

**MINUTES OF THE  
SENATE COMMITTEE ON FINANCE**

**Seventy-sixth Session  
February 14, 2011**

The Senate Committee on Finance was called to order by Chair Steven A. Horsford at 8:05 a.m. on Monday, February 14, 2011, in Room 2134 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

**COMMITTEE MEMBERS PRESENT:**

Senator Steven A. Horsford, Chair  
Senator Sheila Leslie, Vice Chair  
Senator David R. Parks  
Senator Moises (Mo) Denis  
Senator Dean A. Rhoads  
Senator Barbara K. Cegavske  
Senator Ben Kieckhefer

**STAFF MEMBERS PRESENT:**

Rex Goodman, Principal Deputy Fiscal Analyst  
Mark Krmpotic, Senate Fiscal Analyst  
Wade Beavers, Committee Secretary

**OTHERS PRESENT:**

Andrew Clinger, Director, Department of Administration  
Brian K. Krolicki, Lieutenant Governor, Office of the Lieutenant Governor  
Larry Friedman, Interim Director, Division of Tourism, Commission on Tourism  
Stephen C. Woodbury, Chief Deputy Director, Commission on Tourism  
Janet M. Geary, Publisher, Division of Publications, Commission on Tourism  
Susan Boskoff, Executive Director, Nevada Arts Council, Department of Cultural Affairs

**CHAIR HORSFORD:**

We will now hear a status report on behalf of the Senate Committee on Finance.

MARK KRMPOTIC (Senate Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau):

As of today, 48 full-Committee budget accounts have been assigned to the Committee for review. The Committee heard 13 of those budgets last week. We will hear another 16 of those accounts this week. There are 327 total budget accounts assigned to subcommittee. Of those, the subcommittees have heard 13. Another 49 accounts will be heard in subcommittee during the upcoming week. A total of eight bills have been referred to the Committee, none of which has yet been heard.

CHAIR HORSFORD:

We will begin the hearing on the budgets for Elected Officials, starting with the Office of the Governor, budget account (B/A) 101-1000.

#### ELECTED OFFICIALS

Office of the Governor — Budget Page ELECTED-1 (Volume I)  
Budget Account 101-1000

ANDREW CLINGER (Director, Department of Administration):

I will begin with a discussion of the budget for the current fiscal year before moving on to the upcoming biennium. In the current fiscal year, the Interim Finance Committee (IFC) appropriated \$30,000 from the IFC Contingency Fund for transition purposes. Although the Office is authorized to spend these funds, Governor Sandoval has directed that this money be returned to the IFC. This money will not be used this fiscal year.

The Governor has elected to forego his salary increase which would have been effective January 1, 2011. This is in addition to reducing his pay by 5 percent. The Governor is donating the balance of this decrease to the Kenny C. Guinn Memorial Millennium Scholarship Fund and to help fund State services for veterans.

In the upcoming biennium, the Governor's Office budget contains recommended total expenditures of approximately \$2 million. The legislatively approved total for salaries, excluding the Governor's, is \$1.1 million for fiscal year (FY) 2010-2011. In FY 2011-2012 and FY 2012-2013, the Governor recommends a little over \$1 million in salaries for Governor's Office employees, reflecting the proposed 5 percent salary reductions.

With the loss of the American Recovery and Reinvestment Act of 2009 (ARRA) funds this fiscal year, the Personnel Services category in the Base Budget for the upcoming biennium has been adjusted to eliminate three positions. This amounts to a reduction of \$594,320 for the biennium.

The budgetary total for out-of-state travel was carried forward from FY 2010-2011 into FY 2011-2012 and FY 2012-2013. In FY 2009-2010, the in-state travel expenditures totaled \$52,089. For the upcoming biennium, the Governor has recommended an in-state travel authority of \$27,107 per fiscal year.

Under the category representing operating expenses, the account for the 2011-2013 biennium reflects a reduction of approximately \$20,000 from a work program established in FY 2010-2011. Funds have also not been budgeted for dues to the National Governors Association or the Western Governors' Association. The ARRA operating category has been zeroed out to reflect the elimination of the ARRA positions.

CHAIR HORSFORD:

How do you envision the handling of the ARRA grant management office in relation to the close out of ARRA-related funds and positions?

MR. CLINGER:

We would recommend that the closing of that office be handled by the existing staff in the State Controller's Office. They have several accountants who deal with the current single audit as well as the Grant Management Unit. We would recommend that personnel from those two groups pick up the work that would have been done by the eliminated ARRA positions.

CHAIR HORSFORD:

The ARRA position in the Controller's Office is also not funded in the upcoming biennium so there is a concern that the people who know best will not be around to close out the administration of the funds. That may be an area on which we need to reach some type of resolution.

MR. CLINGER:

I have less of a concern with that issue. The ARRA Section 1512 recipient reporting requirement initially presented a challenge to administrators because they were so new, and some of the requirements, such as the creation of a

public information Website, took time to put together. I believe that while there was a steep learning curve in the beginning, these reporting requirements are now part of the ongoing operation. I have less of a concern about maintaining compliance with the existing staff as we go forward.

CHAIR HORSFORD:

Would the qualifications of the new Grants Management Unit include an ability to manage those federal grants in the closing period?

MR. CLINGER:

Yes. Three positions are being requested as part of the Grants Management Unit. One is a management analyst IV, and there are two grants and project analyst positions. We would have to follow the class specifications for those positions, but those would probably include federal grant management experience.

SENATOR CEGAVSKE:

How did the Governor anticipate paying the dues for the Western Governors' Association and National Governors Associations?

MR. CLINGER:

We will not pay those dues. While we will not qualify as full members of either of those organizations, they continue to be helpful in sharing information with us.

I will move on to the Governor's Mansion Maintenance account, B/A 101-1001.

