the campaign called “Worst-Case Scenario, You’re Out of Business.” The concept had been to point out that a business staying in California would incur higher worker’s compensation costs, utility costs, and Family Medical Leave Act costs. Small businesses had little or no control over those costs. Regardless of what had transpired with the

\$10.2 million, it had caused Governor Arnold Schwarzenegger to appear in Nevada to kick off his nationwide billboard campaign to encourage California businesses to come home.

Mr. Shriver noted that had also encouraged the Commission to have a second different approach in their advertising campaign, which had been kicked-off in 2004 with good results. It was important to understand, according to Mr. Shriver, that California had always been the primary source of new business coming to Nevada. Often it was an existing sole proprietor, family-owned, small publicly-owned company that chose to come. Further, that company knew the west, and still wanted to serve the California market or the Pacific Rim, and Nevada was ideally situated for that. Mr. Shriver said Nevada also received a host of national firms that were consolidating operations. One example close by was the Starbucks Roasting Plant in Minden. Starbucks had looked at California and decided, all things considered, it was much better for them to be in Nevada and they could still serve the same marketplace. Mr. Shriver said national companies in their site search selection process went through the criteria sheet and Nevada ended up with a lot of great small companies, mid-size companies, and nationally recognized firms that were moving operations here.

Mr. Shriver explained that part of what the Division of Economic Development did was to administer the incentives program through Budget Account 1526. The Division also administered a very successful business retention software program which allowed development authorities, or community economic development people, to work with existing businesses that had located in Nevada previously and discover their needs and what their issues were. Mr. Shriver said the Division had done a remarkable job of reaching back into the business community and keeping in touch.

Mr. Shriver said the business development and research people with the Division had responded to over 800 telephone inquiries plus over 25,000 Internet contacts in the past year. Advertising campaigns were always difficult to judge for success, according to Mr. Shriver, but in the past year and a half the Division believed it had hit on something with their edgier approach to economic development advertising. No longer were there going to be sunsets and golf courses in the Division's advertising, there would be advertising a little more to the point about business operations. The Division's latest advertising was "Nevada to the Rescue" about whether or not your business would be terminated in California.

Mr. Shriver said part of the Division's program, besides the incentive program, was what could be considered one of the hallmarks of small business development and recognition, the "Made in Nevada" program. It had been floundering a little while, but a staff of people, who loved the concept, took the program on, and now a remarkable resurgence was focused on manufactured products made in Nevada. In April the Division would be downstairs in the lobby with a display similar to the one presented two years ago. It would be an opportunity for everyone to see some of the fine young companies, and the new entrepreneurs in Nevada who had ambitions beyond just the craft shows. They were going on to marketing not only regionally within the state, but regionally within the West.

Mr. Shriver commented that under Budget Account 1526 was the Global Trade program, which last year was remarkably successful in leveraging monies and a grants program to the United States Department of Agriculture's trade show program. The Division took companies to Japan, Mexico, and China with

agricultural products, food additive products, and the results had been remarkable in the amount of new sales and projected future sales. Just for export sales from July 2003 to projected sales through June 2005, there were over \$15 million in new sales to Nevada companies who export, and that was only the one program that focused on food additives.

One of the keys was that Nevada had grown to almost \$3 billion in export sales in the past year. While the price of gold had something to do with it, Nevada's exports had grown significantly in other areas, from electronic equipment manufacturers all the way to food product additive companies. Mr. Shriver said what was interesting to note was the average manufacturing exporter in Nevada actually paid a wage of approximately 15 percent higher than the normal manufacturing wage. The value added in export trade allowed them to have better, more skilled employees. Mr. Shriver said that was significant, as the Division worked with companies on training programs that taught them how to export. The agency needed to expand that program and were working on ways to do so. Mr. Shriver stated the Division was somewhat limited with only two staff people. The Division's employees worked closely with groups in Las Vegas and in northern Nevada to attempt to get the word out.

