

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

**Seventy-sixth Session  
March 29, 2011**

The Joint Subcommittee on General Government of the Senate Committee on Finance and the Assembly Committee on Ways and Means was called to order by Chair Moises (Mo) Denis at 8:06 a.m. on Tuesday, March 29, 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.

**SENATE SUBCOMMITTEE MEMBERS PRESENT:**

Senator Moises (Mo) Denis, Chair  
Senator David R. Parks  
Senator Dean A. Rhoads  
Senator Ben Kieckhefer

**ASSEMBLY SUBCOMMITTEE MEMBERS PRESENT:**

Assemblyman Marcus L. Conklin, Chair  
Assemblyman Paul Aizley, Vice Chair  
Assemblyman Kelvin D. Atkinson  
Assemblyman Tom Grady  
Assemblyman Randy Kirner  
Assemblyman John Ocegura

**STAFF MEMBERS PRESENT:**

Rick Combs, Assembly Fiscal Analyst  
Scott Edwards, Program Analyst  
Rex Goodman, Principal Deputy Fiscal Analyst  
Alex Haartz, Program Analyst  
Jackie Cheney, Committee Secretary

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 2

**OTHERS PRESENT:**

David McTeer, Chief IT Manager, Information Technology Division, Department of Administration  
Andrew Clinger, Director, Department of Administration  
David Gustafson, Acting Director, Chief Information Officer, Department of Information Technology  
Tom Wolf, Chief IT Manager, Computing, Communications and Computing Division, Department of Information Technology  
Ken Adams, Chief IT Manager, Communications, Communications and Computing Division, Department of Information Technology  
Bruce Beamer, Telecommunications Manager, Technical Operations, Department of Information Technology  
Chris Nielsen, Interim Executive Director, Department of Taxation  
Brody Leiser, Deputy Executive Director, Department of Taxation  
Carolyn Misumi, Administrative Services Officer, Department of Taxation  
Heidi Gansert, Chief of Staff, Office of Governor

CHAIR DENIS:

Please begin with an overview of the proposed changes for merging agencies.

DAVID MCTEER (Chief IT Manager, Information Technology Division, Department of Administration):

Currently, the Department of Administration's (DOA) Information Technology (IT) Division provides IT expertise to various State agencies and to divisions within DOA. This includes budgetary oversight of large IT projects and operational oversight of the Integrated Financial System, the Nevada Executive Budget System (NEBS), the Enterprise Electronic Payment System, as well as direct project management of DOA's own IT projects. I have provided you with a reference document summarizing the Department's IT budget for the 2011-2013 biennium ([Exhibit C](#)).

As recommended by the Legislative Committee for the Fundamental Review of the Base Budgets of State Agencies and the 2011-2013 *Executive Budget*, it is proposed DOA absorb the operations of the Department of Information Technology (DoIT). The DoIT would become the DOA Division of Enterprise IT Services, the existing DOA IT Division would be eliminated and the

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 3

DOA IT Division's current functional responsibilities would be aligned with other divisions within the restructured DOA, as well as the State Treasurer's Office. I will review some of the more significant decision units in budget account (B/A) 101-1320.

## FINANCE AND ADMINISTRATION

Administration – Information Technology Division — Budget Page ADMIN-25  
(Volume I)  
Budget Account 101-1320

Due to the reorganization and duplication of duties resulting from the merging of the DOA IT and DoIT Departments, decision unit E-229 eliminates the DOA's existing IT Division Administrator and related costs.

E-229 Reduce Duplication of Effort — Page ADMIN-26

Decision unit E-900 transfers administrative costs associated with NEBS from DOA IT Division B/A 101-1320 to DOA Budget and Planning Division, B/A 101-1340. Funding in this decision module includes contractual support, DoIT programmer support, and DoIT database administrator support for NEBS, as well as the Contract Entry and Tracking Systems, the Nevada Project Accounting System, the Open Government Initiative, the Human Resources Data Warehouse, Advantage and the Nevada Employee Action and Timekeeping System (NEATS).

E-900 Trans from IT Division to Budget & Planning Div — Page ADMIN-28

Administration – Budget and Planning — Budget Page ADMIN-1 (Volume I)  
Budget Account 101-1340

Decision unit E-901 moves the statewide e-payment administration from the DOA IT Division, B/A 101-1320, to the Office of the State Treasurer, B/A 101-1080.

E-901 Trans from Dept of Admin to Treasurer's Office — Page ADMIN-29

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 4

## ELECTED OFFICIALS

Treasurer – State Treasurer — Budget Page ELECTED-139 (Volume I)  
Budget Account 101-1080

ASSEMBLYMAN AIZLEY:

Is there a person in the position being eliminated under decision unit E-229 of B/A 101-1320? If so, what will happen to that person?

MR. McTEER:

I am the person in that position. I will be laid off and the State will buy two and one-half years of my retirement in accordance with *Nevada Revised Statutes* (NRS) 286.307.

ASSEMBLYMAN AIZLEY:

Is that buyout included in this budget?

MR. McTEER:

Yes, it is.

CHAIR DENIS:

If the merger is not approved, what happens to this position?

MR. McTEER:

The position will transfer to the DOA's Budget and Planning Division. This was the original intent prior to the merger concept. If that occurs, I will not be retiring.

CHAIR DENIS:

Please explain the recommended reorganization and realignment of functional responsibilities among DoIT, the DOA, and the State Treasurer's Office.

MR. McTEER:

While the contractual and DoIT functional responsibility would be paid by the DOA Budget and Planning Division, the ongoing functional responsibility, including coordination and oversight, would be assumed by the new Division of Enterprise IT Services.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 5

CHAIR DENIS:

Please explain the reason for the transfer to the Treasurer's Office in decision unit E-901.

MR. McTEER:

The e-payment system has always been more of a fiscal function than an IT function. The Treasurer's Office is intimately involved in operating the system. Both our division and the Treasurer's Office believe it makes sense to transfer the responsibility and this is an opportune time to make the change.