Governor's Mansion Maintenance — Budget Page ELECTED-6 (Volume I)  
Budget Account 101-1001

The Governor's recommended budget reduces the overall allocation for personnel salary and reduces staff positions by 2.64 full-time equivalencies (FTE). In the Base Budget, the Out-of-State Travel category has been zeroed out. The In-State Travel category is recommended to be funded at \$7,812 per fiscal year, which represents a \$3,000 per year reduction compared to FY 2010-2011. Operating Expenses are recommended at \$38,533 which is consistent with the actual expenditures of FY 2009-2010. The FY 2012-2013 operating expenditures are recommended at \$98,917 which accounts for a

historical increase of Mansion activities during legislative years. This number is \$14,378 less than the FY 2010-2011 work program.

The proposed budget for Buildings and Grounds Maintenance is \$2,117 per fiscal year. Utilities are flat in the budget, with the exception of trash service, which has been transferred over from the Buildings and Grounds Division.

SENATOR CEGAVSKE:

Four years ago, the Mansion was in need of several major repair projects. Have those projects been completed?

MR. CLINGER:

I do not know. I would have to ask someone in the Buildings and Grounds Division.

SENATOR KIECKHEFER:

Does the food budget cover the daily meals for the family, or is it specifically for banquet hosting?

MR. CLINGER:

The food category covers both daily activities and special events.

I will now move on to the account for the Governor's Washington, D.C. Office, B/A 101-1011.

Governor's Washington Office — Budget Page ELECTED-10 (Volume I)  
Budget Account 101-1011

For FY 2011-2012 and FY 2012-2013, the budget carries forward the actual expenditures for FY 2009-2010 at \$247,079 for each fiscal year.

SENATOR LESLIE:

This office receives \$18,503 in General Fund money, \$101,439 in room tax funds from the Commission on Tourism (COT) and \$127,137 in Highway Fund money from the Department of Transportation. How were those numbers reached?

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February 14, 2011  
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MR. CLINGER:

That is historically how this account has been funded. I am unclear as to how those particular numbers were reached.

SENATOR LESLIE:

Is it possible that this funding might be better dedicated to other projects, such as creating jobs? A lot of the work done in the Governor's Washington D.C. Office seems duplicative, particularly when we have a direct line to the Nation's Capital anyway. Have you and the Governor discussed cutting back funding for this office?

MR. CLINGER:

From my personal experience, I can say that the Washington, D.C. Office is a useful source for information on grants and other opportunities. There are also frequent occasions when we need someone in Washington, D.C., to communicate with representatives of the federal government. Part of the recommendation for the proposed Grant Management Unit would involve coordination with the Washington office on the development of grants.

SENATOR LESLIE:

This could be seen as a duplication of effort. Information on federal grants is already widely available. It seems that the Grants Management Unit and the Washington, D.C. Office are overlapping in their efforts to seek out federal money.

MR. CLINGER:

The Grants Management Unit would be relatively small, with only three employees, so additional resources would be beneficial. I agree that finding information on grants is not difficult, but coordinating with federal and state agencies is important. The Office could assist in writing grant proposals as well.

SENATOR LESLIE:

Would the writing of grants be a new activity for the Washington, D.C. Office?

MR. CLINGER:

Yes.

SENATOR DENIS:

If we are not dues-paying members of the Western Governors' Association and the National Governors Association, what will be the impacts on our ability to coordinate with their organizations?

MR. CLINGER:

These groups have so far been gracious in allowing us to continue to interact with them. I am unsure, however, as to how long they will allow us access to information without being paid members.

SENATOR DENIS:

Is this office in Washington, D.C., typically our liaison with these groups?

MR. CLINGER:

Yes. That is part of their function. The Washington, D.C. Office also provides information on federal actions that have impacts on the State. There is a significant amount of information coming out of that office that is helpful to all State agencies.

SENATOR CEGAVSKE:

To my recollection, we do not pay dues to the Education Commission of the States, the National Conference of State Legislatures, the Council of State Governments or the American Legislative Exchange Council. Organizations like these are having a difficult time collecting dues recently, not just from Nevada.

SENATOR RHOADS:

The Washington, D.C. Office has been very helpful with information on public land issues. They provide a useful service and do quality work.

CHAIR HORSFORD:

Could you provide our staff with information on the contract for the current contractor?

MR. CLINGER:

Yes.

The last account I would like to present is the State Fiscal Stabilization Account, B/A 101-1007.

State Fiscal Stabilization Account — Budget Page ELECTED-12 (Volume I)  
Budget Account 101-1007

Transactions involving the State Fiscal Stabilization Fund, which manages our receipts from ARRA, are recorded in this account. It also records the \$83.1 million in Education Job Fund money (Ed Jobs) that went to kindergarten through Grade 12 education (K-12). Moving into FY 2011-2012 and FY 2012-2013, this account is zeroed out because those funds have expired.

CHAIR HORSFORD:

Is this the pass-through account that was used last session?

MR. CLINGER:

That is correct. The federal money came into this account and then was passed through to K-12, the Department of Corrections (DOC) and the Nevada System of Higher Education (NSHE).

CHAIR HORSFORD:

Did this include the Ed Jobs fund?

MR. CLINGER:

Yes.

CHAIR HORSFORD:

In the interim, questions arose because the pass-through of this money gave the appearance that there was a large increase in spending in the Elected Officials category of the budget. It appeared to be a sizeable increase in funding over the previous biennium, when in fact this only represented the management of stabilization money used for a single purpose and then retired. How can we avoid misunderstandings such as these in future budgets processes?

MR. CLINGER:

It may be helpful to provide a footnote explaining that item in the *Executive Budget* or in the General Appropriations Act. This misunderstanding also works in reverse. The budget for the Governor's Office reflects a 96 percent decrease in funding, which actually just represents the expiration of these same federal funds. This can make the proportions of spending cuts unclear and could possibly be remedied by an additional note near the front of



the budget. We want to make it clear that the account was established to aid in accounting procedures more than anything else.

