

**Assembly Committee on Ways and Means
CLOSING LIST #12
May 6, 2015**

<u>BUDGET ACCOUNT</u>	<u>EXECUTIVE BUDGET PAGE</u>
	<u>Volume I</u>
<u>Secretary of State's Office</u>	
Secretary of State (101-1050)	ELECTED-159
HAVA Election Reform (101-1051)	ELECTED-170

Nevada Legislative Counsel Bureau
 Budget Closing Action Report
 Assembly Committee on Ways and Means
 W02 - WORKING VERSION 2

Title: SOS - SECRETARY OF STATE
 Account: 101 - 1050

Budget Page: ELECTED-159, Volume I

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	124,677	843,744	576.74	833,144	(1.26)	984,470	18.16
FEDERAL FUND	57,708	213,376	269.75	61,419	(71.22)	61,333	(0.14)
GENERAL FUND	13,288,785	13,945,557	4.94	19,798,715	41.97	23,030,448	16.32
INTERAGENCY TRANSFER	51,525						
OTHER FUND	294,511	442,057	50.10	414,185	(6.31)	412,148	(0.49)
REVERSIONS	(159)						
Total Revenues	13,817,047	15,444,734	11.78	21,107,463	36.66	24,488,399	16.02
Total FTE		130.00		135.00		136.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	00	2501	Reduce General Fund appropriations as a result of eliminating funding for an expired contract.	(21,170)	(21,170)
B000	00	2501	Reduce General Fund appropriations as a result of eliminating funding for expired contracts.	(95,606)	(65,856)
B000	00	2501	Reduce General Fund appropriations as a result of eliminating funding for an expired contract.	(24,790)	(24,790)
B000	00	2501	Reduce General Fund appropriations as a result of reinstating the funding transfer from the non-executive Notary Training budget for PCN 0123.	(56,581)	(58,046)
B000	00	2511	Increase Balance Forward as a result of the elimination of contract expenditures no longer needed with new positions in D/U E-232.		1,650
B000	00	4677	Reinstate funding transfer from the non-executive Notary Training budget for PCN 0123.	56,581	58,046
E232	00	2511	Increase Balance Forward for a reduction of costs from 4 positions to 2 positions recommended in Decision Unit E-232.		396
E232	00	2511	Increase balance forward for equipment adjustment.		3,095
E237	00	2511	Reduce balance forward for adjustment of funding source to reserves instead of fees.		(500)
E237	00	3722	Adjust funding source to reserves instead of fees.	(500)	(500)
E710	00	2511	Reduce balance forward for adjustment of funding source to reserves instead of fees.		(299)
E710	00	3722	Adjust funding source from fees to reserves for replacement equipment.	(299)	
E720	00	2511	Reduce balance forward for adjustment of funding source to reserves instead of fees for new equipment.		(1,810)
E720	00	3722	Adjust funding source to reserves instead of fees.	(1,810)	
Sub-total				(144,175)	(109,784)
Line Item Changes to Revenues				(144,175)	(109,784)

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
B000	23	7000	Reduce base contract funding for expired contracts.	(53,213)	(23,463)
B000	23	7000	Reduce base contract funding for expired contracts.	(12,290)	(12,290)
B000	26	7000	Reduce base contract funding for expired contract.	(21,170)	(21,170)
B000	26	7000	Reduce base contract funding for expired contracts.	(42,393)	(42,393)
B000	26	7000	Reduce base contract funding for expired contracts.	(12,500)	(12,500)