The other significant area had been the rural programs. One of the documents the Division had created several years before was the Building Prosperity, a documented strategic plan for rural Nevada. In that document were guidelines and goals that had been considered very important for rural Nevada. Mr. Shriver said the focus the Governor wanted to take was to ensure that rural Nevada had an opportunity to develop businesses and to create tax bases on their own without relying on Clark County or Washoe County to fund some of that activity needed. The Division had to assist rural Nevada find ways to create businesses, keep those businesses alive, and generate and foster entrepreneurship in rural Nevada. One of the considerations was keeping the businesses they had whole, and growing them from there. Mr. Shriver said attracting businesses was somewhat more difficult in some parts of our rural communities. Those in proximity to Reno, Carson City, and Las Vegas certainly would have a better opportunity.

Mr. Marvel asked how far the \$1 million in The Executive Budget, earmarked for rural Nevada, would go, and how it would be distributed.

Mr. Shriver deferred the question to Lisa Foster.

Lisa Foster, Deputy Chief of Staff, Governor's Office, stated that in The Executive Budget the Governor realized the need to refocus the State's economic development efforts. The Governor saw that not only was Nevada the fastest growing state, it had the unique position of having two large urban centers, and a huge area of rural property that needed to be addressed through all State agencies. Ms. Foster said that over time the Division of Economic Development's efforts had moved toward becoming a more necessary service to the rural areas, and more of an adjunct service to the urban areas. The economic development efforts were different and the resources were different. Ms. Foster stated that in The Executive Budget, the Governor, after consulting with the Lt. Governor, who headed up Economic Development, recognized the need to help each group do what it did best from the two urban centers.

Ms. Foster said the Governor wanted the Commission on Economic Development to direct its efforts more toward the rural areas and he had provided for an infusion of money into the urban economic development groups, Nevada Development Authority (NDA), and the Economic Development

Authority of Western Nevada (EDAWN) in The Executive Budget. The Commission on Economic Development currently had a grant program in place, and EDAWN and NDA currently received about \$1 million from that grant program. Ms. Foster explained that the Governor was requesting that that money now be directed to the rural areas to meet their needs and that \$10 million be directed to NDA and EDAWN, divided at a 65 percent, 35 percent split. NDA and EDAWN had been tremendously successful in bringing new companies to Nevada. Those groups knew best how to market their particular communities and had done an excellent job of attracting new businesses with high paying positions to our state, thereby diversifying and stabilizing our economy.

Ms. Foster noted that State participation in those regional groups would serve to bolster and strengthen their efforts toward improving Nevada. The Governor's Office encouraged support of the new initiative. Ms. Foster summarized that what the Governor wanted to do was take \$10 million of new money, put it toward economic development efforts by putting the \$10 million into NDA and EDAWN, and have them give their current \$1 million in grant funds to the rural parts of the state through the grant program. That plan would provide a net benefit of \$9 million to EDAWN and NDA over the biennium, and a net benefit of \$1 million to the rural areas through the grant program over the biennium.

Mr. Marvel asked what type of formula would be used for the distribution to rural Nevada.

Ms. Foster replied that it would be the same program currently in place.

Mr. Shriver said one of the things that needed to be done in rural counties was to reevaluate how that distribution was accomplished. Currently, the minimum amount of matching grant funds that were distributed to the regional development authorities was only \$20,000. One of the items being analyzed was how much the state received in return. Mr. Shriver stated the Commission was exploring ways to ensure that the quality of projects, the infrastructure development, and technical training were focused in areas that were growing. Mr. Shriver said he believed that the Commission would continue to examine rural programs and see if there were project related items that could be enhanced with the Commission's help.

Mr. Shriver noted that the Community Development Block Grant (CDBG) was an area where the Commission needed to provide some resources, although not necessarily money; technical advice and consultants were also needed. Mr. Shriver stated that entrepreneurship was essential to rural Nevada.

Mr. Marvel asked if the new money would require a match.

Mr. Shriver replied that the way it was being handled currently, it would. However, in rural Nevada the Commission did not have the strict dollar-for-dollar match that was required in urban areas. If a rural area made an effort, the project was worthy, and the track record was good, Economic Development would give the money, according to Mr. Shriver.