CHAIR HORSFORD:

Could you go over how these funds were allocated and why that particular approach was taken in the last Legislative Session?

MR. CLINGER:

Of the State Fiscal Stabilization Fund money, \$139 million was allocated to K-12 in FY 2008-2009. That was a necessary step to balance the budget as these funds helped us alleviate cuts that were being made to education. In FY 2009-2010 and FY 2010-2011, the remaining State Fiscal Stabilization Fund balance, approximately \$185 million, was allocated to NSHE. Originally, that allocation to NSHE was split evenly over each year in FY 2009-2010 and FY 2010-2011. In the Twenty-sixth Special Session, as part of measures to balance the budget, we moved the balance of the State Fiscal Stabilization Fund entirely into NSHE for FY 2009-2010. We replaced the FY 2010-2011 money with General Fund appropriations. The other allocation from the State Fiscal Stabilization Fund was \$72 million for DOC. This directly offset what would have been a General Fund need in the current biennium.

CHAIR HORSFORD:

After \$72 million from the State Fiscal Stabilization Fund was used in the previous biennium to shore up General Fund offsets, the Governor's administration chose, in this biennium, to recommend funding to replace those dollars. This makes it look like an 11 percent increase has been made to the DOC budget from two years ago. Why did the administration take that approach for DOC?

MR. CLINGER:

In this case, if we had not replaced the expired \$72 million in funding for DOC, it would have put us in a position of closing more institutions. While we are recommending some closures based on the projected inmate population, anything beyond this would have required the release of inmates.

CHAIR HORSFORD:

I understand that justification. Why did the administration choose not to take the same approach with the \$184 million allocated to NSHE? These were the same State Fiscal Stabilization Fund dollars used as General Fund offsets, and

the administration has chosen not to offset the loss of the one-time funds. Why was this done for DOC and not for NSHE?

MR. CLINGER:

The Governor's Office has tried to make up for the loss of this funding in NSHE as much as possible. That is part of the recommendation for the property tax diversion. It is meant to offset what would have been further reductions. We took into consideration that NSHE has the ability to raise tuition and DOC does not.

CHAIR HORSFORD:

The DOC actually has a similar ability to charge fees to inmates during incarceration.

MR. CLINGER:

There are fees involved in running DOC, but not to the extent that manipulation of these fees could offset the \$72 million in lost federal funds. It becomes a matter of trying to balance all of our budget priorities within existing resources.

CHAIR HORSFORD:

I feel that this is a matter of mixed priorities. I understand that the loss of funding from the State Fiscal Stabilization Fund means the closure of additional bed units in prisons. That is exactly what is happening in higher education, however. We are looking at the prospect of closing down all of the community colleges or closing down one of our major research institutions in Reno or Las Vegas. We may be looking at eliminating all of the Nevada State College programs and the Desert Research Institute. This is exactly the same decision that is being made. Even with the redirection of funds from Clark and Washoe Counties, the gap in funding is not completely addressed. Your office supplemented the loss of funding for DOC, creating an 11 percent increase in funding from two years ago, but it is as if higher education was ignored. I am not comfortable with the response on this particular issue.

MR. CLINGER:

We do not have a lot of discretion when it comes to funding DOC. It becomes a matter of public safety. When we come to the decisions on how to balance this budget with the existing resources we have, we must begin to prioritize. Public health and public safety go to the top of the list of these priorities. These are difficult decisions to make.

CHAIR HORSFORD:

This should not be a philosophical conversation about whether public safety is more important than public education. Do we agree that one-time funds from the State Fiscal Stabilization Fund were used to offset General Fund expenditures?

MR. CLINGER:

Yes. In all cases they were one-time funds which were used to offset what would have been either additional General Fund expenditures or additional cuts in the current biennium.

CHAIR HORSFORD:

If they were definitely General Fund offsets, then we need to recognize the balance between cuts and the availability of revenue to fund these needs. If the concept is to allow higher education to raise tuition to offset \$184 million in cuts, that places the burden of bridging that gap primarily on the students and their families. These services were once provided for by the General Fund, and then supported for one biennium through stabilization funds.

MR. CLINGER:

It is up to the Board of Regents to decide if the full \$184 million of those cuts needs to be made up through tuition increases. Tuition increases are just one option that is available to higher education administrators. The other option would involve further consolidations and cuts to operating costs which are some of the same things that other State agencies are being asked to do.

CHAIR HORSFORD:

If the Governor is stating that he plans to see tuition increases as a result of his proposed budget, will that not ultimately have the same effect of placing the burden on the students and their families?

MR. CLINGER:

It should be noted that NSHE has one of the lowest tuition rates in the Country. We are essentially trying to prioritize the allocations of our available resources, and these resources are less needed in areas that have the ability to raise their own fees, such as NSHE.

SENATOR CEGAVSKE:

We are one of the only states in the Nation that runs higher education as a separate entity. The NSHE does not like being told what to do and is constantly asking for additional money from the State. They have been asked by the Governor to decrease their budget, but continue to come in over budget. Then, when cuts are made, it is treated as a catastrophe. The NSHE must realize that we are in an economic downturn and that all State entities are being asked to make sacrifices. Every Legislative Session, NSHE fights with K-12 over funding. Ultimately, we have total responsibility for funding K-12 and public safety. I wholeheartedly agree with what the Governor and his staff have done regarding the budget. Higher education administrators must discuss fundamental changes in how they deliver services and how they spend money. The pressure has never been placed on them to come up with effective changes. Students are taking six and one-half years to earn degrees rather than four years. These are problems that need to be brought up and debated.

CHAIR HORSFORD:

It is constructive to know that some of the Committee members want to see fundamental changes in how NSHE operates. I agree that it would be beneficial to get some reforms out of this process.