B000	42	7000	Reduce contract expenditures no longer needed with new positions in Decision Unit E-232.	(1,650)	(1,650)
B000	86	9000	Increase Reserves due to elimination of contract expenditures no longer needed with new positions in Decision Unit E-232.	1,650	3,300
E232	42	7000	Reduce costs from 4 positions to 2 positions recommended in Decision Unit E-232.	(275)	(361)
E232	43	8000	Align PC/Monitors/Phone with correct number of positions.	(291)	
E232	44	7000	Reduce costs from 4 positions to 2 positions recommended in Decision Unit E-232.	(121)	(159)
E232	44	8000	Align PC/Monitors/Phone with correct number of positions.	(2,804)	
E232	86	9000	Increase Reserve from adjustment to costs from 4 positions to 2 positions recommended in Decision Unit E-232.	396	916
E232	86	9000	Increase reserve balance for equipment adjustment.	3,095	3,095
E237	86	9000	Reduce reserves for modification to funding source to reserves from fees.	(500)	(1,000)
E710	86	9000	Reduce reserves for equipment replacement.	(299)	(299)
E720	86	9000	Reduce reserves for modification to funding source to reserves from fees.	(1,810)	(1,810)
Sub-total				(144,175)	(109,784)
Line Item Changes to Expenditures				(144,175)	(109,784)
Total				0	0
Grand Total General Fund Impact of Closing Changes				(198,147)	(169,862)

Overview

The Secretary of State (Office) maintains the official records of the acts of the Nevada Legislature and of the Executive Branch of state government. The Office is responsible for ensuring the integrity of elections, receiving and recording business entity filings, administering the uniform commercial code, protecting consumers against securities fraud, preserving public records, registering document preparation services and promoting public awareness and education in these areas. The Office is supported primarily by General Fund appropriations. Other funding sources include, but are not limited to, domestic partnership and advanced directive (living will) fee revenues, fines associated with the enforcement of securities statutes, and negotiated settlements from Auction Rate Securities (ARS) violations.

Major Closing Issues

1. eSoS System Rewrite/Replacement TIR
2. Two New Positions for the State's Business Portal
3. Two New Positions for the Securities Division

Discussion of Major Closing Issues

1. eSoS System Rewrite/Replacement TIR (E-231 and E-550, ELECTED-163 and 165):
The Executive Budget recommends a technology investment request (TIR) to rewrite/replace the existing eSoS application software and related hardware, which has been reviewed and approved by the Enterprise Information Technology Division. The total estimated cost of the TIR is \$21.9 million over five years and is scheduled to be fully implemented by January 2020. Ongoing annual costs are estimated at \$65,000 each year, which the Office indicates would be for vendor support once the new eSoS system is deployed.

For the 2015-17 biennium, the Governor recommends General Fund appropriations of \$3.9 million in FY 2016 and \$7.9 million in FY 2017. Inclusive of the three new Information Technology (IT) positions directly correlated with the TIR and recommended in Decision Unit E-231, the total recommended biennial cost of the project would be \$12.1 million.

- *Decision Unit E-550* – According to supporting documentation, the eSoS system is the primary application used by the Office for processing, archiving, and receipting Commercial Recording business entity filings, which generates over \$135.0 million annually in General Fund revenue. The Office states that the eSoS system is over ten years old and is failing more frequently as the complexity and volume of filings increase. The eSoS system was developed and partially implemented in 2002, with the final implementation occurring in 2006. The Office further indicates that increasingly, work stoppages occur, because the legacy eSoS software platform is fragile, unstable and is not easily adaptable or supported by emerging technologies. The instability, coupled with delays and limitations, impacts not only the revenue generated by entity filings, but also threatens Nevada’s reputation as an efficient, predictable filing state, according to the Secretary of State. The Office indicates that a system developed by an experienced outside vendor, using existing software licensing and hardware infrastructure, would be the best option for the Office and the state. Due to the complexity of the existing eSoS application, an in-house rewrite of the program is not deemed to be a viable option as internal staff does not have the technical expertise.

The Office estimates the useful life of the new eSoS system to be seven years until approximately 2027. After seven years, plans to upgrade or replace the system should be considered. However, the Office advises the actual retirement date will not be known for some time and could be later than the 2027 projection. Additionally, with the TIR project anticipated to span over five years, enhancement funding will be requested for the remaining unfinished portion of the TIR in the 2017-19 biennial budget.

Additionally, in response to Fiscal staff’s inquiry of whether there may be duplicate equipment between Decision Unit E-710 and equipment included in the TIR, the Office indicated it reviewed both the TIR equipment request and the equipment recommended in Decision Unit E-710 and confirmed there is no duplication of replacement equipment.