Mr. Marvel asked if the funds were a one-shot appropriation.

Ms. Foster replied that the intent was to have an ongoing program. Ms. Foster commented, regarding matching funds, that the intent was to have the money going back to the grant programs to continue to be a grant match program, but

the new money going to the urban development authorities not be a match program.

Mr. Arberry asked how the Governor had arrived at the amount of \$10 million.

Ms. Foster replied that she believed the Governor had believed that \$10 million would be a good amount of seed money to push the two regional authorities further in the right direction. She said it provided a sense of support to their members in Las Vegas and the Reno/Sparks areas to show that the State wanted to support their efforts and combine the State's funds with their funds to help diversify the economy.

Mr. Seale asked if the Legislature were to grant the request for \$10 million, what performance indicators would show that something good had been done with it.

Ms. Foster responded that she could briefly answer that question, but believed that the Committee would probably rather hear from the two development authorities that would be receiving those funds to tell the Committee what they would do to demonstrate the money had been spent wisely.

Mr. Seale asked how much of the funding would end up in the rural areas.

Mr. Shriver replied that it would be a new \$1 million over the biennium, or \$516,000 per fiscal year.

Mr. Seale asked how much the rural areas were receiving currently.

Mr. Shriver answered that approximately \$398,000 was divided between all the rural development authorities.

Mr. Seale asked if the \$398,000 went away and the rural areas received \$1 million instead.

Mr. Shriver replied that \$516,000 was in addition to \$398,000.

Ms. Foster commented that what NDA and EDAWN received through the grant program was going to the rural areas, and that was the \$500,000 each year that Mr. Shriver was referring to. The rural areas would receive \$1 million more, the urban areas would give up the \$1 million in the grant program, receive \$10 million, and have a net benefit of \$9 million. The rural areas would receive a net benefit of \$1 million.

Chairwoman Giunchigliani asked why the urban match would be removed.

Ms. Foster replied that when the Governor proposed the program it had not been realized that there was a match requirement. It had been decided that the best way to provide the money was to go through the Commission, through the grants program, as the best avenue to providing the money. When it was discovered that there was a match it did not work well for EDAWN and NDA. Ms. Foster said when the requests by the rural areas were examined the match made more sense. When giving money directly to the two regional authorities, the match did not work with their budgets.

Chairwoman Giunchigliani said it appeared as though one standard was in place for one group, and another standard for the other group. She said she appreciated that it might be a little cumbersome, but it was still General Fund

money being requested, and there was a responsibility to make sure it was being spent correctly.

Mr. Shriver commented that had not been lost on the reporting requirements' performance measurements. He suspected the Commission would like to see the same criteria met that were currently in place under the matching grants program. That would not change, but how it was reported might change. Mr. Shriver said the "pass through" was critically important as those dollars needed to be distributed and put to work in exciting ways. It was a very competitive world in economic development, where the State Office of Economic Development was up against communities and other states that "offered the moon."

Chairwoman Giunchigliani wondered if the thought would be to stay with the match program, but install a simpler accounting mechanism as far as what was reported. She further questioned if the expansion of current companies was included in the performance indicators, or only brand-new companies.

Mr. Shriver replied that the expansion of current companies was included as well. The success of those companies being given an incentive early on was remarkable. Mr. Shriver cited the example of Ford Motor Credit in the Las Vegas area which annually came before the Commission for training funds as they added more workers.

Chairwoman Giunchigliani asked how the Commission separated continuing to help an established company as opposed to recruiting a new company. She stated at some point it became the responsibility of the company to pay for those types of activities.

Mr. Shriver said one of the critical requirements of the incentive programs, and something the Commissioners had never wavered on, was the wage requirement. The wage requirements applied to both expansion companies and new companies. Mr. Shriver said the Commission always looked at new jobs to Nevada, which was the avenue the Commission had chosen to take. In the case of a new company to Nevada, the wage requirement included everyone from the president on down through the janitor. Expansion companies only had to consider new jobs to Nevada, so the jobs they added still had to meet the minimum requirement of the statewide average wage.

