

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE
JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT**

**Seventy-Fourth Session
March 13, 2007**

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on General Government, was called to order by Chairwoman Kathy McClain at 8:09 a.m., on Tuesday, March 13, 2007, in Room 2134 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/74th/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Kathy McClain, Chairwoman
Assemblyman Tom Grady
Assemblyman Joseph P. (Joe) Hardy
Assemblyman Joseph Hogan
Assemblywoman Ellen Koivisto
Assemblyman David R. Parks

SENATE COMMITTEE MEMBERS PRESENT:

Senator Bob Beers, Vice Chairman
Senator Dean A. Rhoads
Senator Bob Coffin

STAFF MEMBERS PRESENT:

Mark W. Stevens, Assembly Fiscal Analyst
Larry Peri, Principal Deputy Fiscal Analyst
Julie Diggins, Program Analyst
Sarah Coffman, Program Analyst
Todd Myler, Committee Secretary
Patricia Adams, Committee Assistant

Chairwoman McClain opened the hearing on the Department of Agriculture's budgets and recognized Mr. Rick Gimlin, Deputy Director. She began by stating that the Subcommittee had concerns and needed additional information. After the concerns were voiced, Mr. Gimlin was to assemble the information and return at a later date.

Chairwoman McClain asked for more information regarding the Department's cost allocation plan. In 2005, the Department created a plan to fund the Administration Account; however, there was not enough backup for the cost allocation plan. She asked Mr. Gimlin to provide that information to



Subcommittee staff and urged him to reexamine the entire budget because the transfers in the Administration Account did not match the transfers out. She asked the Department to be prepared to discuss the departmental cost allocation plan and all other cost allocations including the Attorney General cost allocation plan, and the purchasing assessments at a later date. She said that part of the concern the Subcommittee had was that if the new plan was unable to be justified, there would be costs involved that would draw additional General Fund for accounts that were historically funded with federal funds. She then rescheduled the hearing for March 22, 2007, asking Mr. Gimlin if he could accommodate the Subcommittee's request.

Mr. Gimlin said the request would be accommodated.

Senator Beers stated that an email, dated February 27, 2007, from Subcommittee staff to the Department had not yet been responded to. He said the 2007-2009 biennium cost allocation spreadsheet sent to Staff did not agree with The Executive Budget. He noted that the two needed to match and that the mismatch had happened in the recent past as well.

Mr. Gimlin acknowledged that it had happened before.

Senator Beers stated that the Subcommittee would not be as patient as it had previously been. He said, "If we need to, we'll just come up with a functional cost allocation of our own and pass it." He noted that the Department had a significant Capital Improvement Project planned and that funding for that project could be curtailed.

Mr. Gimlin said he understood the Subcommittee's concerns.

Chairwoman McClain also said the M800 and E800 decision units needed to be further examined and corrected.

Senator Beers noted these decision units should have only cost allocation dollars and there were other items listed that deviated from the norm.

Mr. Gimlin noted the error.

Chairwoman McClain asked whether Mr. Gimlin had any questions on what was needed.

Mr. Gimlin said he understood what the Subcommittee had asked for.

Chairwoman McClain then said that the information needed to be submitted to Subcommittee Staff by Friday, March 16, 2007, and said the meeting would be rescheduled for the following Tuesday, March 22, 2007.

Mr. Grady asked for details about site problems for the proposed Sparks headquarters building.

Mr. Gimlin asked whether there was specific information that was needed.

Mr. Grady asked about the cost associated with moving a cemetery.

Mr. Gimlin said the Department would work with the Department of Health and Human Services to get the requested information.

Chairwoman McClain noted that these budgets would not be closed, but that the hearing was postponed until March 22.

Chairwoman McClain opened discussion on Budget Account (BA) 4219, Minerals, recognizing Mr. Alan Coyner, Division of Minerals Administrator.

MINERALS

MINERALS (101-4219)

BUDGET PAGE MINERALS-1

Mr. Coyner distributed several handouts to the Subcommittee that contained highlights of his presentation. He then gave a brief overview of the Division of Minerals (DM). The DM was a division of the Commission on Mineral Resources. The Commission was a seven-member body appointed by the Governor to four-year terms. Six members were from private industry and one was from the general public. This Commission was predominantly made up of representatives from mining companies, though there were commissioners that represented oil and gas, and also geothermal interests.

Mr. Coyner said there were no state funds within DM's budget, which was made up of revenue from fees on the mining industry, mostly mining claim fees. By statute, these fees remained in DM's budget, providing the operating funds needed. He noted that higher revenues received in the last few years had caused the reserve to increase. Fees had not been raised since 1999, when the Legislature gave fee-setting authority to the Commission; however, the dramatic price increases in metals and minerals drove mining claims up, resulting in the increased revenue.

Mr. Coyner said DM underwent an audit from the Legislative Counsel Bureau in the last year. The DM's finances were found to be in order, with only very minor issues. The main issues focused on in the audit were performance indicators. The four indicators presented to the Subcommittee had been slightly revised since the last session to make them more reliable measures. To make the indicators more useful for the Legislature, Mr. Coyner pointed out that he had compiled an expanded table ([Exhibit C](#)) to include numbers, rather than percentages.

Mr. Coyner said the first indicator showed DM's outreach to the public regarding education about Abandoned Mine Lands (AML). Members of DM's staff gave public presentations regarding the importance of mining and minerals to Nevada and also regarding the AML program. He said the number of presentations projected represented one per month.

Mr. Coyner then moved on to performance indicators 2 and 3. Indicator two represented the number of oil, gas, or geothermal drilling permits processed in a timely fashion. Indicator 3 dealt with visits to drilled operations. He preferred meeting the people working in these areas personally, rather than just regulating the industry from the office. He noted that drilling in oil, gas, and geothermal areas had not expanded on the same scale as mining had.

Mr. Coyner then moved on to the fourth indicator, which measured the DM abandoned mines program. Under this program, known abandoned mine sites were secured to make them safer for the public by being fenced, filled, or gated.

He said DM had found over 11,000 abandoned sites and approximately 9,000 had been secured. Mr. Coyner said there were approximately 200,000 total sites statewide, both found and unfound, so much work was still needed through this program.

Chairwoman McClain asked whether DM's reserve level was necessary.

Mr. Coyner pointed out on [Exhibit D](#) that DM's reserves had been growing because of the number of mining claims shown on the top of [Exhibit E](#). Every year, miners were required to file claims with the respective counties and also with the federal government. The federal government charged approximately \$125 per claim. The counties collected \$8.50 per claim, of which \$6.50 went directly to DM.

Mr. Coyner reported to the Commission quarterly on the reserve levels. He noted that a dilemma the Commission had was determining when the reserve level was high enough and whether fees should be lowered accordingly. He acknowledged that DM had experienced low revenues and low reserves in the past. Mr. Coyner said that commodity prices were cyclical, and the timing of rising or falling prices was not always known.

According to Mr. Coyner, in order to mitigate excess reserves, the Commission had authorized over the last year certain one-time expenditures in the amount of \$300,000 to expand the AML program through the use of contractors. For example, work was done for the Nevada Bureau of Mines and Geology to provide public land mapping. With regard to these authorized expenditures, the Commission had obligated DM to draw down on the reserves, though the current level would not yet reflect those commitments, in ways that were favorable to those entities that paid the fees.