SENATOR KIECKHEFER:

There have also been large amounts of federal dollars poured into the Medicaid funding which were replaced by the Governor with General Fund dollars. It becomes an issue of how to prioritize and how to identify alternate sources of funding when they are available, as is the case with the solution for higher education.

CHAIR HORSFORD:

Why is it acceptable to increase the DOC budget by 11 percent and to cut the NSHE budget?

MR. CLINGER:

If you look at the funding for DOC, there is actually an overall 5 percent reduction in total funding. There is an 11 percent increase in General Fund appropriations.

CHAIR HORSFORD:

Why is it acceptable to increase General Fund spending by 11 percent?

MR. CLINGER:

If this funding were not provided, correctional institutions would be closed, and inmates would be released.

CHAIR HORSFORD:

When these decisions were being made, did the Governor see DOC as a higher priority than education?

MR. CLINGER:

It is a matter of balancing priorities and allocating available resources to meet these priorities. It is universally recognized that we do not have the resources to cover all of our needs. The Governor does not take any pleasure in cutting the higher education budget by 17.6 percent. It becomes a matter of utilizing available money to make sure we do the least amount of damage going forward.

CHAIR HORSFORD:

I acknowledge that these are difficult decisions for both the Governor and this Committee. I want to encourage discussion on the decision to find the \$48 million to fund prisons, but not the revenue to fund K-12 or higher education. There will be a breaking point for students if they are asked to shoulder the burden of increased tuition to make up for these cuts. Some students will not be able to go to college.

SENATOR LESLIE:

I would like to see more creative thinking involved in the budget for prisons. We discussed a re-entry program for the severely mentally ill. We could release this type of offender from prison early and save money by connecting them with a mental health system that is more responsive to their needs. We could reintegrate them into a community under the auspices of a judge. We would see a much lower recidivism rate if we operated this way. I am impressed with the new director for DOC, but I would like to see reform in the prison administration at the same time we are looking at reform for education. There should be a much better way to manage that budget and reduce our costs in the future, and I look forward to seeing reform proposals.

CHAIR HORSFORD:

I agree.

The Governor's reductions add up to approximately \$709 million. The higher education and K-12 budgets will sustain \$664 million of these cuts. Why is education accounting for 93 percent of the proposed General Fund reductions? Education accounts for 50 percent of our spending. Why is there not a more balanced approach being taken with the cuts?

MR. CLINGER:

I do not believe that the numbers would add up to a 93 percent share of the cuts. You would have to look at the total funding in addition to the General Fund. You must consider the federal stimulus funds that made offsets and made some areas, such as DOC, appear to be getting an 11 percent increase when in reality they are not. When looking at the proportions of reductions that have been proposed in K-12, I feel that they are taking their proportionate share overall. I do not have the same numbers that you do on this issue.

CHAIR HORSFORD:

We can discuss that later. I would point out that all of these additional funds are ending. This money will not continue to be available with the exception of some Ed Jobs funding going forward. I think we need to build off of some more realistic numbers because no one will have access to these federal stimulus dollars going forward. We will have to balance our needs with General Fund and other in-state sources.

We will now hear the budget for the Lieutenant Governor's Office.

Lieutenant Governor — Budget Page ELECTED-50 (Volume I)  
Budget Account 101-1020

BRIAN K. KROLICKI (Lieutenant Governor, Office of the Lieutenant Governor):

The Lieutenant Governor presides over the Senate. I also serve as Chair of the Commission on Economic Development, Chair of COT, and Vice Chair of the Board of Directors for the Department of Transportation. I serve as Chairman for an inter-agency taskforce on issues related to economic development. I also have the pleasure of serving as Chair of the Reno/Tahoe Winter Games Coalition. Although this responsibility is not provided for by statute, I feel that it acts as a culmination of my other responsibilities. This group has been dedicated for many years to bringing the Winter Olympic Games back to this area in 2022.

The budget for my office is fairly simple. We have done as much as we can to assist in dealing with the difficult situation facing the State. I am proud that our staff will have been reduced by 50 percent. The percentage of cuts to my budget from FY 2009-2010 to FY 2011-2012 is approximately 33 percent. For FY 2012-2013, the cuts are slightly lower at 29 percent, mainly due to costs associated with my responsibilities during the Legislative Session.

In an attempt to help balance the budget, the Governor's Office has reduced staff by 24 percent. The Secretary of State's office has reduced staff by 4 percent, the State Treasurer's office by 8 percent, the State Controller's office by 7 percent and the Attorney General by less than 2 percent. I present these numbers to show the magnitude of my office's effort to reduce staff by 50 percent.

The one budgetary item that provides some contention involves the responsibilities of the Lieutenant Governor. In order to serve the priorities of economic development and promotion of tourism, the Lieutenant Governor's position becomes internationally oriented. We have offices in Shanghai and Beijing. In the Governor's recommended budget, the ability to take one international trip every other year has been struck. I would submit that this funding should be replaced. Over the last few years, I have taken several international trips. None of the funding for these trips has come out of the General Fund since 2007. I am either hosted by the appropriate parties I am visiting, or I lead a delegation which is paid for by the members of the delegation through a premium fee covering staffing costs. It would be a shame if I missed an opportunity to promote tourism and international development because I was unable to arrange an important trip overseas.

Neither out-of-state nor in-state travel for staff is included in this budget. This is problematic, but we will do the best we can with what we are given. It really just comes down to an issue of discretion.

SENATOR CEGAVSKE:

Do these international entities, such as China or Taiwan, provide airfare or accommodations when they invite State representatives to visit their countries, and is that reflected in this budget?

LIEUTENANT GOVERNOR KROLICKI:

It is not recognized in this budget. I know that many of you have participated in such trips. If the host feels compelled to underwrite the cost of a visit for their own best interest, then yes, this does happen. As all of you do, I disclose these costs as a gift on my annual personal financial statement.