Chairwoman Giunchigliani asked what the statewide average wage was currently. Mr. Shriver replied it was \$16.49 per hour.

Chairwoman Giunchigliani asked if administrative staff salaries were still being included in the average, because in her opinion that would skew the dollar amount. Mr. Shriver replied that administrative staff was included. He stated the Commission used figures from the Department of Employment, Training, and Rehabilitation (DETR) because they had no other way to acquire accurate numbers.

Chairwoman Giunchigliani commented that a boss making a large salary could unfairly change the average and thereby reflect on the salary actually received by a janitor or clerical worker. Mr. Shriver commented that Nevada already had many low-wage jobs and the Commission did not want to create more low-wage jobs. A new company had an advantage on the incentive program where an existing program did not.

Chairwoman Giunchigliani said that in the Office of Economic Development's review of what types of companies they either wanted to track, or expand, she asked were the goals also to look at the new types of conservation, green building, and minority-owned business. She wondered what the Commission was doing to ensure those factors were part of the plan to attract business to Nevada.

Mr. Shriver replied that minority-owned businesses would be addressed in Budget Account 4867. As far as conservation and green building, Mr. Shriver said the Commission believed Nevada had the potential to be its own supplier of energy. There were a number of renewable energy companies working with a lot of diverse people to develop programs for that type of industry. Mr. Shriver remarked that there was so much work to be done in critical areas.

Assemblywoman Leslie stated she remembered the discussion from last session very clearly about wages and asked if Mr. Shriver was saying the Commission did not have a report that separated out what the real wage was. She said it had been her understanding that companies would be surveyed after a year to ascertain if they were still paying the same wages. Ms. Leslie asked if the Commission would be able to provide those figures and the figures on health benefits as well.

Mr. Shriver responded that the \$16.49 per hour figure excluded health care benefits, which the companies must also provide.

Ms. Leslie commented that she knew those figures were correct when a company started, but wondered if anyone checked back to see if those figures were still valid after a period of time. Mr. Shriver responded that they did.

Ms. Leslie noted the performance indicator number 6 was not very helpful. It showed that the total gross new wages went up, but those figures could be skewed so easily, according to Ms. Leslie. She stated the Committee wanted to make sure the State was attracting high quality jobs, but she still had not seen any data that proved once the companies built in Nevada, that they continued to pay the high wages and benefits five years after.

Mr. Shriver stated in the incentive programs companies had to reach a five-year mark which guaranteed an audit by the Department of Taxation where wages, employee numbers, and capital investments were examined.

Ms. Leslie requested a copy of the audit with management wages separate from hourly workers. Mr. Shriver said the Department of Taxation was not required by law to break those figures out.

Ms. Leslie said she was not going to be satisfied until she could see that the line workers were making the wages and not just management.

Mr. Shriver stated that when the Commission reviewed an incentive package they required that those figures be broken out. After a certain point the Department of Taxation and DETR did the audits, and because Nevada did not have a personal income tax, those figures were not available.

Ms. Leslie maintained the figures available were not enough because a company could say anything on an application, it was five years later she was concerned with.

Mr. Shriver stated that was why those companies were audited. Ms. Leslie said she wanted to take another look at an audit.

Donald Snyder, Chairman, Board of Trustees, Nevada Development Authority (NDA), identified himself for the record. Mr. Snyder stated he was also president of Boyd Gaming Corporation for the next 10 days.

Mr. Snyder stated he had the unique opportunity to change directions after 36 years in the business world. He had spent his first 22 years as a banker and it was his banking career that had brought him to Nevada in 1987. Mr. Snyder said that in 1987 he had an opportunity to come to Nevada, had lived at both ends of the state, and had conducted business throughout the state. He believed he had a perspective that was fairly broad and went beyond his current business hat. He had spent several years as an international banker, living and working overseas.

Mr. Snyder said over the past nine years he had worked directly in the gaming industry, and had been involved in working in the company in a strategic sense which gave him a perspective in terms of economic development and diversification. The business world had given him an opportunity to experience economic development in many different contexts, in this country as well as abroad, as well as a clear sense that the business sector could help with economic development through the NDA.