Additionally, Mr. Coyner said he had hired one Geographic Information Systems (GIS) specialist to better facilitate the AML program, allowing DM to visually plot where all the AML sites were. He believed this was a good management tool that DM did not currently have. This new position would also draw on the excess reserves.

Mr. Coyner reiterated that the fees were set by the Commission, which was primarily made up of industry representatives. He said he relied on the Commission to determine whether the fees were correct or excessive and also that he made sure the Commission was always aware of reserve levels.

Chairwoman McClain noted that large reserves funded by fees would normally catch the Subcommittee's attention; however, she acknowledged that cutting fees drastically to the point of running out of money was not favorable either. She stated the Subcommittee was only interested to make sure that DM was working efficiently and was aware of market conditions. She then noted that DM appeared to be functioning properly and also agreed with the hiring of the GIS person.

Mr. Coyner noted that DM was looking forward to having a GIS staff member. He mentioned that the prices of metal commodities were at historic highs. He said he had been a geologist for 35 years and had never seen a situation when so many metals were selling for such high dollar amounts, including copper, lead, zinc, silver, gold, aluminum, uranium, and molybdenum. He also noted that prices were cyclical, and it was difficult to predict if prices would

remain high. For the time being, however, Nevada was considered a good place to explore for these metals, and DM expected that exploration would continue.

Senator Beers asked Mr. Coyner to send an email to Kay Scherer, Deputy Director of the Department of Conservation and Natural Resources, regarding a multiple agency GIS effort. He thought it might be beneficial to confer with her on what DM was doing. He said he would like to see GIS become more standardized. Senator Beers then asked whether DM knew what minerals or other natural resources were being looked for when permits were issued.

Mr. Coyner stated that disclosure of the reason mining claims were staked was not required. The Nevada Bureau of Mines and Geology reviewed trade magazines and professional journals, which generally contained information regarding what different mining companies were looking for.

Senator Beers asked whether there was exploration for metals other than copper and gold.

Mr. Coyner said there were significant numbers of uranium mining claims near McDermitt. There was a property that had been developed for the mining of tungsten in a place close to Montello, called Indian Springs. There was a new project near Eureka that was a molybdenum mine. This particular location was a major molybdenum reserve that had been known for some time, but was now developed to the point of seeking permits. Mr. Coyner said that the proposed mine had a 25 to 50-year life, which had the potential of significantly impacting the town of Eureka and Eureka County. He also mentioned there was exploration for gold taking place because gold was selling for around \$600 an ounce. He said that in calendar year 2005, the average price of gold was \$440 an ounce, but that in 2006 it was \$603. Nevada produced six million ounces of gold per year.

Senator Beers noted it had been roughly 70 years since Nevada had seen much activity in lead, silver, and zinc.

Mr. Coyner said that Eureka and Pioche had been lead and zinc producing areas in the past, but Nevada had not been known for those materials, even though there was potential for exploration in Nevada for those metals as well.

Senator Beers asked if there had been any metallurgical breakthroughs in ore processing that could boost exploration in Nevada.

Mr. Coyner asked if Senator Beers was referring to processes, such as the breakthrough in cyanide leaching for gold, which would apply to lead, zinc, or copper.

Senator Beers said he was referring to such processes.

Mr. Coyner said there had been some advances in copper mining in the area of solution mining; however, lead and zinc were still mined "the old school way." He did not see any breakthroughs in those metals that would increase exploration in Nevada.

Senator Beers asked about activities going on in Ely.

Mr. Coyner noted that the Kennecott Copper Mine closure in Ely had reduced Nevada's copper output significantly, but that the current price for copper of

\$3.05 was stimulating the market. He noted that China's and India's growing economies were increasing the demand for copper plumbing and wiring. Chinese copper had recently been removed from the market and China was no longer a net seller of copper, but had become a copper importer. Currently, nations such as the United States, needed to find the supply to meet the needs, but he noted that it took time to open new mining facilities. Because of the high price, Quadra Mining had been able to establish an operation in Ely. Molybdenum was also one of the byproducts at that particular mine. One of the newest projects in Nevada mining was south of Battle Mountain, called the Phoenix Project and was owned by Newmont Gold. This project yielded both copper and gold. He said copper was mined at that location by other companies in the past, but Newmont had begun mining an area southwest of Battle Mountain and had created a comprehensive plan to mine copper and gold for the next 25 years. This was significant for the economic development of Battle Mountain.

Senator Beers asked the purposes for which molybdenum was used.

Mr. Coyner said the number one use of molybdenum was as a steel additive, but that it was also a component of grease.

Chairwoman McClain said she was somehow familiar with the term molybdenum and then asked whether molybdenum was mined in Colorado.

Mr. Coyner said one of the largest molybdenum mines in the world was in Climax, Colorado. In fact, it had been shut down, but he said there was talk about that operation reopening. It was at a very high altitude close to Leadville, Colorado. There were, however, environmental issues involved, and the sociopolitical climate in Colorado was not the most favorable toward this type of operation. The situation in Colorado might favor Nevada's molybdenum prospects.

Mr. Hogan noted that of the 25 permits for oil, gas, and geothermal drilling, only four had been drilled. He asked whether the other permits would be acted upon.

Mr. Coyner said he was often asked about oil and gas exploration because of the high prices of these commodities, but there were different reasons why more permits were not sought or acted upon. The first reason he gave was that Nevada was considered a frontier state in this arena because it was difficult to find oil here because of the geology. The land was "chopped up" by faults, which made for a complicated discovery process. Additionally, Nevada was not historically recognized as an oil-producing state and currently ranked 26th out of 31 states that produced oil, producing approximately 500,000 barrels per year, most of which were produced in Railroad Valley. He said Nevada's oil was of lower quality because the volatile hydrocarbons had dissipated over time.

Mr. Coyner next explained that the number one issue preventing oil exploration in Nevada was rig availability and labor availability. Other states' oil production was booming, and they were using up the supply of rigs and the available workforce. He said drilling in Nevada was not a high priority for oil companies, even though there were permits issued, which were good for three years. He said for those permits to be acted upon, it depended on how many rigs could be brought here and how many workers were able to come as well.

Mr. Coyner then noted that most of Nevada's land was public land, and most of Nevada's oil wells were drilled on federal land. Permitting itself took time, and he noted that the process could be held up by archaeology issues, biology issues, or for other issues like the sage grouse [a potential endangered species]. Because the permitting process was long to begin with, when other issues prevented the permits from being issued in a timely manner, opportunities were lost. He thought it was necessary to remain vigilant in the area of permitting so these resources could be found.

Mr. Coyner then commented about the White Pine County land bill that designated certain areas as wilderness areas. These brought the total number of Nevada wilderness areas to 70, making Nevada third in this category after California and Arizona. As lands were given wilderness designations, they became unavailable to use for minerals, grazing, or water and energy development. He was concerned that Nevada needed to remain aware of the decisions regarding wilderness areas made by the federal government.

Senator Coffin asked whether geothermal resources would still be lost if the current plans for wilderness areas in White Pine County were carried out.

Mr. Coyner noted the work he had discussed earlier involving GIS data through the Nevada Bureau of Mines and Geology. In this effort, 17 maps were provided to White Pine County which showed geothermal potential; renewable energy potential, such as solar and wind; metals potential; industrial minerals potential; and energy potential, such as oil and gas, to help White Pine in the decision-making process. He thought that White Pine County was well on its way to making the final designations of wilderness areas, but said that DM was now working with Nye County along the same lines. He said that potential geothermal resources were lost because of the White Pine County land bill. However, as each county moved forward with their own respective public land bills, he wanted to make sure that these issues were considered as part of the process.