CHAIR DENIS:

What happens if the merger is not approved?

MR. McTEER:

This transfer will still occur.

CHAIR DENIS:

The next budget account is B/A 101-1325.

Administration – Information Technology Projects — Budget Page ADMIN-30  
(Volume I)

Budget Account 101-1325

Budget Account 101-1325 is used to monitor and control expenditures of large IT projects. It provides a single account for projects funded in whole, or in part, by the General Fund to accommodate the reallocation of project funds as necessary. Currently, there are two projects in this account. Even though the 2011-2013 *Executive Budget* does not include any IT projects, DOA wants to keep this budget account open for future projects. The IT oversight for future projects included in this account will be provided by the DOA Division of Enterprise IT Services.

CHAIR DENIS:

Historically, the DOA IT Division has provided oversight of statewide IT projects. Please explain what will occur with the new structure.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 6

MR. McTEER:

The oversight provided by the DOA IT Division has been more fiscal than IT management. They are responsible for ensuring projects remain within the budget. Under the new structure, the DOA Division of Enterprise IT Services, in conjunction with an oversight committee, will provide the project oversight. The oversight committee will consist of IT managers from across the State, business functional managers and fiscal experts from the DOA Budget and Planning Office.

I have been responsible for administering the statewide software licenses under the master contract with Oracle. This is a \$500,000 contract requiring annual renewals for a number of State agencies. As part of this, I make sure the State does not pay more than necessary and that the licenses are used wisely. In the new structure, this function will be absorbed by other divisions within DOA. The IT functions will be moved to the DOA Division of Enterprise IT Services. The fiscal responsibilities will be moved to the DOA Director's office and the Enterprise e-payment system will be moved in its entirety to the Treasurer's Office.

ANDREW CLINGER (Director, Department of Administration):

The DoIT has had a similar oversight committee that has not been used for at least the past four years because Mr. McTeer has been performing these tasks. These committee members were primarily IT managers. The recommendation is to expand the proposed committee to include the types of individuals described by Mr. McTeer.

CHAIR DENIS:

Are you confident the oversight committee will have the expertise to accomplish the oversight effectively?

MR. CLINGER:

Yes, as long as the committee is carefully selected to include not only IT experts, but also some business management individuals.

CHAIR DENIS:

Next we will discuss B/A 721-1373. Please begin with the reorganization and elimination of the positions in decision unit E-229.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 7

Administration – IT – Office of CIO — Budget Page ADMIN-111 (Volume I)  
Budget Account 721-1373

E-229 Reduce Duplication of Effort — Page ADMIN-113

MR. CLINGER:

This *Executive Budget* proposes merging DoIT into the DOA. As previously mentioned, DoIT will become a new division under DOA called the Division of Enterprise IT Services. Services that have been provided by DoIT include programming, project management, planning, database management, computing, communications and technical services. The DoIT Director's Office provides administrative, financial management, billing and clerical support to the functional divisions in the Department. All these functions and responsibilities will be merged into other areas.

Budget Account 721-1373 is the Budget Office for the Chief Information Officer within the DOA Division of Enterprise IT Services. As a result of the reorganization, eight FTE positions are recommended for elimination. The first position to be eliminated is the DoIT director. The DoIT deputy director will be reclassified into a division administrator and chief information officer, with no change in salary. This position will become the administrator heading up the new DOA Division of Enterprise IT Services.

The next position eliminated is the chief of administration in charge of DoIT's fiscal services unit. This position will no longer be needed because the fiscal functions will be transferred to the DOA Administrative Services Division which already has a chief overseeing these functions. The chief accountant and accounting assistant II positions are eliminated because their responsibilities are duplicative of what already exists in the DOA Fiscal Services Unit where their duties will be absorbed. Two personnel positions, a personnel analyst II and personnel technician II, will be eliminated because the personnel function for all departments will be centralized within the Human Resource Management Division and these job functions are considered duplicative of other existing positions. An IT professional III, primarily responsible for contracts, is eliminated as it is duplicative of the Contract Services Unit under the DOA Administrative Services Division. Finally, a management assistant I position is eliminated

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 8

because the duties are duplicative of other positions within the DOA Administrative Services Division.

CHAIR DENIS:  
How many of these positions will be layoffs?

DAVID GUSTAFSON (Acting Director, Chief Information Officer, Department of Information Technology):  
There are three potential layoffs. The Public Employees' Retirement System buyout would apply.

MR. CLINGER:  
The *Executive Budget* includes \$85,425 for buyouts. Originally, four layoffs were planned. One of those persons accepted another job reducing the buyout to \$56,612 for three positions.

CHAIR DENIS:  
Please explain how your functions as the deputy director of DoIT will change in becoming the administrator of the DOA Division of Enterprise IT Services?

MR. GUSTAFSON:  
I will be assuming the responsibilities that were performed by the director of DoIT. I will be responsible for providing leadership and oversight of IT and for ensuring data security throughout the State. The main difference is there will no longer be any fiscal or administration staff under this position's direction because those functions are being moved to other jurisdictions.

CHAIR DENIS:  
In decision unit E-904, the *Executive Budget* recommends transferring one IT professional IV from DoIT to the DOA Budget and Planning Division. Once transferred to DOA, this position becomes the chief of the research, planning, and grants management unit.

E-904 Trans from CIO (1373) to Budget & Planning (1340) — Page ADMIN-116

Please explain the functions currently performed by the incumbent and how they correlate with the functions to be performed as the chief of research,



Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 9

planning and grants management. What grants management experience does the incumbent possess and are these skills sufficient to supervise research, planning and grants management functions?

MR. GUSTAFSON:

At DoIT, this individual currently performs all the IT research, finds grants for State agencies, boards and commissions and is chair for several of our committees. I cannot speak to how this relates to her new responsibilities at DOA.

CHAIR DENIS:

Mr. Clinger already addressed the duties on the other side in a previous committee hearing.