SENATOR CEGAVSKE:

Are these trips not part of doing business for the State? These international entities host our State and others on trips to show off their economic development and find ways to work with the State.

LIEUTENANT GOVERNOR KROLICKI:

Yes. On these trips it is important to maximize your time to promote the State. I represent not only the State of Nevada, but the State's interests in economic development and tourism. I set up booths at trade shows and tend to my responsibilities. Particularly in Asia, some of the same ministries that control tourism connections also control some of the economic development contacts that we are seeking. We attempt to multitask as much as possible when overseas.

SENATOR CEGAVSKE:

Do U.S. Senators and U.S. Representatives from our State go on these trips?

LIEUTENANT GOVERNOR KROLICKI:

They certainly do make visits overseas, but I have never travelled with anyone from the federal level on these trips.

CHAIR HORSFORD:

We will move on to a review of the budget for COT.

LARRY FRIEDMAN (Interim Director, Division of Tourism, Commission on Tourism):

It has been said that economic recovery in Nevada will be led by the leisure and hospitality sector. Tourism is the largest industry in our State, and of the 50 states, we are the most economically dependent upon tourism. The following projections from calendar year 2010 should illustrate this. The total travel spending in Nevada was \$46.6 billion. The number of jobs attributed to the travel industry was 427,000, or 29 percent of the total workforce. The amount of State and local tax revenue generated by the travel industry was \$2.4 billion. The COT is responsible for generating revenue for the State by



increasing domestic and international visitation to Nevada. We are the only entity in the State responsible for marketing the entire State. We are entirely funded by 0.00375 percent of statewide room tax proceeds.

In FY 2009-2010, we showed a record-breaking return on our investment in tourism promotion. We spent \$3.6 million on advertising which brought in more than \$110 million in tax revenue. For every \$1 spent on advertising, \$31 in State and local tax revenue was generated. Approximately \$87 million of that, or 79 percent, went into the State's General Fund.

While our advertising campaigns were generating that kind of tax revenue, our media relations department generated \$52 million worth of media coverage around the world.

We awarded \$1.025 million in our Rural Grants Program, which generated a reported \$171.3 million in economic impact to rural economies. Over 3,000 people volunteered on these grant projects, providing the State with nearly 111,000 volunteer hours.

These accomplishments came from the work of our marketing, media relations, sales and rural program departments.

Our marketing numbers were achieved through advertising in the areas where consumers view the most media. On page 13 of our presentation ([Exhibit C](#)), we show the Google Corporation's study of the popularity of different sources for media consumption. The COT has placed its advertising dollars into various media sources in proportion with their popularity for consumers.

According to a Google study conducted over a 33-day period this winter, approximately 727,000 people who were exposed to a COT advertisement online later visited an online travel agency. Page 15 contains an example from a 15-second online video ad about skiing in the Lake Tahoe area. In other ads, we often use the fame of Las Vegas to depict it as a gateway to the other, more outdoor-oriented attractions of the State, as shown by the example on page 16.

In addition to our marketing efforts, our media relations department generated \$52 million worth of free press coverage. There are four key components to the work of this department. One of these involves conducting familiarization tours with domestic and international journalists, either for individual writers catering

to niche markets, or groups of writers. For example, Elko County wanted to conduct a familiarization tour that would include writers from Germany. We were able to use our representative in Germany to qualify two writers. We then convinced American Airlines to provide the airfare for the writers and escort them to Elko. These two writers, who were hosted by our tourism partners in central Nevada, went on to publish articles worth \$69,958.21. One of the great things about one of the articles was a huge photo of "Wendover Will," a neon sign character in Wendover, Utah who greets people as they arrive in Nevada. "Wendover Will" is the gigantic cousin of "Vegas Vic."

Another mechanism used to promote media relations involves working with media and travel writers. We may pitch stories, provide photos, give interviews, and issue press releases. We also engage in social media relations, which includes the use of blogs and Websites. We attend trade shows where we can answer questions from the travel writing community.

During FY 2009-2010, our sales and industry partnership staff made over 20,000 professional contacts with travel professionals throughout the world. We surveyed the people we met between February 2009 and June 2010. We chose that period because it gave the contacts time to develop packages that might be related to Nevada, but was recent enough that people would still remember their contact with COT. Of those responding to the survey, 81.1 percent said their contact with a staff member of COT resulted in their being able to book business. Our sales and industry partnership staff also conducts familiarization tours. For example, two weeks ago, a group of ten travel professionals from Mexico City visited the Reno-Tahoe area. All of their hotel stays in the area were hosted by the hoteliers, and all their meals, skiing, rentals, and activities were provided free of cost. Sales and industry partnership staff also engage in cooperative marketing opportunities. With limited international marketing funds, we work with various companies around the world in developing and releasing itineraries. The German company, American Unlimited, is currently promoting a travel package that starts in Las Vegas and goes up Highway 93 to the Great Basin National Park. Visitors will stay overnight in Ely before travelling across Highway 50, the "Loneliest Road in America," to stop at Lake Tahoe. They will then continue south, down Highway 95, with stops in Tonopah and Death Valley.

Our rural programs department administers six territorial tourism organizations throughout the State. These are volunteer marketing arms of our organization.

For the past 21 years, we have produced the Rural Roundup conference. With approximately 250 people in attendance each year, this is a continuing education opportunity for rural Nevada, with the goal of giving communities the tools to maximize their marketing dollars and maximize the money they receive from our rural marketing grant program.

We have achieved too many individual successes in these various endeavors to go into great detail here, but I believe our high return on investment is indicative of COT's value to this State.

I will now discuss COT's budget.