Chairwoman McClain asked whether the new vehicle requested would improve productivity and what it would be used for.

Mr. Coyner explained that the AML program required travel over difficult terrain. He stated that State Motor Pool would not rent a vehicle to DM. When he began working at DM nine years previously, the Division had an aging Jeep Cherokee. One thing he had tried to do over the years was to build a decent fleet of vehicles that could reliably be used for the AML program. He mentioned that special modifications were made to the vehicles to allow for heavy hauling and protected travel over the rough terrain. Mr. Coyner preferred to replace one vehicle in the fleet every year, which accounted for the new vehicle in each year of the biennium. Whether a truck needed to be replaced or not would determine if one was purchased, but he wanted the flexibility in the budget to replace one if needed.

Chairwoman McClain closed the hearing on BA 4219 and opened discussion on BA 2361, Department of Taxation (Taxation), recognizing Dino DiCianno, Executive Director.

DEPARTMENT OF ADMINISTRATION
DEPARTMENT OF TAXATION (101-2361)
BUDGET PAGE TAXATION-1

Mr. DiCianno began by introducing Ms. M. Lynne Knack, Administrative Services Officer 3, and Mr. Patrick D. Bowers, Budget Analyst 2. He also mentioned that Mr. Vincent Cherpeski, Information Technology Manager 3 from the Department of Information Technology (DoIT), and Mr. Thomas A. Summers, Deputy Director, Administration, Department of Taxation, were also present. He then solicited questions from the Subcommittee regarding the budget.

Chairwoman McClain asked about a supplemental appropriation that dealt with remaining costs from FY 2007.

Mr. DiCianno asked whether Ms. McClain was referring to decision unit E877, supplemental appropriations.

Chairwoman McClain said she was asking about the \$710,000 included in that supplemental request.

Mr. DiCianno clarified that this supplemental was requested to pay for outstanding FY 2006 DoIT costs and projected FY 2007 budgetary shortfalls. Part of this request was due to an agreement with DoIT to temporarily forgo the payment of approximately \$210,000 for facility charges so that a shortfall the Department had experienced could be covered. DoIT agreed to this with the understanding that an appropriation would be requested to pay DoIT back. The remaining amount was to cover projected shortfalls in salaries for FY 2007.

Chairwoman McClain said the Subcommittee was concerned with the unusual agreement and asked who had given the authority to make that agreement with DoIT.

Mr. DiCianno said it was an understanding between the Department of Administration and DoIT.

Chairwoman McClain noted that arrangements such as this usually were approved through the Interim Finance Committee (IFC).

Mr. DiCianno acknowledged Chairwoman McClain's observation was correct.

Chairwoman McClain noted his response and asked whether there were updated projections on the shortfalls, revenues, and possible reversions that could cover these costs.

Mr. Bowers stated that the projections were currently being updated to compensate for the salary shortfalls. When Taxation initially discovered that shortfalls could occur because of increased printing and postage costs, it was noted that DoIT utilization had decreased because of implementation of the second phase of their new computer system in July 2006. Most of the computer tasks were now completed by Taxation staff rather than DoIT. This helped cover shortfalls for Operating Category 04, but the projections for salaries were not yet known because of the overtime hours currently being incurred in FY 2007.

Chairwoman McClain asked when Taxation might have updated projections.

Mr. Bowers said the salary projections could be prepared in two to three weeks and the Department was working with the Budget Division to complete them.

Chairwoman McClain said it was necessary to have that information before the budget could be closed.

Mr. Bowers said Taxation would work to submit the information before that time.

Chairwoman McClain said that situations like this needed to go through IFC instead of entering into "little gentlemen's agreements" between departments.

Mr. DiCianno stated that Taxation wanted to follow normal procedures. In 2003, because of the implementation of new taxes in a short period of time while developing a new computer system, Taxation lacked the ability to segregate individuals within the Department to deal with these new issues and still take care of its responsibilities to taxpayers. Some staff were still working substantial amounts of overtime. He said he was concerned and curtailed the overtime a few weeks previously because Taxation had paid out almost \$1 million in extra salary. This was not acceptable, but what it revealed was that Taxation was only "avoiding the inevitable."

Chairwoman McClain said the Subcommittee recognized the challenges, but that realistic projections were needed to close the budget. She then noted a one-time General Fund appropriation for the continued funding for the final development and the implementation of the new computer system. Chairwoman McClain verified that \$36 million had been spent on the new system already and asked whether the \$3.5 million request would finish the project and also wanted to know what the remainder of the \$4.2 million request would be used for.

Mr. DiCianno said that E275 constituted a request to continue funding the project for FY 2008 and FY 2009 for the development and implementation of the Unified Tax System (UTS). He said it was important to note that the Legislature had appropriated approximately \$39 million for the project. To date, only \$26 million had been spent. The request made was for "hold-backs" and other developmental costs to implement the remaining phases of the project by June 2007. There was also a warranty period associated with UTS and Accenture [the software development company]. Mr. DiCianno said Mr. Cherpeski could further address this issue.

Chairwoman McClain noted the Subcommittee understood that approximately \$36 million had been spent and asked whether that number was correct.

Mr. DiCianno stated he had just been informed by Ms. Knack that the \$2.7 million request for FY 2008 and the \$780,000 request for FY 2009 were part of the original appropriation.

Senator Beers said it appeared that the \$3.5 million requested would finish the original appropriation, but that the additional \$7.4 million in E275 was for support and maintenance. The description of the activities to be funded in that decision unit included screen changes and increases in or changes to functionality that were not part of the detailed design and implementation, which appeared to be part of, or similar to, the project itself. The Subcommittee was seeking assurance that the \$7.4 million appropriation

would constitute the end of the development of the project. He asked how much of the next two years activities' would constitute maintenance and how much would constitute the end of the development of the project and changes to functionality.

Mr. DiCianno said, "I can assure you it will be over. That will be it. There won't be any additional monies."

Senator Beers noted his response. He then asked whether the amount needed for the production of the UTS system was firm for the next two years.

Mr. Cherpeski, the UTS project manager, who had recently assumed responsibility for Taxation's Information Technology unit said that the current work Taxation was engaged in with Accenture was to determine what Accenture's role would be in transitioning to a point where the system could be maintained, supported, and changed to meet Taxation's needs. Currently, it was envisioned that Accenture would be providing "level 3" support for ongoing operations. The State would assume full responsibility of operating UTS. The State would also provide the first two levels of support for Nevada Tax, the online taxpayer portion of UTS. Existing staff had already been trained and would be supporting all of the correspondence notices and the reporting. Mr. Cherpeski explained that Accenture would provide additional training to staff and work with staff to correct system bugs. Staff had also been trained in the design of the system. Taxation now needed to focus on supporting UTS operations and understanding the intricate programming and design of the revenue accounting component of the system. The State currently did not have the expertise to support this component because of its complexity. Taxation hoped to bring in another staff member, preferably a programmer with an accounting background, to work with existing staff and also with Accenture to become familiar with the revenue accounting portion.

Mr. Cherpeski summarized by saying that the State would be operating UTS, while Accenture provided backup support. This was a period of transition and training so that Taxation could fully support UTS in the future.

Senator Beers asked whether Taxation would have a firm quote from Accenture regarding the support fees before the end of April.