Further, the Office notes that with a project of this size and complexity, there is the possibility that actual costs in a given year could differ from the appropriated funding. Therefore, the ability to transfer TIR funding between fiscal years in the biennium would provide flexibility to respond to potential delays in the project as well as the ability to continue the project in the event it would be ahead of schedule. Should the Committee approve the TIR and the flexibility to transfer TIR funding between fiscal years, Fiscal staff would include this provision as back language in the Appropriations Act.

- *Decision Unit E-231* – As noted above, in conjunction with the TIR, The Executive Budget recommends General Fund appropriations of \$84,313 in FY 2016 and \$243,059 in FY 2017 to support three new IT Professional positions. Supporting documentation states that additional resources and specialized skills are needed to maintain the eSoS system. The Office indicates that the three new IT Professional positions would assist in modernizing and updating the eSoS system proposed in the recommended TIR. However, according to details provided in the TIR document, the majority of the project costs are related to the costs of utilizing an outside vendor. According to the Office, currently there are two positions assigned to support the eSoS system, and in addition to supporting the eSoS system, these two positions are also assigned other duties. The Office further indicates one new position is needed to help develop the system specifications for the new eSoS system, help with the vendor selection, and perform other project related tasks. The Office advises the person hired for this position may be an internal candidate of someone already familiar with the existing eSoS system. Testimony provided at the budget hearings indicated that the two IT staff to be hired in FY 2017 would primarily function to maintain the new eSoS system. Lastly, the Office notes that any additional staff time freed up due to increased eSoS efficiency would be needed to

support any new and existing projects. The Office advises that the Secretary of State currently supports over 80 applications; 50 web services; 140 servers; 30 network switches and numerous printers, desktop PCs and laptops.

Does the Committee wish to approve General Fund appropriations of \$3.9 million in FY 2016 and \$7.9 million in FY 2017 to replace the existing eSoS application software and related hardware, as recommended by the Governor in Decision Unit E-550?

If so, does the Committee wish to add back language to the Appropriations Act to allow the Office the ability to transfer TIR funding between fiscal years of the 2015-17 biennium to provide the project flexibility, as well as issue a letter of intent for the Secretary of State's Office to report semi-annually to the Interim Finance Committee concerning its progress on the implementation of the eSoS replacement project?

Does the Committee wish to approve General Fund appropriations of \$84,313 in FY 2016 and \$243,059 in FY 2017 to support three new IT Professional positions directly correlated with the TIR, as recommended by the Governor in Decision Unit E-231?

2. Two New Positions for the State's Business Portal (E-234 and E-235, ELECTED-164): The Governor's budget recommends the addition of one new IT Professional position in each fiscal year of the 2015-17 biennium to support functions related to SilverFlume, the state's business portal. General Fund appropriations of \$58,573 in FY 2016 and \$153,859 in FY 2017 are recommended to fund the personnel and associated operating costs of these positions. According to the Secretary of State's organizational chart, there are five existing positions currently supporting the state's business portal, which include one Portal Administrator, one IT Manager, one Master IT Professional, one IT Professional and one Business Process Analyst.

According to the Office, since its launch in 2012, the business portal has significantly expanded its features therefore requiring additional developers to support existing functionality and to undertake new functionality. The Office notes that proper staffing levels for the business portal ensures that development of new functionality can be safely undertaken while supporting existing functionality. The position questionnaires (NPD-19s) submitted as supporting documentation state that both of the positions would be assigned to develop new and support existing Java features for the business portal, be the primary technical contact, and serve as a backup developer on other business portal features. The Office indicates that both positions would be located in Carson City and space is sufficient to accommodate the positions.

Additionally, the NPD-19s indicate that the developer duties to be assigned to these two new IT positions were previously assigned to several technical team members, including three full-time IT staff and two IT contractors. Fiscal staff would note that although the NPD-19s state the new positions would assume some duties performed by contractors, the enhancement decision unit does not reflect a funding decrease for contractors, which could be used to offset a portion of the costs of the new positions.

During the budget hearing and in subsequent information provided to Fiscal staff, the Office noted that it has a contract with two Master Services Agreement (MSA) contractors that conduct the same work as the two new recommended developer positions. However, the Office advised the two contractors alternate covering nights, holidays, and weekends to ensure that SilverFlume has off-hour coverage. The Office states that without the MSA contractors, it would not be able to have the same off-hours support due to overtime and other restrictions for state employees.