There is one IT professional IV position that will remain, but will be moved from DoIT to the DOA budget and planning division. Please explain how those functions may change as a result of the reorganization.

MR. GUSTAFSON:

The responsibilities basically remain the same. This person will continue providing assistance to State agencies through the IT planning and start-up process.

CHAIR DENIS:

Decision unit E-905 transfers five fiscal services and contract support positions from DoIT to the DOA Administrative Services Division, B/A 716-1371. This includes an administrative services officer III, a management analyst III, two accounting assistants III and an accountant technician III. Please explain the reasons for this transfer. Is the intent for the positions to serve the entire DOA or would they provide services solely for the new Division of Enterprise IT Services?

E-905 Trans from CIO (1373) to Admin Services (1371) — Page ADMIN-117

Administration – Administrative Services — Budget Page ADMIN-14 (Volume I)  
Budget Account 716-1371

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 10

MR. GUSTAFSON:

These positions are primarily fiscal positions performing billing, accounts receivable and other accounting duties. They will be moving to DOA and will be consolidated into an administrative services unit with other personnel doing similar duties.

CHAIR DENIS:

In decision units E-501, E-805, and E-912, the *Executive Budget* recommends transferring one IT professional III from the DOA budget and planning division, B/A 101-1340, to the Office of the Chief Information Officer (CIO) within the new DOA Division of Enterprise IT Services, B/A 721-1373, decision unit E-912. This position is being downgraded from a grade 39 step 10, to a grade 37 step 10, commensurate with the functions to be performed. Under administrative policy, the incumbent in this position will be able to retain his or her current rate of pay for a two-year period. Since the budget shows a reduced salary, it appears there could be a funding shortfall in personnel expenses for this account. Please explain.

E-501 Adjustments to Xfer from Budget & Planning (E-912) — Page ADMIN-114

E-805 Classified Position Reclassifications — Page ADMIN-116

MR. CLINGER:

The impact of retaining the salary level is about \$13,500 over the biennium. It was considered an immaterial amount given the total size of the budget.

CHAIR DENIS:

One IT technician IV position is transferred from the computer facility, B/A 721-1385, decision unit E-502 to the Office of CIO, B/A 721-1373, decision unit E-913. How will this transfer benefit the DOA?

E-502 Adjustments to Xfer from Computing Facility (E-913) - Page ADMIN-114

E-913 Trans from Facility (1385) to CIO Office (1373) — Page ADMIN-118

Administration – IT – Computer Facility — Budget Page ADMIN-131 (Volume I)  
Budget Account 721-1385

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 11

MR. GUSTAFSON:

This is a desktop support position. It is being moved to the Office of CIO, B/A 721-1373, and will be cost-allocated back to the DOA.

CHAIR DENIS:

The *Executive Budget* reflects the elimination of four of five performance indicators for this budget account. It is not clear which ones you are keeping.

MR. GUSTAFSON:

We will be keeping two performance indicators, one measuring attendance to training sessions and the other showing the percentage of favorable responses on customer evaluations for planning and research services.

CHAIR DENIS:

Please comment on pending Senate Bill 56.

**SENATE BILL 56**: Revises provisions governing the entities required to use the services and equipment of the Department of Information Technology. (BDR 19-426)

MR. GUSTAFSON:

Senate Bill 56 is currently being reviewed in subcommittee. Existing law requires most State agencies and elected State officers to use DoIT services and equipment, allowing an exemption for some State agencies. Senate Bill 56 removes the exemption for the Department of Motor Vehicles, Department of Public Safety, Department of Transportation, Department of Employment, Training and Rehabilitation (DETR), Employment Security Division, Department of Wildlife, and Department of Business and Industry, Housing Division. It also clarifies the language for boards and commissions. Overall, the bill improves standardization, economies of scale, promotes the Internal Service Fund and enhances oversight and security of data.

CHAIR DENIS:

We will now move the discussion to B/A 721-1365 regarding application support. Please begin by providing an overview of this account.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 12

Administration – IT – Application Support — Budget Page ADMIN-121  
(Volume I)  
Budget Account 721-1365

MR. GUSTAFSON:

As a result of merging DoIT with DOA, this account will become the application support budget account for the DOA Division of Enterprise IT Services. It has three roles: Enterprise customer service, business analysis and technical support. Additionally, it includes technical assistance for state databases, Website development and general support services.

The vision is that the activities supported by B/A 721-1365 will become the front face to the customer, whereas some of the other accounts will be more back office. In an effort to improve customer service and project outcome, a new Enterprise Business Analysis Unit is developed within this account to better assist customers by translating customer needs into IT requirements. They will be the glue between the programmers and the businesses ensuring successful project initiatives. Additionally, the Help Desk and a desktop support team are moved under this account to form a consolidated single point of contact.

CHAIR DENIS:

Please review decision unit E-805. There is a concern about a budget shortfall resulting from the downgrading of one of the positions. In accordance with NRS, the salary cannot be reduced for a two-year period.

E-805 Classified Position Reclassifications — Page ADMIN-127

MR. CLINGER:

Three positions are transferred to this account from the Department of Personnel, B/A 717-1363, decision unit E-901.

Administration – HRM – Human Resource Management — Budget  
Page ADMIN-171 (Volume I)  
Budget Account 717-1363

E-901 Transfer from HR Mgmt to Enterprise APP Support — Page ADMIN-180

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 13

Another position is transferred and reclassified to this account from the Computer Facility in B/A 721-1385, decision unit E-914.

Administration – IT – Computer Facility — Budget Page ADMIN-131 (Volume I)  
Budget Account 721-1385

E-914 Trans from Facility (1385) to APP Support (1365) — Page ADMIN-139

These positions are all reclassified commensurate with the duties within the Enterprise Business Analysis Unit. During the reclassification process, a management analyst III, grade 37, is being downgraded to a business process analyst II, grade 36. The cost estimate for the retention of the salary level for the biennium is \$6,252. This amount is immaterial considering the total amount of the budget.

CHAIR DENIS:

Please explain the vision for consolidating all the Help Desk functions.