Mr. Cherpeski said Taxation was in discussions with Accenture to set up a service level agreement. He said the quote would be done within that timeframe.

Senator Beers asked whether Taxation would provide the quote to the Subcommittee.

Mr. Cherpeski said he would provide it.

Chairwoman McClain asked whether the quote would remain within the preliminary cost estimate.

Mr. Cherpeski said it would not exceed the preliminary estimate.

Chairwoman McClain asked whether Taxation had received everything from Accenture that had been anticipated from the \$36 million spent on the project.

Mr. Cherpeski said Taxation had received everything listed as requirements in the Request for Proposal in a new system that provided accurate information and the services needed. He acknowledged, however, that sometimes individual expectations differed from the system requirements specified for the vendor.

Senator Beers asked whether UTS was currently in use.

Mr. DiCianno said that two phases had been implemented and were being used. This allowed for the processing of sales and use tax, business license fees, and the modified business tax. Phases three and four dealt with all other taxes that Taxation collected. These other phases also included what Mr. DiCianno termed "data mining and discovery." Phase four also had an "audit workbench." This would assist the collections unit to better perform its responsibilities.

Senator Beers asked when phases three and four would be implemented

Mr. DiCianno said those phases would both be implemented in June 2007.

Senator Beers asked whether any of Taxation's employees left their jobs after phases one and two were implemented.

Mr. DiCianno said some had quit their jobs.

Senator Beers asked whether those individuals had been replaced.

Mr. DiCianno said they were replaced.

Senator Beers noted that turnover with new systems was not unusual and that the Department of Motor Vehicles had experienced high turnover with a similar system conversion.

Mr. DiCianno said at the time new taxes were being implemented while designing and testing the new computer system, Taxation experienced a nearly 50 percent turnover.

Chairwoman McClain asked how much of the funding for the transition component of the system would become part of their base budget for system maintenance and support. She asked for that information to be provided if it was not known already.

Mr. Cherpeski said the only maintenance and support for the system on an ongoing basis was for the commercial, off-the-shelf packages that included Discover Tax, Audit Tax, and Audit Workbench. This maintenance and support was included in the base budget. He explained that the services Accenture would be providing in addition to their warranty work, which had already been paid for, would be a "relatively modest" cost.

Chairwoman McClain asked Mr. Cherpeski what was meant by "relatively modest" in the IT world.

Mr. Cherpeski believed it would be less than \$1 million per year.

Mr. DiCianno explained there was an enhancement unit that dealt with ongoing Information Technology (IT) needs and additional staff to assist in this area. As far as an ongoing estimate of costs for Accenture support, he was not

aware exactly what the relationship was going to be, but said he would provide more details to the Subcommittee. He noted, however, that the goal was for Taxation to proceed using its own IT staff.

Senator Beers asked whether Taxation would consider placing all of the costs associated with this project over the biennium in an enhancement decision unit because it appeared that the development of the project was not necessarily ending this year. He noted that some of the costs were included in the base budget, but that it would be easier in the next legislative session if all of the costs were included in an enhancement unit.

Ms. Knack explained that the only ongoing costs that were included in the base budget were the maintenance agreements for the software that were clearly defined and also the DoIT server hosting. Every other cost associated with this project was represented in the one-shot appropriation or in an enhancement unit.

Senator Beers asked whether everything in the enhancement units could be treated as one-shot appropriations.

Ms. Knack noted that the \$7.4 million Chairwoman McClain referred to was the production support from Accenture. She said Taxation hoped that it would no longer be an ongoing cost after the upcoming biennium. The \$3.5 million one-shot appropriation was for the scheduled deliverable payments, the "hold-backs" and smaller items that would not be ongoing. The only ongoing costs were contained in decision unit E128 associated with hiring additional IT staff.

Chairwoman McClain asked why the dedicated database administrator position was included in DoIT's budget rather than added to Taxation's Division of Information Services.

Mr. DiCianno said it was important, given the sophistication of the system, to have backup support from DoIT; otherwise, Taxation could be setting itself up for failure. Currently, there was one database administrator in-house. In the event something happened to that person and there was no backup, Taxation would be in a difficult position. Part of the reason for a DoIT database administrator being permanently assigned to UTS was that this person would have the ability to interact directly with DoIT and provide the necessary resources if something happened with the current administrator. Mr. DiCianno claimed that DoIT had the resources to hire the necessary personnel to perform this function for Taxation.

Chairwoman McClain asked whether this database administrator would be strictly assigned to Taxation's database.

Mr. DiCianno said the position would be exclusively assigned to Taxation.

Chairwoman McClain noted that Taxation was paying for the position.

Senator Beers asked how many persons the proposed Deputy Director of IT would supervise.

Mr. Cherpeski said this person would supervise 38 individuals, including the DoIT database administrator.

Chairwoman McClain asked for more clarification on the number.

Mr. Cherpeski brought the Subcommittee's attention to a workflow chart ([Exhibit F](#)). In the document management section of the chart, there were nine positions. In the information systems application section, there were eight positions. In customer support, there were eight positions. In the technical group, which included the DoIT database administrator, there were five positions.

Senator Beers asked whether the proposed deputy director position could be done away with, causing the five managers that would report to the deputy director to report directly to the Deputy Director of Administration. He explained that the deputy director on the flowchart was managing five lower managers, rather than the 38 individuals mentioned earlier, and was also drawing a salary that was too high for the responsibility of managing five persons.

Mr. DiCianno said he needed an individual in that position who had an expert understanding of the Department's IT needs. He admitted to the Subcommittee that he did not personally have that expertise, nor did he believe that the Deputy Director of Administration had the necessary expertise. If Taxation was going to support and use UTS for the next ten years, Mr. DiCianno wanted to have the resources to make the system work properly. He said he did not want to have to reappear before the Legislature or IFC in the future to explain that the project was mishandled. He wanted to get the project "right the first time."

Senator Beers was hesitant to allow for the proposed organizational structure because the average number of subordinates per senior manager would be about five individuals.

Mr. DiCianno asked whether a restructured flowchart would help the Subcommittee.

Senator Beers said that a restructured chart might be helpful. He thought that the number of subordinates per IT manager statewide had gone down dramatically over the last six years. This made the cost of the IT functions throughout the State go up. He was unsure whether the increase in IT management positions translated into significant increases in IT output with the greater numbers of employees. He then asked Taxation to make another flowchart that "makes more sense." Senator Beers reiterated that it appeared there would be six managers in Taxation's IT division who would be managing 30 people.

Mr. DiCianno said they would restructure the flowchart.

Chairwoman McClain asked about the deputy director position that had been vacant for a year.

Mr. DiCianno noted that was his old position that had not yet been filled, but would be filled in the coming weeks.

Chairwoman McClain asked for that position to be included in the forthcoming flowchart.

Senator Beers asked what Mr. DiCianno's former position was.

Mr. DiCianno responded that he was the Deputy Director over Compliance.

Chairwoman McClain noted that the Subcommittee looked forward to the restructured flowchart and the accompanying justification. She then asked about the Division of Assessment Standards four new proposed positions. One of those positions was an auditor. Currently, only one auditor could leave the office at a time because one had to remain to answer the phones.

Mr. DiCianno noted that E127 contained a request for another auditor because it was a very specialized position and needed to cover the phone while the other individuals were out. With respect to the real property transfer tax, Taxation was providing more and more guidance in that area. He mentioned an audit performed by the Legislative Counsel Bureau which related to the real property transfer tax. This new position request was a result of that audit.