Mr. Snyder stated he was involved in a number of different efforts, notably the Southern Nevada Performing Arts Center. Mr. Snyder said the love and respect for economic development was what drove him. The state could not bring the types of jobs desired for a community without a cultural infrastructure that gave people the same types of cultural opportunities seen in other communities.

Mr. Snyder commented that as he ended his 36 years of having a day job, he would be very involved in economic development from a volunteer point of view. He stated he had a clear knowledge that economic diversity was a good thing. All the experience, all the research suggested that lack of economic diversity was a high-risk strategy. Nevada had the least diverse economy in the United States, but had a core industry that had been resilient, had grown rapidly, and had weathered ups and downs. The gaming industry had to be kept healthy, according to Mr. Snyder, but could not be relied on to the extent that it was currently.

Mr. Snyder stressed that economic development and diversification needed a strategic approach to determine the long-term goals. After those goals were determined, it would be necessary to decide how to reach those goals as well as how to fund them. Mr. Snyder said the Governor had allowed for that in his budget request and that was why the Office of Economic Development was asking for substantially greater resources and, further, asking the urban development agencies to take the lead and engage the private business sector.

Economic development had become very competitive, according to Mr. Snyder. Communities, regions, and states all over the country were aggressively recruiting businesses. A tremendous success had been realized through the NDA. In the past fiscal year the NDA had played a direct role in attracting 60 new businesses to southern Nevada that had created approximately 1,900 jobs. The average wage for those jobs was over \$47,000 per year. The annual payroll for the jobs that were created in the last fiscal year was \$84 million. The employee economic impact, as compiled by a very respectable econometric

model, was demonstrated to be \$319 million. State and local tax revenues were estimated to be over \$10 million. For every public sector dollar spent in helping to create those jobs, the return on the investment was approximately \$26.

Mr. Snyder summarized that it was extremely important to economically develop and diversify Nevada's economy. While the gaming industry had been very resilient there were things that were beyond anyone's control. Gaming was spreading around the country and was accelerating at a very rapid pace in California, Nevada's primary market. Mr. Snyder said the goal was to keep the gaming industry healthy, but reduce Nevada's dependence.

Kenneth Ladd, president of US Bank in Nevada, wanted to briefly point out where the requested funds would help. He said he was qualified to do that because he was responsible for business in Nevada, Arizona, and Utah through his company. Mr. Ladd used Phoenix and Salt Lake City as examples because they had agencies with functions similar to those performed by the NDA and EDAWN, and had budgets of \$6 million to \$8 million. The budget for the NDA was \$1.2 million. Mr. Ladd said there were two ways to use economic development money, either by traditional marketing, or staff that spoke to potential clients and recruited businesses to move to Nevada.

Mr. Ladd said the NDA would supply a detailed biennium budget to the Committee on how they would spend the funding if it were approved.

Chairwoman Giunchigliani remarked that would be very helpful in order to get a better picture of what the NDA was planning to do with the expenditures.

Mr. Snyder said he believed it was extremely important to take a more strategic look at economic diversity. He said he was a big believer in looking down the road and trying to sort out what and how Nevada was going to get where it needed to be. There was another bill in front of the Legislature that talked about economic development and diversification, according to Mr. Snyder. One of the proposals in that bill was to form an interim committee on economic development and diversification. The funding requested in The Executive Budget would help support that type of effort. It would also answer some of the questions Assemblywoman Leslie had in terms of ensuring that the right type of jobs were coming to Nevada, and creating an effective way to measure results.

Mr. Seale commented that Nevada had long suffered in economic development because of the State's inability to lend money or do any type of venture capital. He wondered if there was anything viable on the horizon relative to that.

Mr. Snyder replied there had been a lot of conversation, but it would have to get beyond the conversation stage. He said that was where the interim committee could be helpful. Currently public funds were invested in venture capital outside the state, and Mr. Snyder said those funds should be returned to Nevada.