MR. GUSTAFSON:

Historically, DoIT and the Department of Personnel have operated separate Help Desk functions. The Department of Personnel's Help Desk provides IT support concerning the Human Resources Data Warehouse, HR Advantage (for personnel transactions) and NEATS. The DoIT Help Desk provides support for mainframe security and passwords, e-mail accounts, billing questions and wide area network outages. Consolidating the Help Desk functions will provide statewide support with a single point of contact. Furthermore, the reorganization will allow the establishment of a new Enterprise Business Analysis Unit within the DOA Division of Enterprise IT Services to better assist customers by translating customer needs into information technology requirements. This will create a one-stop-shopping concept for application support as well as e-mail and all the other computer services.

CHAIR DENIS:

Functionally, will there be more staff?

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 14

MR. GUSTAFSON:

Yes. Two Help Desk people will be transferred from the Department of Personnel to add to the existing three workers and manager. Cross-training will be provided to the entire unit so everyone can perform all the Help Desk duties for all areas. There will be critical mass and synergy around the desktop and database support. Everyone will report to a common supervisor. This should result in improved services for the customer.

CHAIR DENIS:

How will the performance be measured for the new DOA Enterprise Business Analysis Unit?

MR. GUSTAFSON:

I will need to work with Fiscal Staff on the performance indicators and report back to you.

CHAIR DENIS:

To what extent has the Agency explored establishing a new service rate to fund the positions and related costs associated with the Enterprise Business Analysis Unit?

MR. GUSTAFSON:

The services will be available to everyone who pays the infrastructure assessment fees. We will track usage by agency and if we find some are using it more or less than the average, we will come back and revisit the billing model.

CHAIR DENIS:

Decision Unit E-606 recommends the elimination of a management analyst II assigned to the Web services group. Will there be a layoff?

E-606 Staffing and Operating Reductions — Page ADMIN-125

MR. GUSTAFSON:

There will not be a layoff. When the position became vacant, it was eliminated. The Department reassigned an IT professional from the programming section to the Web services group to enhance the group's ability to support customers and provide programming skills required for Web development.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 15

CHAIR DENIS:

We will now discuss B/A 721-1385. Please explain the new position in decision unit E-251.

E-251 Economic Working Environment — Page ADMIN-134

MR. GUSTAFSON:

One new IT professional III position is requested to replace an existing Master Services Agreement contractor. This position will provide ongoing infrastructure support for the Secretary of State's Business Portal infrastructure in the virtual server environment.

CHAIR DENIS:

An IT professional III position is recommended for elimination in the Office of the CIO. Why was this position not transferred instead of requesting a new position?

MR. GUSTAFSON:

The new position requires different skill sets. An individual with specific virtualization server expertise is needed.

CHAIR DENIS:

Please explain what the plan is for the mainframe upgrade in decision unit E-710.

E-710 Equipment Replacement — Page ADMIN-136

TOM WOLF (Chief IT Manager, Computing, Department of Information Technology):

This request is to upgrade the Department's existing Z9 mainframe to a Z10 mainframe which results in approximately a 20 percent increase in power. Over the last 15 years, the mainframe has increased about 10 percent a year.

CHAIR DENIS:

Has the Z9 been upgraded to the extent possible?

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 16

MR. WOLF:

There is still some capacity in the Z9. We did consider an upgrade. An upgrade would require no new hardware but, every time you make the mainframe bigger, it costs more in new software. Upgrading the Z9 remains an option but it is a short gap, stepping stone to a Z10 costing more in the long run. It makes more sense to invest our dollars in something that will have a longer lifespan. Also, the speed on the Z10 can be dialed up or down depending upon the customer need which can save operating costs.

CHAIR DENIS:

Is there enough demand to support this investment?

MR. WOLF:

Yes.

CHAIR DENIS:

If this upgrade is not done, what are the disadvantages?

MR. WOLF:

We would be locked into the old Z9 which is reaching the end of its lifespan and will be losing manufacturer support services as it becomes more dated. It costs about \$250,000 to upgrade to the Z10 model. If we wait, we may lose the ability to upgrade from a Z9 and have to buy a new Z10 which would increase the cost to approximately \$2 million. The upgrade path is obviously a less painful, more cost-effective method to keep current technology.

CHAIR DENIS:

Is this particular platform the only option we have? Also, is IBM the sole source on this?

MR. WOLF:

The only option for upgrading is offered by IBM and it is the sole source on mainframes at this time.

CHAIR DENIS:

Is the mainframe the only option?



Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 17

MR. WOLF:

This is true for at least the next six years. Most of our customers have migration strategies off the mainframe. This is one of the attractive features of the Z10. If we lose some of our customer's applications, or our customers downsize their mainframe, we will have the ability to dial down the speed of the machine. Eighty-five percent of the cost of running the mainframe is the software. When the speed of the machine is dialed down, the software operational costs drop dramatically. The State can save money by staying abreast of current technology.

CHAIR DENIS:

What do you foresee happening in six years?

MR. WOLF:

In six years, DETR will be on a more server-based platform. The Welfare and Supportive Services Division of the Department of Health and Human Services will have more front-end automation processes that will reduce the mainframe pressure. In general, agencies will be migrating from the legacy enterprise systems to more current server-based front end systems.

CHAIR DENIS:

There are no questions regarding B/A 721-1386. However, I would like an update on SilverNet, the enterprise information transport system.

Administration – IT – Data Comm & Network Engin — Budget Page ADMIN-141  
(Volume I)

Budget Account 721-1386

MR. GUSTAFSON:

SilverNet usage remains relatively flat. There is an increase in Internet usage as more applications become Web friendly.