Chairwoman McClain thought that perhaps an administrative assistant could perform the office function and asked whether audits would be performed in Clark and Washoe counties or would still be focused in the rural counties.

Mr. DiCianno said the auditors should be able to perform audits in Clark and Washoe counties as well.

Chairwoman McClain asked whether Mr. DiCianno thought revenue was not coming in because audits were not taking place in those counties.

Mr. DiCianno said the potential was there for lost revenue. With only one individual, it was difficult to cover the entire state.

Chairwoman McClain noted that only one auditor position was being requested and asked what were the duties of the utility valuation analysts.

Mr. DiCianno said utility valuation analysts only worked with centrally assessed properties.

Chairwoman McClain asked how much work there was with these types of properties.

Mr. DiCianno noted there had been growth, especially when considering air carriers in Nevada.

Chairwoman McClain asked what Taxation's budget analyst did in the area of local government finance.

Mr. DiCianno said that over 270 local government budgets were reviewed and assistance was provided to those entities, which included revenue projections and the determination of property tax rates. For example, Taxation was "taking care of the financial situation" in White Pine County. To some degree, this situation had been a drain on the Department. If another local government with a situation similar to White Pine County needed help, Mr. DiCianno thought it would strain the Department's resources.

Chairwoman McClain asked how White Pine County was getting along.

Mr. DiCianno said that White Pine's cash flow was good. The difficulty was, however, their limited revenue source. White Pine relied heavily on net proceeds and the payments in lieu of taxes from the federal government. White Pine's economy depended upon mining.

Chairwoman McClain noted that the Division of Minerals had mentioned that mining in White Pine had increased.

Mr. DiCianno acknowledged that mining was doing well in White Pine County.

Chairwoman McClain asked whether a clerical person could answer the phone so that the auditors could be out in the field working.

Mr. DiCianno said he would review the request.

Senator Beers noted there was a new position added to the base budget request for the State Demographer's office.

Mr. DiCianno said that when the Demographer's office was originally created the major duty was estimating Nevada's population; however, the Demographer's office duties had evolved since then. The Demographer was currently housed in the Small Business Development Center at the University of Nevada, Reno. This was done to facilitate assistance with not only businesses but also local governments. The additional position was requested to assist the Demographer extend services to the rural areas of Nevada. One of the concerns from rural Nevada with respect to the Demographer's office was housing unit counts. More was asked of the Demographer than had been in the past, including statistics on immigration.

Senator Beers asked who was requesting help from the Demographer, what were the new expanded duties of the position, and what was the statutory authority of the position. Senator Beers then noted that the associated costs should not have been listed in the base budget.

Chairwoman McClain asked for specifics regarding the contract structure with the University of Nevada.

Ms. Knack said the contract was an interagency agreement with the University System.

Chairwoman McClain asked whether the Department audited the University's activities in this area.

Ms. Knack said that close communication was maintained, and the University provided Taxation with budget summaries and expenditures information.

Chairwoman McClain asked how often that information was provided.

Ms. Knack explained that a budgetary summary was sent with each invoice, which was billed quarterly. She stated that the additional support staff requested for the Demographer was an "M150 adjustment rolled up into base."

Senator Beers did not believe the base budget adjustment was acceptable, and said it should have been handled as an enhancement. He asked when this contract last went out to bid.

Ms. Knack replied that the governing statute required that Taxation contract with the University System for the Demographer's position. It was her understanding that a Demographer was hired by Taxation and the University System. A new interagency agreement was arranged at the beginning of each biennium.

Senator Beers asked whether the statute specified that the Demographer was to be housed at the University of Nevada, Reno.

Mr. DiCianno said it was not specifically outlined in the statute where the Demographer was to be located. Mr. DiCianno then explained that the Demographer was an employee of Taxation; however, the agreement was made through the University System because the University had the resources available that would not normally be available if the Demographer was housed at Taxation.

Chairwoman McClain asked what the University System provided for the Demographer.

Mr. DiCianno said that office space was provided.

Chairwoman McClain asked who paid for the needed equipment.

Mr. DiCianno stated that the equipment associated with the Demographer was paid for by Taxation.

Chairwoman McClain asked whether the Demographer had a GIS system available.

Mr. DiCianno said there was a GIS unit within the Small Business Development Center at the University of Nevada, which was available to the Demographer.

Chairwoman McClain noted the position requested was an Assistant Demographer/GIS Technician.

Mr. DiCianno said that one aspect of the request that needed to be considered was that the position was also going to be used to assist in the Small Business Development Center because that office made studies available for individuals and other entities in the areas of economic feasibility for potential business development projects.

Chairwoman McClain noted that Clark County had systems available to perform this type of work and did not need assistance from the State Demographer. She also thought Clark County could be a resource for the Demographer. Chairwoman McClain then asked whether new equipment was needed and whether similar work was going to be performed for the rural areas of Nevada. She then said she did not see the need for the additional position requested. She also asked about the services outreach to the rural counties, noting that she had not seen any travel funds requested to facilitate the outreach.

Mr. DiCianno said it was his understanding that travel funds had been placed in the budget request.

Chairwoman McClain asked that more information be provided regarding justification for the position, what specific tasks the position would undertake, and the travel funds needed.

Mr. DiCianno said the information would be provided.

Senator Beers asked what amount of FY 2006 funds from the Demographer reverted to the General Fund.

Ms. Knack said there were no reverted funds from the Demographer's office in FY 2006.

Senator Beers asked how the Demographer's office was able to spend the entire budget with no reversion whatsoever.

Ms. Knack said she had just received the balance sheet from the Demographer the previous day and had not yet had sufficient opportunity to examine the numbers and discuss it with the Demographer.

Senator Beers asked whether any funds had ever been reverted.

Ms. Knack said that reversions had occurred in the past. For example, when budget cuts had been made in previous bienniums, the Demographer had participated and was willing to assist Taxation by giving up certain things during that time.

After a brief recess, Chairwoman McClain opened discussion on the streamlined sales tax initiative. She noted that there was a request for an update to the UTS for this initiative, but that the Governor had not recommended funding for the update.

Mr. DiCianno verified that a request had been made in the original budget submittal for IT enhancement to allow for the electronic filing of returns and payments from remote sellers [businesses that sell goods and services to Nevadans from outside the State] with regard to the streamlined sales tax initiative. He then clarified that the Governor supported the streamlined sales tax initiative. Nevada was now an associate member of the governing board of the initiative, on which Mr. DiCianno served as Nevada's voting member. One of the requirements under that board's agreement was that a State had to allow remote sellers the ability to electronically file and pay the funds through a service provider. Currently, Nevada did not have the technological capacity to allow for this electronic filing. As part of the original budget request, funds were included for Accenture to build an interface between the four service providers and Nevada's tax collection system to accept the returns and payments. The reason why the request was removed was that the State had reached its spending cap level. Under that circumstance, Taxation had to prioritize needs, and that system was removed.

Chairwoman McClain asked how much was requested.

Mr. DiCianno said the request was approximately \$3 million.

Chairwoman McClain asked whether there was a way to use the \$7.1 million one-shot appropriation mentioned earlier to fund this request.

Mr. DiCianno said he did not believe that was possible because it was separate from the needs addressed in that appropriation.

Senator Beers noted that the Committee had the ability to prioritize expenditures beyond Taxation's request and find the \$3 million necessary for this project from other agencies' budgets.