#### ECONOMIC DEVELOPMENT AND TOURISM

Tourism – Tourism Development Fund — Budget Page ECON DEV &  
TOURISM-29 (Volume II)  
Budget Account 225-1522

The actual room tax revenue we received in our base year was \$13.8 million. Our forecast for the next biennium includes year-over-year increases of 3.2 percent in FY 2011-2012 and 4.5 percent in FY 2012-2013. These projections factor in statistics on the construction of new hotel facilities, property closures, average daily room rates, occupancy rates, visitor volume and duration of stay tendencies.

This budget contemplates folding the Division of Museums and History and the Nevada Arts Council (NAC) into COT. It directs room tax dollars from the fund for the promotion of tourism to support approximately one-half of the operational costs of these divisions. It also transfers six positions from the Division of Museums and History to this budget account.

This budget also includes enhancements that will allow us to take advantage of some important opportunities. Over the next couple of years, Nevada will have the opportunity to host the Go West Summit, a business-oriented travel trade show, and the conference of the National Tours Association. With this funding, we will be able to host these conferences and provide familiarization tours for the travel professionals who would be attending.

During the last Legislative Session, as we were entering into the recession and room tax revenue was declining, we had to cut back on some of our advertising efforts. As room tax revenue has started to rebound, we have expanded some of our campaigns in key markets, including television ads in Los Angeles and San Francisco. This budget includes funds that will allow us to continue running television ads in those key markets.

This budget includes routine adjustments for inflation, annualizing costs, minor revisions to existing contracts and replacement equipment.

The COT oversees two other budget accounts. One is budget account B/A 225-1523.

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Budget Account 225-1523

This budget is currently not funded except by the proceeds of special license plate revenue and interest earnings.

Our hope is to be able to return funding to this program as room tax revenues continue to rebound.

CHAIR HORSFORD:

What is the Commission's latest projection for revenue generated by the percentage share of room tax receipts?

MR. FRIEDMAN:

Our projection for FY 2010-2011 is \$14,312,159. Our projection for FY 2011-2012 is \$14,780,644 which is an increase of 3.2 percent. Our projection for FY 2012-2013 is \$15,453,043 which is a 4.5 percent increase.

CHAIR HORSFORD:

Is that what you are building your budget on?

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STEPHEN C. WOODBURY (Chief Deputy Director, Division of Tourism, Nevada Commission on Tourism):

The current year authority is \$13.9 million. We update our revenue projections on a weekly basis. As of last week, we are projecting \$14.3 million for FY 2010-2011.

CHAIR HORSFORD:

What numbers are in your budget for the biennium? Are they numbers that Mr. Friedman gave or are they projections?

MR. WOODBURY:

The numbers that Mr. Friedman just gave are in the budget except for the current year's authority, so there will be an additional \$400,000 in revenue.

CHAIR HORSFORD:

If you exceed those revenues based on room tax collections, are you authorized to spend it with IFC approval?

MR. WOODBURY:

Yes. What we do not spend we balance forward as beginning cash in the next fiscal year.

CHAIR HORSFORD:

Did you indicate that 50 percent of your funds from the room tax will be used to support those agencies that are proposed to be consolidated into COT?

MR. WOODBURY:

Yes.

CHAIR HORSFORD:

Will those funds be adequate to fund those functions?

MR. WOODBURY:

The other 50 percent will continue to come from General Fund dollars and admissions proceeds.

CHAIR HORSFORD:

How will the transfer of these museum operations work? Could you explain the integration of the Department of Cultural Affairs (DCA) into COT?

MR. WOODBURY:

The Division of Museums and History and NAC would both become departments within our umbrella organization. Six positions from the Division of Museums and History would actually come into B/A 225-1522 and would be funded completely by room tax receipts. Approximately 50 percent of the operational costs of the Department of Museums and History and NAC would also be covered by room tax. In the current biennium, there is a transfer of room tax to the General Fund which would be removed and replaced by a similar amount that would support NAC and the museums.

CHAIR HORSFORD:

Are there any additional savings that you believe could be found through the consolidation of these agencies into COT?

MR. WOODBURY:

Beyond what is already in the budget, you could look at the elimination of some positions. The consolidation of the business office will create some efficiency through allowing us to work more closely with NAC and the museums. We can more easily coordinate our efforts to promote them as part of the tourism product in Nevada.

MR. FRIEDMAN:

I would like to add that we currently promote museums and work with NAC. Museums, in particular, have always been part of the product, and many of our constituents are also involved with NAC. I think the consolidation will only make the communication stronger.

CHAIR HORSFORD:

I would like your staff to provide the Committee with an organizational chart showing how these new functions will be supervised. I see the majority of these functions being covered by the reserve. This is not a cost savings. I would like to better understand the long-term cost savings of this consolidation.

MR. FRIEDMAN:

At this point, the savings stand at \$660,000 with the elimination of certain staff positions and the elimination of the office of the Director of DCA.

CHAIR HORSFORD:

Will we continue to incur the operational costs of these stand-alone entities?

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MR. WOODBURY:  
Yes.

SENATOR CEGAVSKE:  
Are your advertisements produced in-house or are they done by outside agencies?

MR. FRIEDMAN:  
Our advertising production is currently done in-house. For the first time we have come up with a Request for Proposal (RFP) to do brand research and brand development. All the marketing we are currently working on is done by our staff.

SENATOR CEGAVSKE:  
What would the costs be to do this brand research? Are those costs reflected in the budget?

MR. FRIEDMAN:  
The research and development is being done in this fiscal year. The RFP is for \$250,000 and would be an expenditure category 31 request.

SENATOR CEGAVSKE:  
Is this an indication that you are not happy with the results of in-house production?

MR. FRIEDMAN:  
Our online marketing has afforded us many opportunities and is one of the reasons we have such a good return on our investment. We are seeking to research how the development of a brand might further improve our results.

SENATOR CEGAVSKE:  
Does Las Vegas already have its own brand?