CHAIR DENIS:

We will discuss B/A 721-1387 regarding telecommunications. Please explain the purpose of the telecommunications study and the outcomes.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 18

Administration – IT – Telecommunications — Budget Page ADMIN-148  
(Volume I)  
Budget Account 721-1387

KEN ADAMS (Chief IT Manager, Communications, Department of Information Technology):

The State has many systems that are at the end of manufacturer support. Our infrastructure has duplications in voicemail, processors, maintenance and overhead. There is potential for consolidating and realizing some economies of scale if a unified infrastructure such as SilverNet is used to define our future telecommunications. There is much to be gained by reviewing other independent systems available.

CHAIR DENIS:

The *Executive Budget* recommends \$160,000 in FY 2011-2012 to conduct a telecommunications system consolidation analysis. Is it possible the same entity that does the study could be awarded the work?

MR. ADAMS:

We are looking for a manufacturer-standard study. The study is intended to provide a road map of a definable process for how to get to the beginning of a procurement process. In addition to a technical and financial study, it will include a cost analysis showing how the State can self-fund the upgrade with savings resulting from elimination of duplicates, and reduction of maintenance and overhead costs. Once this is done, the procurement process will be processed through the Department of Administration Purchasing Division using the standard bid process. Only a few manufacturers of large communication systems are left. The primary players who build enterprise systems are Cisco and Avaya. We are looking at having a vendor study done by the Avaya Corporation. The reason is, they will have the vision of where the industry is going, whereas a consultant will give their opinion of where it is going. We need to stay with the industry standards so we can ensure the investments the State has already made are going to be contiguous down the road. We do not want to get into some model that is not matched with where the industry is going.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 19

BRUCE BEAMER (Telecommunications Manager, Technical Operations, Department of Information Technology):

Regarding the vendor, the Avaya Corporation has a list of highly rated vendors. The Request for Proposal (RFP) would go out to all these different vendors. Competing vendors may have the same parts costs, but usually compete by proposing to provide some free value-added items, such as free installation. In today's market, they will be competitive because they all want the business.

CHAIR DENIS:

How do you determine who does the initial manufacturer-standard study?

MR. ADAMS:

The State would first issue a Request for Information (RFI) with specific criteria based on our standards and information about where the State is now and where we want to go in the future.

CHAIR DENIS:

Is the \$160,000 requested for this study an estimate?

MR. ADAMS:

Yes. It is based on a few probes that were done considering the scope of the study.

ASSEMBLYMAN AIZLEY:

Why is it necessary to outsource the study?

MR. ADAMS:

Our staff is knowledgeable, but not subject-matter experts. When it comes to telecommunications and other communications infrastructures, there must be subject-matter expertise or the outcome can be disastrous. Phone systems on a large scale are complex business. Phone systems in State government have historically been outsourced for design and engineering work. Our own staff can do things like adding, deleting, or moving a phone, changing the call routing or other simple administrative tasks. We do not do the level of engineering required in such a study. Our staff simply does not have the required skill sets and subject-matter expertise.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 20

ASSEMBLYMAN AIZLEY:

Please explain the Historic Line Audit and how that process can be used to identify the State's total telecommunications costs while identifying and resolving potential billing issues.

MR. ADAMS:

In looking for ways to make recommendations for cost savings, we discovered a service called The Historic Line Audit. The Historic Line Audit is available to businesses and governments that do not have established telecommunications governance. The audit provides a detailed review of billings, contracts, circuits, and line communications for all departments and agencies participating in the process. The personnel performing the audit are highly proficient in dealing with large telecommunications companies and their billing methodologies. They possess extensive knowledge of tariff, contract and inventory analysis. In addition to the contract and tariff analysis, the audit would identify unused lines, circuits, and other services for termination, as well as recover refunds and credits, where applicable. This would be done on a contingency-fee basis, meaning no initial costs to the State, with the vendor to be paid from a predetermined percentage of any recovered refunds or credits. After their work is done and the corrections are made, the State agencies would realize an ongoing operational savings.

CHAIR DENIS:

Will this include all the State agencies?

MR. ADAMS:

Currently we are working with the DOA Budget Office and the Purchasing Division to do the RFI and RFP process. It is going to be an elective process. We will conduct meetings with the various agencies, departments, administrative services officers (ASOs) and technical staff to give them an overview of the project. The ASOs are included because there is a financial aspect.

CHAIR DENIS:

Will the rate depend upon how many choose to participate in the process?

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 21

MR. ADAMS:

Yes, the larger the project, the better the rate.

CHAIR DENIS:

Do you know of any agency that has done its own audit?

MR. ADAMS:

I do not know of any agencies that have done an inside or outside audit.

MR. BEAMER:

To our knowledge, no one has done an audit. Experience tells us there is a need for it because some of the third-party billing coming across our desk is not being looked at as it should be.

CHAIR DENIS:

Will the audit review long-distance charges?

MR. ADAMS:

The audit will not include reviewing internal lines, only the external lines. The agencies using the oldest systems, change locations frequently or have numerous staff changes will benefit the most. The focus for most agencies is improving its daily business operations and not necessarily the IT.

CHAIR DENIS:

We will move to B/A 721-1388, network transport services. In decision unit E-254, concerning migrating to Internet Protocol (IP) technology, are you proposing to purchase new equipment, or do you plan to reconfigure old equipment?

Administration – IT – Network Transport Services — Budget Page ADMIN-155  
(Volume I)

Budget Account 721-1388

E-254 Economic Working Environment — Page ADMIN-158

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 22

MR. ADAMS:

All communication technologies will eventually be IP based. We are preparing the infrastructure to support the transition and reconfiguration of the mountaintop digital microwave systems as we perform new construction and repairs. All the new radio-frequency equipment being sold for public safety has IP options. We see IP at the mountaintops as our future and are migrating to that technology. We are already carrying considerable IP traffic over the State microwave.

CHAIR DENIS:

Will this change result in increased travel to the microwave sites?

MR. ADAMS:

At this point it is just a configuration change. It should not affect the travel. There will be increased travel when we do large reconfigurations of entire systems. For example, when the new interoperability systems come on line and we have to do the wiring and all the IP setup for the mountaintop work, we can expect more travel than the usual operation and maintenance. It depends largely on what the future systems will bring. We know all future systems will be IP based and we are preparing the infrastructure to support that. Additional travel is not expected in the upcoming biennium.