Chairwoman McClain asked whether there were spending caps placed on individual agencies.

Senator Beers noted that the short timeframe between changes in gubernatorial administrations and the completion of The Executive Budget may have contributed to this expenditure being removed.

Chairwoman McClain asked what kind of return Mr. DiCianno estimated Nevada could realize on this \$3 million expenditure.

Mr. DiCianno said there were currently 560 companies that had voluntarily registered with Nevada to participate in the program and begin paying these remote sales taxes. Based on a cursory review of the information available, the return on the expenditure would be between \$5 million and \$10 million each year. He said it was important to note that the potential revenues from this would be split between the state of Nevada and local governments. Nevada would receive approximately 30 percent of all the revenues brought in through this program.

Chairwoman McClain asked when the payments would begin coming in.

Mr. DiCianno said that if Nevada currently had the capability, the revenue would be received.

Senator Beers asked whether the companies mentioned had been collecting these sales taxes and wondered whether there was money waiting to come into state coffers.

Mr. DiCianno said the revenues would be mostly from future transactions but that some of the companies had been collecting the taxes already and wished to transmit the monies. Because the mechanism was not yet in place to receive these revenues, the companies were unable to transmit the payments.

Senator Beers asked whether Mr. DiCianno would be able to demonstrate how much revenue would be generated through this system.

Mr. DiCianno said that Taxation could demonstrate it for the Subcommittee.

Chairwoman McClain asked how much had been lost because Nevada did not have the capacity to receive the sales tax revenue and how long this program had been in effect.

Mr. DiCianno said that Nevada became part of the agreement to receive these sales taxes on January 1, 2006. Mr. DiCianno explained that part of the agreement made was that the companies that voluntarily came forward to participate were given amnesty and promised they would not be audited to see how much taxes were not forwarded during the transition time. This was the incentive for the businesses to register and participate. Therefore, the revenue that had not been realized yet would not necessarily be paid at all, but the State could do nothing under the agreement to force them to pay what had already been collected.

Chairwoman McClain asked how many other companies qualified to participate in the program in Nevada.

Mr. DiCianno did not know how many were eligible.

Chairwoman McClain asked for an estimate of the percentage of companies that were already registered.

Mr. DiCianno said he only knew of the 560 companies that had registered, none of which were able to pay the taxes currently because Nevada did not have the necessary technology available. Under the current system, the companies could not be required to pay the taxes owed. The taxes could only be paid through the streamlined sales tax agreement mentioned earlier.

Senator Beers believed that the onus to pay was on the buyer of goods and services when the purchase was made from outside the state. This requirement was known as the use tax. Senator Beers then asked whether the seller of goods or services to buyers who were out-of-state were required to collect sales tax in those instances and remit it.

Mr. DiCianno said that sellers were not required to remit sales tax for buyers from outside of their state.

Senator Beers noted that the incentive mentioned earlier—the audit that would not happen in the case of voluntary registration for this program—was weak.

Mr. DiCianno said that if Congress allowed the states to collect Internet sales taxes, the audit would automatically become an issue for those who had not voluntarily registered and complied. The reason why the states pursued this initiative was to provide a "level playing field" for remote sellers and brick and mortar businesses. Under the current circumstances, retailers in Nevada were required to collect and remit sales taxes; however, sellers outside Nevada could not be compelled to do so when selling to Nevadans.

Mr. DiCianno said another aspect of the incentive to register was to simplify the sales and use tax process. This program was intended to standardize the process for any business across the country. Mr. DiCianno said the governing board had accomplished much toward that end, but Congress had placed a requirement on the board to have at least 10 member states with at least 20 percent of the United States' population represented for Congress to accept a petition asking for permission to collect sales tax on Internet sales. There had been several bills introduced in Congress regarding this issue, none of which had been approved.

Mr. DiCianno further explained that companies such as Wal-Mart and K-Mart, which had physical retail presences in Nevada as well as website sales, also had the ability to have their internal systems certified. These internal systems could then communicate directly with the states without needing a service provider. This certification and interface had not yet occurred, but this was "the bigger picture." The smaller remote sellers with niche products were the companies that had already registered with the Department.

Senator Beers noted that when he purchased a book online from Barnes & Noble he was charged sales tax.

Mr. DiCianno explained that was because Barnes & Noble had a physical presence in Nevada.

Senator Beers then asked him to verify that the larger chains, such as Wal-Mart and Costco, were charging sales tax and remitting it.

Mr. DiCianno verified that they were remitting sales taxes to Nevada.

Senator Beers asked whether any other state had already implemented what the board had proposed.

Mr. DiCianno said there were states that had implemented the initiative.

Senator Beers asked what levels of revenue those states were receiving.

Mr. DiCianno did not know.

Senator Beers surmised that consumers buying goods online were not a threat to brick and mortar businesses because, even though sales tax may not be charged, buyers still had to pay for shipping. He thought that if some online vendors charged sales tax and shipping charges consumers might switch to other online vendors who did not cooperate with the initiative. Therefore, the amount of revenue the State would receive would not be substantial.

Mr. DiCianno said the program had its detractors. For example, there were certain businesses that did not want to participate and there were certain members of Congress who did not agree with the initiative. Mr. DiCianno then reiterated that the intent of the initiative was to maintain level competition among retailers. The Nevada Taxpayers' Association, the Nevada Retail Association, the Nevada Manufacturers' Association, and associations from a number of other states were in favor of the program because it did "level the playing field."

Chairwoman McClain asked what the likelihood was that Congress would implement this program in the next two years and whether there were 10 states and 20 percent of the U.S. population represented.

Mr. DiCianno said he thought the chances of its implementation were good and that 10 states and 20 percent of the population were already represented.

Senator Beers noted that perhaps the votes in Congress needed for passage were not yet solidified. He then compared the possible revenue that would be collected from remote sellers, which he calculated to be between \$1.25 million and \$2.5 million per year, to the expenditure required of \$3 million and noted there was some risk of whether that level of revenue would actually be realized, stating that he understood why this was listed as a lower priority in the budget.

Mr. DiCianno added that Taxation was attempting to "manually . . . make this work" in-house. The problem was getting cooperation from the various service providers mentioned earlier. The board's agreement specified that filing returns and payments had to be done electronically and Taxation was trying to implement tax collection from remote sellers using its current system; however, Mr. DiCianno did not know whether Taxation's attempt at making the system work for electronic filings was going to be successful.

Senator Coffin began outlining the background behind this initiative. Years ago, some state [Illinois] tried to tax the sales of a catalog seller [National Bellas Hess]. This case was heard by the U.S. Supreme Court and the state lost the decision [in 1967]; however, the Court placed the burden on Congress to act appropriately in this situation [particularly as clarified in the Court's 1992 "Quill" decision]. Senator Coffin said Nevada was among the first states to work toward this end and that he sat on the committee involved in the late-1980s and early-1990s. He noted this was before Internet sales had become an issue. Senator Coffin continued by saying that Nevada had already invested a substantial amount into the streamlined sales tax process, and there would be significant returns on that investment. This was not an attempt to "grab money" because Nevada could have always asked its residents for use tax on the items being purchased from catalog sellers. Senator Coffin said the process was close to completion and that the states had taken the initiative in pushing the streamlined sales tax agreement through. He noted that the agreement came into being because "Congress was afraid to act." This was because Congress believed somehow that the Internet would be taxed, but the proposal exempted the Internet from being taxed to not impede the flow of information, but allowed sales over the Internet to be taxed. He said this was the "last gasp for some brick and mortar retailers" to level the competition from out-of-state sellers. Senator Coffin acknowledged that catalog and Internet sellers sometimes offered items that were not available locally, which had a certain appeal.