MR. FRIEDMAN:  
Las Vegas has the strongest brand of any city. They have been able to develop their campaign through brand research. We seek to develop a brand for the whole State.

CHAIR HORSFORD:

The reserves are being used to fund the Lost City Museum, the Nevada Historical Society, the Nevada State museums in Carson City and Las Vegas, NAC, and the State railroad museums for a total of \$3,780,291 over the biennium. Those are one-time reserve funds that will be depleted after this biennium. How will your agency fund these projects into the future? The idea was to find cost savings, but we are creating a hole for a future legislative group to deal with.

MR. WOODBURY:

There are different ways of looking at the reserve. It is our cash at the beginning of each year and it increases based on revenue. We are projecting our revenue to increase over the next biennium.

CHAIR HORSFORD:

How much do you project revenue to increase? Will you have \$4 million in excess revenue in future biennia to cover these costs? If not, then these are not cost-saving measures, but rather costs that a future Legislature will not be able to cover.

MR. WOODBURY:

The key is to look at the ending reserve in FY 2012-2013 which would be \$13.3 million if our current projections hold true. If we keep our budget flat, which essentially we have done, and revenues continue to come in at the same level or higher, we should be able to continue funding these transfers.

CHAIR HORSFORD:

Have you done five-year projections on room tax collections?

MR. WOODBURY:

We have not. Even projecting for FY 2012-2013 is difficult.

CHAIR HORSFORD:

You are asking us to allow you to take your reserves now to pay for these functions in the hope that by 2013 you will have enough money in reserves to pay for them again. There will be no other money available at that time because we will have redirected those resources to other priorities. I do not want to pass the consequences of our decisions on to a future Legislature. I want you to be



able to assure me that there will be funding in place to cover these costs in the future.

MR. WOODBURY:

Our budget is entirely funded by 0.00375 percent of room tax receipts. Planning a budget has been a challenge for COT since it was founded. We must adjust our expenditures in response to the fluctuations in room tax collection.

MR. FRIEDMAN:

We do not have a five-year forecast. We have forecast only through FY 2012-2013. We would be happy to produce a five-year forecast.

CHAIR HORSFORD:

If, in that five-year projection, there are not adequate revenues to cover these expenses, we would expect a plan for how you would address that shortfall.

MR. FRIEDMAN:

I understand.

Our final budget account is for *Nevada Magazine*, B/A 530-1530.

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Budget Account 530-1530

JANET M. GEARY (Publisher, Division of Publications, Commission on Tourism):

The Committee has been provided with the overview of our FY 2012-2013 budget proposal ([Exhibit D](#)).

As the publishing arm for COT, the mission of *Nevada Magazine* is to promote tourism by educating the general public about our State. We seek to foster awareness and appreciation of Nevada's heritage, culture, history, and natural beauty. We accomplish this mission with our bimonthly magazine that is distributed through paid circulation and newsstand sales.

We also publish *Events and Shows*, a free entertainment magazine, which is distributed throughout the State, with 75,000 copies given away at McCarran International Airport. Another 30,000 copies are distributed at other locations, including Reno-Tahoe International Airport, welcome centers,

American Automobile Association offices and on free publication reading racks. It is filled with statewide listings of things to do while visiting.

We also produce the *Nevada Visitor's Guide* and a historical calendar.

*Nevada Magazine* was formed by *Nevada Revised Statutes* (NRS) 231.290 as a nonprofit enterprise fund. This means that our revenue is generated primarily from advertising and subscriptions. Our other sources of revenue come through the sale of our historical calendar and from COT, for the visitor's guide that we produce for them.

Advertising in *Nevada Magazine* is determined by the health of the tourism industry. We have therefore seen a slight downturn on this revenue stream. We have, however, managed to keep expenses in line with earned revenue for the past two years and intend to do so through the upcoming biennium.

*Nevada Magazine's* 75th anniversary will be celebrated in 2011. We have produced a 192-page edition ([Exhibit E](#), original is on file in the Research Library) that is being offered to our subscribers and will be available on newsstands throughout the State wherever *Nevada Magazine* is sold. It contains a selection of stories and photos from the past eight decades.

In order to keep up with the way our readers want to receive their information, we have increased our presence on the Internet, mainly through Twitter and Facebook. We also have photo galleries, blogs and Web extras that are viewed by thousands of visitors each month.

We have increased our newsstand sales by adding several different sales venues over the past two years. These include all Nevada CVS Pharmacies, Whole Foods stores, and Scolari's markets.

In the last two years, our staff has attended events throughout the State to promote our Tour Around Nevada series which highlighted a different town in each of the last 12 editions. We met hundreds of residents in towns across the State, including Battle Mountain, Laughlin, Verdi and Elko. We had booths at many trade shows and tourism events. Both the publisher and editor have appeared on numerous radio and television programs to promote the magazine and our 75th anniversary edition.

*Nevada Magazine* continues to reinvent itself. Readers of magazines are fast becoming online viewers. In order for us to keep up with this trend, we have partnered with a new company, LasVegasEventsandShows.com. We can now offer a choice of online advertising to our customers and have access to five million e-mail addresses that can take information directly to potential Nevada visitors. To increase circulation, in addition to our current renewal efforts, we can also use these e-mail addresses to solicit new subscribers.

We are revamping *Events and Shows* to be more user friendly, and are increasing distribution to include hotel concierge desks, taxis, and rack locations on routes heading into Las Vegas. We will be starting a waiting room program this year that will put a copy of *Nevada Magazine* in over 2,000 professional waiting rooms throughout Nevada and California.

*Nevada Magazine* has been the official State magazine for the past 75 years. We honor this legacy and will continue our mission to inform residents and visitors about all things Nevada.

SENATOR KIECKHEFER:

What is your total circulation, and what percentage of that is out-of-state versus in-state circulation? How do you define which markets you try to target outside the State?