CHAIR DENIS:

Are you caught up with all the major mountaintop work?

MR. ADAMS:

Yes, we are caught up with all the major mountaintop projects. We do have constant changes and enhancements in trying to provide better service and a lot of repair work being done during the winter.

CHAIR DENIS:

Regarding Las Vegas, are there any sites being considered for IP? There could be significant savings to State agencies if you could get digital microwave systems in place for the State system.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 23

MR. ADAMS:

We have not done much in Las Vegas or Washoe County. Most of our systems in Clark and Washoe Counties are operated at shared sites. With the large spans of real estate in rural Nevada, we have to build, operate and maintain so many independent sites that our focus has been there. Las Vegas is radio-frequency congested, saturated with large bandwidth opportunities from commercial fiber and cable vendors. Consequently, we have never considered Las Vegas as having a big radio-frequency potential because of the abundance of fairly priced existing bandwidth opportunities available.

ASSEMBLYMAN AIZLEY:

Is only one Internet protocol being used?

MR. ADAMS:

Transmission Control Protocol-Internet Protocol (TCP-IP) is the standard for communications of computers and other communication devices. Increased radio-frequency will be involved in all that we do. There is a long future for TCP-IP.

CHAIR DENIS:

There are no questions or issues regarding B/A 721-1389.

Administration – IT – Security — Budget Page ADMIN-165 (Volume I)  
Budget Account 721-1389

We will now hear Department of Taxation, B/A 101-2361.

FINANCE AND ADMINISTRATION  
DEPARTMENT OF TAXATION

Department of Taxation — Budget Page TAXATION-1 (Volume I)  
Budget Account 101-2361

CHRIS NIELSEN (Interim Executive Director, Department of Taxation):

I have provided you with a document summarizing the Department of Taxation Biennial Budget ([Exhibit D](#)).

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 24

CHAIR DENIS:

Please begin with decision unit M-160 and E-600 in B/A 101-2361 which eliminates 14 full-time equivalent (FTE) positions and 15 intermittent administrative positions.

M-160 Position Reductions Approved During Biennium — Page TAXATION-3

E-600 Budget Reductions — Page TAXATION-5

MR. NIELSEN:

Decision unit M-160 eliminates eight vacant positions resulting from budget reductions in the Twenty-sixth Special Session. As part of this, a taxpayer assistance office located in Elko was closed July 1, 2010. Five of the eight positions eliminated were located in this office.

In decision unit E-600, the *Executive Budget* recommends eliminating 6 FTE positions and 15 intermittent positions.

SENATOR RHOADS:

With all the recent emphasis on auditing the mining companies, has the Agency reassessed the need for the Elko office?

MR. NIELSEN:

The Agency has not reassessed this. When mining companies have been audited in the past, the audits have primarily been done by the auditors in the Reno or Las Vegas offices.

SENATOR RHOADS:

What types of positions are being eliminated in the Elko office?

MR. NIELSEN:

Three of the five positions are clerical positions. There is one revenue officer and one field auditor.

SENATOR RHOADS:

I have been told these positions are necessary to do thorough audits of the mining industry.



Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 25

MR. NIELSEN:

There are northern and southern audit teams in place. It has proven to be more cost-effective to pay mileage for auditors to travel from the Reno office to Elko, Ely and the other northern rural areas, than it is to pay the rent and overhead for maintaining a small Elko office.

ASSEMBLYMAN CONKLIN:

You said the Elko office is largely administrative. Our records indicate the positions being eliminated are a revenue officer III, a revenue officer II, an auditor II, a tax examiner, and an accounting assistant. I know it costs money to operate an office, but questions are coming forth about how many fewer audits might occur considering the added travel for conducting the audits. There are also concerns about a loss in revenue by not having a presence. There are some businesses that may be less likely to report, or may report less, thinking their odds for an audit are reduced.

MR. NIELSEN:

This is a reasonable concern. We do have increased filings online through our tax system. This has caught on and has been increasing every month. We have looked generally at the revenues being reported and have found Elko County is one of the better-performing counties. The recommendation made by the prior director for closing the Elko office, as part of the budget solution, was weighed with the alternative of eliminating staff in other areas. Considering the total cost and overhead of operating the Elko office, leaving the office open would have resulted in 13 layoffs of individuals in other areas.

ASSEMBLYMAN CONKLIN:

I am not entirely convinced, but we will move on. In decision unit E-600 there are 15 intermittent positions equating to 8 FTE positions which are mostly in Carson City, but also in Las Vegas and Reno. Does the Agency expect some loss of efficiency as a result of losing these positions? Were other options explored?

MR. NIELSEN:

With respect to these positions, it will be helpful to briefly describe what they do. These positions have a variety of duties throughout the Department mostly in the Carson City headquarters. They perform administrative functions related

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 26

to the processing and reconciling of tax returns and payments, scanning taxpayer documents into the Unified Tax System, customer service and processing mail. They execute the monthly distribution of money to all the local governments and entities for whom the Department collects money. It is important to those receiving these funds that the money is delivered on time. The Department does not anticipate this will be jeopardized by eliminating these positions. Currently, only 6 of the 15 positions being eliminated are filled. There are currently 9 vacancies in the 15 intermittent positions.

In addition to these eliminations, there are two auditor positions, one in Las Vegas and one out-of-state auditor, which are currently vacant. There is one program officer, one document manager and two administrative assistants in our accounting processing section. Losing the two auditor positions will reduce our audit penetration rate. We currently have 45 field auditor positions and some supervisors.

In preparing the budget, our Department was not immune to the overall budget problems. To offset the loss caused by the eliminated positions, the Department is proposing an enhancement unit requesting additional revenue officers.

ASSEMBLYMAN CONKLIN:

In decision unit E-254, in which the agency is requesting eight revenue officers and one tax examiner, is the strategy to replace the eliminated positions with positions whose job is to ensure tax payments are made timely and accurately?