Chairwoman McClain asked how long it would take Taxation to implement the system if Nevada waited until Congress approved the initiative.

Mr. DiCianno clarified that Nevada had the opportunity to collect sales taxes today from the retailers that had already voluntarily registered for the program.

Chairwoman McClain asked what would happen to those retailers if Congress never approved the initiative.

Mr. DiCianno said it was possible that the retailers would stop participating in the program if Congress never approved it. He said, "If Congress does not act, [this program is] over in my mind."

Chairwoman McClain asked how soon the program would end should Congress not approve it.

Mr. DiCianno did not know how soon the program would end.

Chairwoman McClain asked whether he thought that Congress would act soon.

Mr. DiCianno said that Congress should act soon and that the states had been "pushing [the program] very hard."

Chairwoman McClain asked how long it would take for implementation of the program once Congress approved it.

Mr. DiCianno said Taxation would need six months to implement the program.

Chairwoman McClain asked whether Taxation had considered placing monies in a contingency fund for this purpose.

Mr. Parks asked whether the \$3.1 million cost for the implementation was a firm figure or whether it was just an estimate.

Mr. DiCianno said it was a firm cost figure provided by Accenture for the development of the system interface.

Chairwoman McClain asked whether Accenture had given Taxation a discount on this considering the amount of money already paid to it for the Unified Tax System.

Mr. DiCianno said that Accenture had been very cooperative in their relationship with Taxation, though he acknowledged that there had been some differences between the Department and the company during the implementation process.

Chairwoman McClain asked about decentralization and the outsourcing of data entry and scanning functions by a lockbox vendor, noting that one of the "biggest complaints we hear" was that taxpayers had to mail their payment checks to Arizona. She then asked whether the payments could be sent to Carson City and then forwarded to the lockbox vendor, or whether it was possible to post these payments without the services of a third party.

Mr. DiCianno gave some background regarding the lockbox vendor in Arizona. Originally, Bank of America (BoFA) in Nevada handled the lockbox through a contract with the Treasurer's Office. BoFA decided to no longer offer lockbox services. Working with the Treasurer, Taxation solicited bids for a new lockbox vendor. Every effort was made to contract with an in-state bank to provide this service. In fact, there were few bidders that were in-state banks; however, those bidders were planning on outsourcing the process to operations outside Nevada. Mr. DiCianno said it was unfortunate that a Nevada banking institution was not performing this function, but also said that finding a way to have the payments sent to a Nevada address and then forwarded on to Arizona had been discussed. In this instance, timing of posting of payments became an issue because the float [interest earned on the vendor's immediate deposits] was lost. This would also create other timing issues related to completing the monthly tax roll. The reason Taxation used a lockbox vendor was that it did not have the resources to handle the volume of payments. Mr. DiCianno explained that Taxation had to choose between hiring more staff to handle the necessary functions or contracting with a lockbox vendor.

Chairwoman McClain asked how many individuals could be hired for the \$1 million cost of the contract.

Mr. DiCianno noted that the tasks performed by the vendor went beyond just having individuals post payments.

Senator Beers mentioned that payments received by the lockbox vendor were available immediately.

Mr. DiCianno said this timely posting of payments was a key consideration in this process. With the amount of money flowing through the lockbox, there was a significant revenue earned from the float.

Senator Beers explained the concept of a lockbox vendor. A lockbox vendor did much more than just opening envelopes and preparing a deposit slip. The vendor made the deposits immediately into an account that increased interest revenue to the State. He noted that when confronted with a complaint

about sending tax payments to Arizona, he would explain that no Nevada banks bid for the contract and then explain that the interest earned because of the timely depositing of funds decreased the amount of taxes the State had to charge its citizens.

Chairwoman McClain then asked about e-payment fees, suggesting that perhaps Taxation could do away with the lockbox at some future point in time. She wanted to know the status of the current program.

Ms. Knack said that Taxation had been following the Department of Administration's lead on this initiative and progress had stopped over the last biennium. It was her understanding that Administration had submitted Bill Draft Requests (BDRs) to the Legislature regarding this issue. In Taxation's budget submittal, funding was requested that had been determined in the previous budgetary cycle to address this need, but the cost had not been updated from that original determination. In conjunction with the implementation of the first two phases of the new UTS computer system, there was an online tax payment system that interfaced with Taxation's internal system, allowing taxpayers to file payments electronically. Ms. Knack said there were a certain number of payers that were already filing their returns and payments through that system; however, there were not many in comparison to the number that would be involved in the overall initiative that Administration was trying to get passed through the Legislature.

Chairwoman McClain asked whether the BDRs submitted contained the budgetary needs for the new system.

Ms. Knack did not know whether the BDRs contained the funding portion of the project.

Mr. DiCianno added that the current online system only allowed for ACH debit transactions. It did not allow for e-checks, credit cards, or ACH credits. He did not know what the impact of this electronic initiative would be on Taxation.

Chairwoman McClain asked who was spearheading the e-payment initiative.

Senator Beers said that no one was spearheading it, noting that there was no discussion regarding e-payments in the hearing on the Department of Administration's budget. He asked whether Legislative Counsel Bureau staff had heard anything about this initiative, noting that Administration was handling this in the previous biennium.

Assembly Fiscal Analyst Mark Stevens said that Administration had taken the lead on this initiative.

Senator Beers noted that there was some discussion with the Department of Motor Vehicles (DMV) because that body accepted credit cards for the payment of fees and that the fees charged to DMV by the credit card companies would be significantly more than what Taxation would have to pay in this instance. Senator Beers did not recall hearing any discussion about e-payments during the current session. He said that would have to be added to the agenda of the next hearing on Administration's budgets. He then asked whether anyone from the Budget Division had heard anything about this initiative.

Ms. Janet Murphy, Budget Analyst 4 from the Budget Division, explained that Dave McTeer, Project Manager for Administration, had submitted a BDR regarding the state e-payment program.

Chairwoman McClain asked how the BDR addressed the electronic payment initiative.

Ms. Murphy said she did not have the specifics on the BDR but thought that it might be similar to Administration's bill from the 73rd Legislative Session. She said more information could be provided.

Mr. DiCianno said he understood that part of the bill would require the Taxation agents that collected sales tax in excess of \$10,000 per quarter to remit those payments online. The difficulty involved with this bill was the concern over who would pay the fees associated with the electronic payments, whether the consumer, the retailer, or the State.

Chairwoman McClain noted that which entity would pay the electronic payment fees was an issue for as long as she had served as a legislator and that the Subcommittee would wait for the BDR. She then noted there was recommended funding in The Executive Budget of \$170,000, but that Taxation requested \$92,000 and asked that Taxation work with Subcommittee staff to arrive at the correct figure.

Senator Beers noted that the bid for Taxation's front-counter remodel in decision unit E750 was a year old. He then noted that the original bid was for \$74,725, but that the new request in this budget was for \$96,247. Senator Beers asked whether there were any updated proposals available.

Mr. DiCianno was not aware of any updated proposals.

Senator Beers asked whether there was much concrete, steel, or copper involved in the remodel.

Mr. DiCianno said there was not.