At the request of staff, the Office provided a breakdown of the invoices paid to each MSA contractor in FY 2014, which indicates the two MSA contractors are each paid at a rate of \$80 per hour and combined, worked a total of 4,006 hours in FY 2014. Additionally, 4.7 percent or \$7,600 of the total annual billing of \$161,440 for MSA #1 and 1.7 percent or \$2,640 of the total annual billing of \$159,040 for the MSA #2 was for off-hours support, while the remainder of the billing for each MSA was for developer hours. The Executive Budget continues the same level of funding for each MSA contractor for a combined total of 4006 hours at \$80 per hour, which totals \$320,480 in each year of the 2015-17 biennium.

With two new recommended IT positions assuming some developer duties currently performed by contractors, Fiscal staff questioned how the significant number of MSA developer hours would be impacted. The Office responded that the functionality of the business portal is growing and there are several large agencies planning to join the portal in the upcoming biennium, including the Department of Employment, Training and Rehabilitation. The Office advises it needs the existing staff, contractors, and the two new positions to support the current portal functionality, as well as to develop additional functionality as new partner agencies join.

Options for the Committee's Consideration:

- A. Approve General Fund appropriations of \$58,573 in FY 2016 and \$153,859 in FY 2017, as recommended by the Governor to fund the personnel and associated operating costs of adding one new IT Professional position in each fiscal year to support functions related to SilverFlume, as recommended by the Governor.**
 - B. Approve General Fund appropriations of \$58,573 in FY 2016 and \$153,859 in FY 2017, as recommended by the Governor to fund the personnel and associated operating costs of adding one new IT Professional position in each fiscal year to support functions related to SilverFlume, with a corresponding reduction of \$58,573 in FY 2016 and \$153,859 in FY 2017 for MSA contracts. If this option is approved, remaining MSA contract funding would be \$261,907 in FY 2016 (3,274 hours at \$80 per hour) and \$166,621 in FY 2017 (2,083 hours at \$80 per hour).**
3. Two New Positions for the Securities Division (E-232, ELECTED-163): The Executive Budget recommends the addition of two new Compliance/Audit Investigator positions to support an increased workload associated with civil and criminal investigations in the Securities Division. The Office advises one Compliance/Audit Investigator position would be located in Reno, and one would be located in Las Vegas. The Governor recommends funding these new positions and associated operating costs with reserve reductions totaling \$228,968 over the 2015-17 biennium.

According to the Office, changes in federal law have resulted in increased regulatory responsibilities and enforcement. Specifically, in June 2012, the Office became responsible for the licensing, regulation, and inspection of mid-size investment adviser firms and their representatives who have assets under management valued between \$25.0 million and up to \$100.0 million. Prior to the changes in the federal law, states were responsible for investment advisers who managed assets up to \$25.0 million. As a result of this change, the Office gained jurisdiction over 40 additional investment adviser firms. The Office further advises that the number of compliance investigations has increased over the past four years, which directly impacts the amount of time the investigators are able to devote to each inspection.

The Office indicates that the Securities Division currently has one Compliance Audit/Investigator position in the Reno office and two Compliance/Audit Investigator positions along with one Chief Compliance/Audit Investigator position in the Las Vegas office. At the close of FY 2008,

the Office reports that the Securities Division had a total of seven Compliance/Audit Investigator positions. Two of the positions were assigned to the Reno office to service the Northern Nevada area, and five positions (including the Chief Compliance/Audit Investigator) were located in the Southern Nevada area. Due to budget reductions, three of the Compliance/Audit Investigator positions were eliminated in FY 2009. The Office reports that as of the end of FY 2014, there were 214 open cases (active matters, which include investigations).

In addition, the Secretary of State advises that the two new positions would allow the Securities Division to conduct more compliance examinations and audits of brokerage firms, investment advisor firms, and securities issuers, thereby increasing revenues without having to increase fees and partially offsetting the cost of the new positions.