E-254 Economic Working Environment — Page TAXATION-4

MR. NIELSEN:

That assumption is correct. Simply stated, the revenue officer's job is to go after money that is owed to the State. These positions will reduce the average non-compliant/delinquent account caseload assigned to revenue officers in order to improve past-due collections and the identification of nonregistered businesses. Historically, the revenue officer collects an average of \$1.1 million annually. An auditor, on the other hand, bills approximately \$600,000 per year. That \$600,000 does not always translate into \$600,000 into the State Treasury or the local governments. There is an appeal process and we are

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 27

subject to the whims of administrative law judges, the Nevada Tax Commission, and the courts. The audit takes time and the appeal process can be lengthy.

While we have different core divisions within the Department, we do not have separate programs such as the Department of Health and Human Services. We have a compliance division, which relies upon IT support and administration staff, that distributes and reconciles. Considering vacancy rates and the current budget situation, we tried to be surgical in determining which positions to eliminate and which staff additions would benefit us the most.

ASSEMBLYMAN CONKLIN:

You indicated each revenue officer will bring in about \$1.1 million. With seven new revenue officers, does that mean we can expect \$7.7 million in new revenue that is currently not built into the budget?

BRODY LEISER (Deputy Executive Director, Department of Taxation):

That is not a safe assumption to make and that is not what the Department is stating. We are stating that based on actual collections in FY 2009-2010, and the existing number of revenue officers, their collection efforts averaged about \$1.1 million per individual. Hiring the additional seven revenue officers does not directly relate to an additional \$1.1 million per position in collections.

ASSEMBLYMAN CONKLIN:

Do you expect the average to go up or down?

MR. LEISER:

Part of the justification for requesting the additional revenue officer positions is that there are currently approximately 85,000 delinquent accounts. These are accounts which had delinquencies because of not filing returns, accounts which had outstanding receivables or a combination of both. With the existing staff of 35 revenue officers, that comes out to about 2,400 accounts per revenue officer. Based on a study done in 2003 by the Department of Administration's Division of Internal Audit, the industry standard was approximately 1,500 accounts per revenue officer. Part of the justification for the additional revenue officers is to get the caseload to a more manageable level. Currently, our existing revenue officers focus their efforts on high-dollar cases.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 28

ASSEMBLYMAN CONKLIN:

Just as a historical fact, complying at the national average has never been Nevada's method of operation.

MR. LEISER:

It is not a national standard. The study compared private collection agencies along with Texas and Washington which are states that do not have a state income tax.

ASSEMBLYMAN CONKLIN:

Our records indicate \$13,577 can be deleted for a one-time furniture and equipment purchase and \$3,616 in building rent costs. Is this correct?

CAROLYN MISUMI (Administrative Services Officer, Department of Taxation):

The Department determined they could reuse the furniture and computer equipment vacated by the deleted positions. The \$13,577 and \$3,616, totaling \$17,193, can be removed from the budget.

CHAIR DENIS:

In the presession budget hearings, the Department representatives talked about improved voluntary compliance by taxpayers. How are you measuring that?

MR. NIELSEN:

It can be quantified by the total number of accounts compared to delinquent accounts. The most important thing is what is being done to reduce the number of delinquent accounts. The call center that was funded last Legislative Session has been a success. For years, the Department had a problem of not returning phone calls and responding timely to written requests. The tax system in Nevada is a self-reporting tax system. When questions are not answered timely with a simple phone call, a frustrated taxpayer may not comply with the reporting requirements. We have also provided outreach programs and trained the various industries on reporting the different tax types. We have improved communications by sending out quarterly tax notes informing taxpayers about procedures and changes in procedures.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 29

MR. LEISER:

One of the helpful performance indicators is the taxpayer errors as a percentage of the total number of tax returns. Specifically, we measure the pool based on the number of accounts that we have and the number of accounts recorded as having an error on the tax report. The errors are recorded and tracked. We have projected a 15 percent error rate. The actual error rate on those submitted in FY 2009-2010 was 7.8 percent. We have seen an improvement in both compliance and correct reporting from the taxpayer community. Part of that can be attributed to the Unified Tax System and our ability to send out instructional and informational notices. We used to correct the errors as they were keyed in. Now the reports are entered exactly as the taxpayer reports and the taxpayer is notified of the error and asked to make the correction. This reduces the chances of recurring errors. Additionally, the call center answering calls and responding to questions in a timely fashion has played a role. We no longer have a backlog of messages resulting in an increase in correct and timely up-front reports.

CHAIR DENIS:

Hopefully, the performance indicators will show even better results in the future. It looks like you projected completing 100 percent of the sales tax audits, but only completed 57 percent. Now you are projecting 62 percent to be completed. What indications do you have that the Agency will be unable to complete 100 percent?

MR. NIELSEN:

We expect the field auditors to perform an average of four audits per month. The average audit time has gone from 28 hours to 41 hours in the most recent fiscal year. We are primarily conducting a risk-based audit selection program. While we have been doing fewer audits, the audits completed have proved to be more fruitful. In addition, we are performing more abatement audits examining abatements, capital improvements, and payroll in addition to taxes. Those audits take longer. The four audits per month standard is being reevaluated.

CHAIR DENIS:

What do these performance indicators represent? How many audits were actually completed?

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 30

MR. NIELSEN:

We completed 1,354 audits for sales and use tax in the last fiscal year.

SENATOR RHOADS:

How do you determine who you audit? Several years ago I was audited and was cited for not paying taxes on magazines. Yet, the two largest gold mines in the world in my area have not been audited for many years.

MR. NIELSEN:

Historically, the law required audits be selected randomly. Now, risk-based criteria are used for the major tax types such as sales and use tax, modified business tax, and excise taxes. The mining companies have been part of the selection process with respect to the sales and use tax and modified business tax but not for net proceeds tax. That is the problem recently identified. The Department is in the process of determining how mining companies will be selected based on certain risk criteria. We are bringing an expert from the gaming industry to assist with the development of these criteria.