Senator Beers noted that the inflation rate applied to the new budget request might be too high.

Chairwoman McClain noted that the office needing the remodel was small.

Senator Beers asked whether Taxation had sufficient employees to staff the new counter.

Mr. DiCianno said there was sufficient staff on hand.

Senator Beers asked what effect this remodel would have on wait times.

Mr. DiCianno said he could not answer that directly, but asserted that the remodel was necessary. For example, patrons were often lined up outside the office into the hallway at the end of the month. He contended that this was "not a good way to conduct business."

Chairwoman McClain agreed with Mr. DiCianno, saying she had visited the office and was aware of the lack of space.

Senator Beers asked how quickly the remodel would be completed.

Mr. DiCianno said he did not have that information. He understood that the remodel would be done by the Buildings and Grounds Division, and he thought that, once monies were appropriated, work could begin shortly thereafter; however, he did not know what Buildings and Grounds' project schedule was.

Chairwoman McClain asked about decision unit E805 which involved reclassifications of classified positions. The Subcommittee needed to know whether the reclassifications were based on an occupational study.

Mr. DiCianno said the reclassifications were not based on an occupational study. He said Taxation had difficulty finding qualified individuals and pay them accordingly. Department employees had to deal with more contentious and more specific issues. Without these enhancements, Mr. DiCianno claimed he would have a difficult time keeping employees. Mr. DiCianno noted that the senior staff at Taxation was getting closer to retirement and pointed out the need to bring in and keep qualified individuals. Approximately 125 of the 325 employees had less than three years of experience. The challenge for Taxation was knowledge transfer. The labor force was more mobile than in years past. Taxation had become a training ground for auditors, and the work had become more complicated. The Department needed to provide an incentive for these individuals to remain with Taxation longer. Mr. DiCianno also acknowledged that this was a challenge for every state agency.

Chairwoman McClain asked what the basis was for the amount of increase requested. She asked whether Taxation had compared the pay and duties of the reclassified employees to those of other agencies.

Mr. DiCianno said that job duties were the most relevant aspect to consider. For example, the person holding the budget analyst 3 position in the Local Government Finance section was requested to be reclassified to a management analyst 4. This was because that individual was supervising that unit.

Chairwoman McClain asked whether this individual mentioned was actually doing the work of a management analyst 4 instead of the work of a budget analyst.

Mr. DiCianno said this individual had been doing much more than budget analyst work. He claimed that all of the positions listed had been performing levels of work equivalent to their respective requested reclassifications for years.

Chairwoman McClain asked Mr. DiCianno to verify that the work being performed matched the reclassification requests.

Mr. DiCianno said the work performed matched the requests.

Chairwoman McClain asked that the performance indicators be presented in numbers rather than percentages.

Mr. DiCianno noted there were two indicators where percentages were used: the percent of taxpayer telephone inquiries responded to within five days and also the percent of taxpayer written inquiries responded to within 30 days. He noted that in the Taxpayers' Bill of Rights that timely response was the important issue, and that the Department wanted to meet its 100 percent goal.

Chairwoman McClain noted that the Subcommittee wanted to see the actual number of inquiries.

Mr. DiCianno understood the Chairwoman's concern and said that actual numbers were available.

Chairwoman McClain noted that Ms. Knack had emailed those numbers to the Subcommittee the previous day. She then asked why the audit billings were not projected to increase.

Mr. DiCianno explained the main reason for indicators not increasing or not being met over the past few years was because of the new taxes that were implemented and also because of the development and testing of the new computer system. Taxation did not have the spare capacity to remove a group of employees from their normal duties to work on the design and testing of the new system. Mr. DiCianno said that the "subject matter experts" regarding the computer system were the individuals that were working in front-line positions in the Department. It was only possible to spread out the workload so much, while still expecting revenue officers and auditors to perform collection duties. For example, there were 28 front-line tax examiners. On average, these individuals fielded between 50 and 80 phone calls per day. Some of those calls required the examiners to perform research. Mr. DiCianno said it was disturbing when he would receive emails from taxpayers stating that, "I can't get through to anybody. I want to talk to a live body. I don't want the zero-out-option. I don't want a voicemail." Statements like these reflected the kinds of issues addressed in the Taxpayers' Bill of Rights and the performance indicators. Taxation was making efforts to address the concerns demonstrated in low performance indicators, but the Department currently lacked the resources because of the reasons mentioned earlier. Mr. DiCianno then said that if these types of phone calls or letters were responded to by auditors and revenue officers, the other performance indicators regarding tax collections would drop.

Chairwoman McClain asked whether audit billings and revenue officer collections were flat because the revenue officers and auditors did not have the time to perform their normal duties.

Mr. DiCianno said that was the reason the indicators were flat.

Chairwoman McClain asked whether the new UTS system would help with this issue.

Mr. DiCianno said UTS would help, especially with the implementation of phases three and four. These phases gave Taxation better tools to perform collection functions. He believed the indicators would increase, though he did not know by how much.

Chairwoman McClain believed thought that, with the new system becoming operative, there should have been some projected increase in the performance indicators.

Mr. DiCianno said Taxation tried to be conservative in their estimates when considering everything that had occurred in the Department. He did not want to give the Subcommittee the impression that everything was fine.

Chairwoman McClain then asked about the 14 issues brought up in a Legislative audit. She wanted to know whether uncollected money had been collected.

Mr. DiCianno asked whether Chairwoman McClain was referring to the insurance premium tax.

Chairwoman McClain noted that was one issue, but there were several other issues, including taxable annuities, gross premium taxes, and insurance premium tax administration.

Mr. DiCianno said he had a meeting two weeks previously with the Insurance Commissioner. The Commissioner agreed to meet with the Guarantee Association to express some of the concerns that had been discovered in the Legislative audit regarding the method of collection of the tax on premiums, whether "front-loaded or back-loaded." This determination impacted the amount of tax collected. Taxation was also working with the Insurance Division's staff to review the companies that indicated that Taxation did not collect \$17.1 million. Mr. DiCianno understood that the statute of limitations on the collection of taxes on insurance premiums was three years; however, in discussions with the Insurance Commissioner, he learned that the statute of limitations was actually seven years. Accordingly, he wanted to work with Legislative Counsel Bureau staff to determine which companies were at fault and then to collect the taxes due from those companies.

Chairwoman McClain asked whether that money would be pursued this year, noting that Taxation might be able to cover shortfalls with this revenue.

Mr. DiCianno said he hoped to be able to do that.

Chairwoman McClain asked Mr. DiCianno to keep the Subcommittee informed on the progress in this area.

Chairwoman McClain then closed the hearing on this budget account and adjourned the meeting at 10:22 AM.

RESPECTFULLY SUBMITTED:

Todd Myler
Committee Secretary

APPROVED BY:



Assemblywoman Kathy McClain, Chair

DATE: _____

Senator Bob Beers, Vice Chairman

DATE: _____

<u>EXHIBITS</u>			
Committee Name: <u>Assembly Committee on Ways and Means/Senate Committee on Finance Joint Subcommittee on General Government</u>			
Date: <u>March 13, 2007</u>		Time of Meeting: <u>8:00 a.m.</u>	
Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Alan Coyner / Division of Minerals	Performance Indicators
	D	Alan Coyner / Division of Minerals	Revenue Graph
	E	Alan Coyner / Division of Minerals	Metal Prices Graphs
	F	Vincent Cherpeski / Department of Taxation	Workflow chart