At the February 3, 2015, and the February 5, 2015, budget hearings, the Office testified that the two additional Compliance/Audit Investigator positions would help to prevent the inspection/investigations backlog from increasing and enable the Securities Division Office to keep pace with its regulatory responsibilities and enforcement duties. The Office further noted that contract services had been utilized in FY 2014 to assist the Securities Division with its inspection/investigations backlog. **A technical adjustment to remove base contract expenditures of \$1,650 in each fiscal year of the 2015-17 biennium has been made and is included in the closing document. The Office indicated it is in agreement with this technical adjustment, contingent upon the approval of the two new Compliance/Audit Investigator positions.**

Additionally, although the Office requested four positions in its agency budget request, the equipment and operating expenditures were not adjusted to match the reduction in the number of positions from four to two positions recommended in the Governor's budget. **Accordingly, the closing document reflects a technical adjustment to align the recommended equipment and operating expenditures with the two positions recommended by the Governor, resulting in an increase to reserves of \$3,095 in FY 2016.**

Does the Committee wish to approve the Governor's recommendation to fund two Compliance/Audit Investigator positions and associated operating expenses, funded with reductions to reserves totaling \$225,873 over the 2015-17 biennium, inclusive of the technical adjustments noted by staff?

Other Closing Items

1. **Contract Funding in the Adjusted Base Budget (BASE, ELECTED-159 and 160):** During the review of the Adjusted Base budget, Fiscal staff identified several IT contracts that had either expired or had completed the assigned projects for which the funding should be removed from the base budget. The prior Secretary of State administration requested the contract funding remain in the base budget until such time as the new administration could review and make recommendations. The Office has identified nine contracts that will not be continued in the 2015-17 biennium and concurs with staff's recommendation to eliminate the funding for these contracts. **Fiscal staff has made technical adjustments, as reflected in the closing document, to eliminate funding for the contracts that will not be continued, which results in a General Fund savings of \$253,382 over the 2015-17 biennium.**
2. **Position Funding Source Change (BASE, ELECTED-159 and 160):** In the base budget, the Office has substituted General Fund appropriations in place of funding transfers from the non-Executive Notary Public Training budget in the amount of \$56,228 in FY 2016 and \$57,688 in FY 2017 for the costs of an Administrative Assistant position. A total of \$51,525 was transferred in FY 2014 from the non-Executive Notary Training budget to this budget for the support of the position. **According to the Office, the position provides direct support for mandatory training of notaries public.**

By way of background, during the 2011 Legislative Session, as requested by the Secretary of State, The Executive Budget proposed the transfer of one Administrative Assistant position and associated costs to the non-Executive Notary Public Training budget in Decision Unit E-900 to achieve desired General Fund savings. Instead of transferring the Administrative Assistant position to the non-Executive Notary Public Training budget, as recommended by the Governor, the 2011 Legislature approved retaining the position in the main operating budget and funding the position costs with transfers from the non-Executive Notary Public Training budget.

Fiscal staff would note that after further discussion of this issue with the Office of the Secretary of State and the Executive Budget Office, the Office agrees that the Administrative Assistant position should continue to be 100 percent supported by transfers from the non-Executive Notary Public Training budget. **Fiscal staff has made a technical adjustment, as reflected in the closing document, to restore transfers from the non-Executive Notary Public Training budget to this budget, with a corresponding decrease of General Fund appropriations in the amount of \$56,581 in FY 2016 and \$58,046 in FY 2017 to fund the Administrative Assistant position and associated costs.**

3. Credit Card Processing Fees (E-225, ELECTED-161 and 162): The Governor recommends General Fund appropriations of \$393,533 over the biennium to fund credit card processing fees associated with an anticipated increase in credit card usage by online customers. The 2013 Legislature approved credit card processing fees totaling \$3.8 million over the 2013-15 biennium. Total recommended funding in the Secretary of State's budget for credit card processing fees is \$4.3 million over the 2015-17 biennium, representing a 13.1 percent increase over the legislatively approved amount for the 2013-15 biennium. The Secretary of State cites a steady increase in usage of online services by customers dating back to 1998.