ASSEMBLYMAN AIZLEY:

Please explain the risk factors in greater detail.

MR. LEISER:

The primary factor is prior audit history. If deficiencies were found in a previous audit they are considered more high risk. Indicators of high risk are taxpayers who have been delinquent or not timely in filing their returns or have been found to report incorrectly. It is a computerized selection system. We frequently receive audit leads. We do not audit all the audit leads but we do pursue those that appear to be credible.

ASSEMBLYMAN AIZLEY:

It sounds like the high-risk audits are determined primarily on past performance and rumors.

MR. LEISER:

Audit selection is also based on the size and type of the business. We classify each business by an industry classification code.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 31

HEIDI GANSERT (Chief of Staff, Office of Governor):

As far as the risk-based auditing, once we found out the audits were not being done in the mining industry, we immediately called the Tax Commission to ascertain when and where the last audits were done and what we could do on a going-forward basis. We are using consultant experts who have been successful in auditing the complex gaming industry. We are also looking to borrow some auditors from the State Gaming Control Board because they have certified public accountants who are tasked with developing a system to identify the higher risk mining companies to be audited. Since audits in this area have not been performed for some time, letters are being sent to all mining companies in Nevada explaining that we will be looking at their records over a period of time. We will begin cross-training so that we can address the issues of mining audits as soon as possible. The start-up process is already under way. During the Tax Commission hearing, Mr. Neilson presented a timeline. We have been aggressive in putting together a system to measure risk so we can do the best job possible with those audits.

CHAIR DENIS:

We are moving on to decision units E-260 and E-805.

E-260 Economic Working Environment — Page TAXATION-5

E-805 Classified Position Reclassifications — Page TAXATION-8

The only question here is to confirm that the \$15,631 one-time furniture amount and the \$13,342 in building leased space costs can be removed from the decision unit.

MR. LEISER:

That is our understanding. We will confirm the numbers and get back to you.

CHAIR DENIS:

Next, we will discuss decision units E-912 and E-800.

E-912 Transfer from Dept of Tax to Human Resources Div — Page TAXATION-8

E-800 Cost Allocation — Page TAXATION-7

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 32

ASSEMBLYMAN CONKLIN:

As a result of the Legislative Counsel Bureau audits, two budget items were submitted by the Department that were not included in *The Executive Budget*. Specifically, the Department requested State General Fund appropriations to support 13 new FTE auditor positions, including 1 supervisor. The second was for General Fund appropriations of \$346,276 in FY 2011-2012 and \$427,598 in FY 2012-2013 to support seven new full-time positions comprised of three auditor II positions, one revenue officer I position, two tax examiner II positions and one auditor III position. Both of these requests were denied. Everyone understands the budget crisis, but why did the Governor deny this request when it appears these positions could have assisted the Department in correcting the items cited in the audit findings? Could approval of these positions significantly enhance taxpayer compliance? They seem particularly important considering the decreased revenues to the State.

ANDREW CLINGER (Director, Department of Administration):

These requests were in a category called items for special consideration. They are not included in the Department's cap given to them for appropriations. As we went through the budget process and had to prioritize spending, there were a few instances where we went to the special consideration list. It was difficult enough getting the budget balanced with the cap that was given to each agency, let alone going to the list of items for special consideration. When these items were presented to us for this agency we were not aware of the lack of audits on the mining companies.

ASSEMBLYMAN CONKLIN:

From a business point of view, taxes are the State's accounts receivable. Sometimes making an investment in the people who go after the receivables can produce greater return than the costs. Has any type of analytical work been done to justify these positions based on the potential return?

MR. NIELSEN:

A formal study has not been done on this. The law of diminishing returns will come into play. You cannot expect to double your staff and double the revenue. I believe including the new revenue officers in this budget is the best way to invest in the Department of Taxation at this time.



Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 33

ASSEMBLYMAN CONKLIN:

If we truly want to look at average returns, we should be looking at states such as Washington and Texas and consider what percentage they audit. The real crux is determining what percentage needs to be audited to establish a confidence level that all, or at least the majority, of the other tax returns are correct.

MR. NIELSEN:

I agree. Nevada is difficult to compare to other states that do not have a personal state income tax. In most states that have personal state income tax, the personal income tax is a major revenue source. Sales tax is obviously important to those states, but it is not as important as it is to Nevada. For example, in Indiana, they do not even audit sales tax. They concentrate on personal income taxes. We believe a 1 percent audit penetration rate is reasonable to ensure compliance.

SENATOR KIECKHEFER:

How are the different collections going? Do we expect to see increased collections as we go forward?

MR. NIELSEN:

Staff just released a press release this morning showing the January 2011 numbers. Sales tax for the General Fund collection is up 6.74 percent from a year ago. This is the seventh consecutive month of growth for General Fund sales tax.

MR. CLINGER:

We have not seen the January 2011 report and consequently have not put together how the January report impacts the sales tax numbers year to date. Through December 2010, Nevada is approximately \$16 million ahead on the State's piece of the 2 percent sales tax and about \$16.5 million ahead on the local school support tax piece. Since we benefit from both, the combined increase through December 2010 is approximately \$32 million. The January numbers will only add to that. How much, I am not sure at this point.

Joint Subcommittee on General Government  
Senate Committee on Finance  
Assembly Committee on Ways and Means  
March 29, 2011  
Page 34

CHAIR DENIS:

As there is no further business to come before this Subcommittee, this meeting is adjourned at 10:18 a.m.

RESPECTFULLY SUBMITTED:

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Jackie Cheney,  
Committee Secretary

APPROVED BY:

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Senator Moises (Mo) Denis, Chair

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

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Assemblyman Marcus Conklin, Chair

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

<u>EXHIBITS</u>			
Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	David Gustafson	Department of Information Technology FY 12/13 Budget Presentation
	D	Chris Nielsen	Department of Taxation FY 2012-FY 2013 Biennial Budget