Mr. Seale pointed out that in his role as former State Treasurer of Nevada, in looking at Nevada's bond rating, economic development was crucial. He said he had made several attempts to increase the State's bond rating and continually encountered the fact that although Nevada was doing a good job at diversification, it was just barely keeping up with what was happening in the gaming community. Nevada was still suffering with the same rating it had had for over 20 years with Moody's and Standard and Poor's. Mr. Seale said if

Nevada's economy could be further diversified, the state of Nevada could achieve and increase in its bond rating, and the impact that would have on the amount of debt issued in the state would be incredible.

Mr. Ladd commented that the banking community in Nevada had invested millions and millions of dollars in the state and much of that money was with companies that had relocated here.

Chairwoman Giunchigliani asked if "tax abatement was done for renewables." Mr. Shriver replied that it was. Chairwoman Giunchigliani asked if that was a problem as far as statutory changes. Mr. Shriver said actually it was personal property tax, as well as renewables which met the real property standard, according to the *Nevada Constitution*, in that instance only.

Chairwoman Giunchigliani acknowledged Bob Cashell, Mayor of Reno, and asked if he wanted to comment.

Bob Cashell, Mayor, Reno, said when the Office of Economic Development had been established in the 1980s, he had worked with Richard Bryan, who was Governor of Nevada at that time, to create the agency. It had been very good and had accomplished quite a bit in Reno and Washoe County. The EDAWN had been very helpful in aiding Reno in getting Cabela's to move to Reno, according to Mr. Cashell.

Chuck Alvey, President, EDAWN, identified himself for the record. Mr. Alvey said that Reno was the second largest contributor to the EDAWN. The State contributed \$186,000 per year and Reno contributed \$70,000, and Mr. Alvey suggested the Committee consult with Mayor Cashell to determine if Reno believed they received a good return on their investment.

Chairwoman Giunchigliani requested from Mr. Shriver the projections and details of the allocations that Ken Ladd had mentioned. Chairwoman Giunchigliani also requested information on the link between the University System and economic development.

DIVISION OF ECONOMIC DEVELOPMENT
NEVADA FILM OFFICE (101-1527)
BUDGET PAGE – ECON AND TOURISM – 7

Mr. Shriver introduced Charlie Geocaris, Program Director, Nevada Film Office, and Robin Holabird, Deputy Director, Nevada Film Office. Mr. Shriver referred to [Exhibit E](#), "2005 Nevada Production Directory," which had become the model used by other states and localities that Hollywood had found to be the best example and most useful document produced.

Chairwoman Giunchigliani said over the years the Nevada Film Office had done a remarkable job and the only issues in the budget were that the revenue had been recommended to decrease and the Committee could not determine why. Chairwoman Giunchigliani also wanted to know how the expenditures had been derived in revenues in the location marketing category.

Charlie Geocaris, Program Director, Nevada Film Office, replied that they had been informed this morning that the Budget Division would be looking into the recommended decrease and addressing why the agency request was different from the recommendation of the Governor's Office.

Chairwoman Giunchigliani asked how the recommendation for expenditures in the location marketing category had been arrived at. Mr. Geocarís replied that those were true expenditures.

Chairwoman Giunchigliani adjourned the meeting at 11:00 a.m.

RESPECTFULLY SUBMITTED:

Anne Bowen
Committee Attaché

APPROVED BY:

Assemblywoman Chris Giunchigliani, Chairwoman

DATE: _____

| <u>EXHIBITS</u> | | | |
|--|---------|---|--|
| Committee Name: <u>Committee on Ways and Means</u> | | | |
| Date: <u>March 21, 2005</u> | | Time of Meeting: <u>8:30 a.m.</u> | |
| Bill | Exhibit | Witness / Agency | Description |
| | A | | Agenda |
| | B | Nevada Commission on Tourism | FY05-07 Biennium Budget Presentation |
| | C | Nevada Commission on Tourism | Room Tax Receipts by Fiscal Year |
| | D | Nevada Commission of Economic Development | Assembly Ways and Means Budget Hearing |
| | E | Nevada Film Office | 2005 Nevada Production Directory |