MS. GEARY:

Our total circulation is approximately 11,500. We produce 97,000 copies of *Events and Shows*. Approximately 60 percent of our circulation is outside the State. We view the areas coming into Las Vegas as ideal places to solicit new subscribers. We also solicit former subscribers and offer them new opportunities.

SENATOR DENIS:

How has the circulation changed over the past five years?

MS. GEARY:

We have seen a slight decrease in our circulation. Many people are now going online for their information. We provide an offering online that allows people to go online and see exactly what the magazine has to offer. We also offer extra content on the Internet that is not available in the print editions. We have seen

an increase in the numbers of our online visitors, but we have seen a decrease in our numbers of subscriptions.

SENATOR DENIS:

How does this decrease in circulation relate to your budget? Are there other ways to make up that income?

MS. GEARY:

This is one of the reasons we have partnered with LasVegasEventsandShows.com. They partner with us and will help us in sending out more subscription offers. One converse side to the issue is that when you see a decrease in the number of subscribers, you see a decrease in printing and mailing expenses which is one factor that has helped us maintain an even budget.

SENATOR CEGAVSKE:

I would like to talk about the RFP for \$250,000. The only place in the budget where this might be included is in the marketing and advertising budgets for FY 2009-2010 and FY 2010-2011 which total \$5 million and \$6 million, respectively. I would like to hear a breakdown of that area to show where the \$250,000 would be included.

MR. FRIEDMAN:

The current budget will include the RFP for brand research and brand development. It will be up for review in May.

SENATOR CEGAVSKE:

In FY 2011-2012 and FY 2012-2013, the budget for marketing and advertising goes up to \$6,511,810 and then to \$6,512,812. In these instances, the budget has increased from \$5,796,421. Can you break that down? I am trying to figure out the increased costs that would be incurred from outsourcing advertisement production in relation to the RFP.

MR. FRIEDMAN:

Most of our production will continue to be done in-house. The only work that would be contracted out would be the brand research and development. We are not currently pursuing an ad agency for a permanent contract.

MR. WOODBURY:

Last Session, we discontinued the use of an outside ad agency. This Committee asked us to consider some source of outside perspective. This was built into our budget as part of a smaller RFP as a way to bring in some strategic planning and brand development for an outside perspective in our efforts. Chair Horsford made that request, and it became part of Category 31.

SENATOR CEGAVSKE:

I was not on the Senate Committee on Finance last Session, so I am unfamiliar with the history of these requests. It seems that we are making additional requests in a time when we are trying to save money.

MR. FRIEDMAN:

This is part of the reason we are doing the brand research. We want to make sure that we are maximizing the potential of our advertising. We post strong returns on investment, but would like to know if we could be doing better.

SENATOR CEGAVSKE:

I wish we had performed multiple-year projections on funding from 2003. We might not be in the difficult situation we are today if we had that foresight.

CHAIR HORSFORD:

I agree.

SENATOR DENIS:

In the performance indicators in your budget, your projected distribution for *Nevada Magazine* in 2010 was 60,000 and the actual was 18,857. You again projected a distribution of 60,000 in 2011, but adjusted the expectations to 19,800 for 2012 and 20,790 for 2013. Your projected subscription circulation was 41,538 for 2010 and it was actually 10,097. Please clarify these projections.

MS. GEARY:

Those numbers included magazines that were being purchased by COT. The COT purchases 17,000 magazines which are then sent out as subscriptions to travel agents. The COT also purchases magazines to fill out their mailing packages. They eliminated both of those efforts during the time frame you referenced. These changes were included in the last budget. The circulation

number refers to the 17,000 subscriptions, while the distribution number refers to the magazines purchased for fulfillment purposes by COT.

CHAIR HORSFORD:

I would like to have funding for the Springs Preserve accounted for in the projected numbers. This should be a conservative version. We need to make sure that we can plan for funding for the Springs Preserve in the future.

Is a representative of NAC present who would like to make a statement? I know your budget has been cut heavily, and I am not certain that the budget as proposed will be adequate to meet our needs for the arts.

SUSAN BOSKOFF (Executive Director, Nevada Arts Council, Department of Cultural Affairs):

I did not prepare anything as I was under the impression that we would be giving a more complete presentation in March.

CHAIR HORSFORD:

I would just like to get an idea of how your organization fits into the larger picture of this budget.

MS. BOSKOFF:

As a member of the Executive Branch, I support the Governor's budget, as well as his intent to consolidate services in the State in an effort to see us through this economic crisis. I am also in support of the two-page statement previously issued by Dr. Michael Fischer, the Director of DCA.

In that statement, it was noted that NAC would sustain a 10 percent budget reduction in the upcoming biennium. The dollars that would be coming in from room tax revenue would replace the General Fund dollars that would have met that budget which included the 10 percent reduction. This includes the loss of two present positions and an additional reduction of \$30,000 to \$38,000 over the biennium. We will also be moving our Las Vegas office to a less expensive space.

I also support Dr. Fischer's comments about his concerns over the change in status of the administrative services officer. While I understand that this is part of the merger, I think that it may cause some problems in terms of internal

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control and management within our two offices. I think Dr. Fischer expressed this very articulately in his statement.

CHAIR HORSFORD:

We will go into this in further detail later. I want to make sure that the arts are not left behind in this process.

This meeting is adjourned at 9:43 a.m.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to be 'Wade Beavers', written over a horizontal line.

Wade Beavers,  
Committee Secretary

APPROVED BY:

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Senator Steven A. Horsford, Chair

DATE: \_\_\_\_\_

**EXHIBITS**

**Committee Name:** Committee on Finance

**Date:** February 14, 2011

**Time of Meeting:** 8:05 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Larry Friedman	NCOT Presentation Slides
	D	Janet Geary	<i>Nevada Magazine</i> Presentation.
	E	Janet Geary	<i>Nevada Magazine</i> 75th Anniversary Edition 2011