During the February 5, 2015, budget hearing, the Committee questioned the increasing cost of credit card processing fees and whether these fees could or should be passed on to the customer as a convenience fee. The Department of Administration has committed to studying the acceptance of credit cards and allowing state agencies to charge a convenience fee from a statewide perspective over the 2015-16 Interim. **This recommendation appears reasonable.**

4. In-State Travel Increase (E-226, ELECTED-162): The Governor recommends General Fund appropriations of \$5,108 in each year of the 2015-17 biennium for additional travel due to increased compliance needs for the Office's Document Preparation Services section. Through the passage and approval of Assembly Bill 74, the 2013 Legislature added registration of document preparation services to the responsibilities of the Office of the Secretary of State. The Office reports that as of the end of FY 2014, 142 businesses that perform document preparation services were registered.

The Office advises that when the bill was passed, no additional funding or positions were added to operate the new program, as the fiscal note was removed by the Office upon bill amendment. However, the Office reclassified a vacant Administrative Assistant position in Las Vegas to a Compliance Investigator position, which was approved by the Interim Finance Committee on December 9, 2013. Because the Office does not have an agency vehicle, the Compliance Investigator utilizes his own vehicle and submits a request for mileage reimbursement. As such, \$2,762 out of the \$5,108 recommended in Decision Unit E-226 would be for mileage reimbursement. The remaining \$2,346 would fund four trips each year for the Compliance Investigator to travel to Northern Nevada to conduct compliance visits in the Reno/Sparks, Carson City area. Each trip would be for two days and one night. The Office advises that although a Management Analyst position in Northern Nevada conducts some compliance visits for the Document Preparation Services section, the position has other assigned duties and as a result, the enforcement level in Northern Nevada is not as robust as it is in

Southern Nevada. With the recommended funding for travel, the Office intends to increase its enforcement level in Northern Nevada. **This recommendation appears reasonable.**

5. Out-of-State Travel Increase (E-227, ELECTED-162): The Governor recommends General Fund appropriations of \$2,012 in each year of the 2015-17 biennium for one additional staff to attend the annual conference of the International Association of Commercial Administrators (IACA), bringing the total number of staff attending the conference to three. The Office indicates that for the past two years, the Office has received a full scholarship for two positions to attend the annual conference of the IACA. When asked how the Office would fund the costs of two positions to attend the IACA conference in the event the scholarship funding is not awarded to the state, the Office indicated, travel expenses for the two positions would be funded out of the Office's existing travel budget. In support of sending a third staff member to the annual IACA conference, the Office notes that the conference has three separate tracks (three separate classes occurring at the same time) so the Office would like to have three staff attend in order to not miss any important information provided. **This recommendation appears reasonable.**
6. Online Search Program (E-237, ELECTED OFFICIALS-165): The Executive Budget includes a Miscellaneous Program Fees of \$500 in each fiscal year to fund an online search program for use by criminal investigators in the Securities Division. The Office indicates this technology would be utilized to investigate and research people, locations and companies during Securities investigations. The Office has notified Fiscal staff that \$500 online search program should be funded by a reduction to reserves instead of Miscellaneous Program Fees. **A technical adjustment has been included in the closing document to change the funding source from Miscellaneous Program Fees to reserves.**

With the technical adjustment, this recommendation appears reasonable.

7. Position Elimination (E-600, ELECTED-165 and 166): The Governor recommends a reduction of General Fund appropriations totaling \$96,245 over the 2015-17 biennium due to the elimination of one Administrative Assistant position. The Office advises that the position remained vacant during FY 2014 thereby generating salary savings, which were utilized to fund the reclassification of five positions throughout FY 2014. The Office further indicates that the Administrative Assistant position was assigned mailroom duties, which have since been redistributed to other mailroom staff. **This recommendation appears reasonable.**
8. Reduction in Training Funds (E-601, ELECTED-166): As requested by the Office of the Secretary of State, the Governor recommends a reduction of General Fund appropriations in the amount of \$39,669 in each year of the 2015-17 biennium for staff training. According to supporting documentation, the reduction of training funds is the result of specialized training that occurred in FY 2014 that will not be required at the same level in future years. By way of background, the 2013 Legislature approved an increase of \$64,750 in each fiscal year of the 2013-15 biennium for IT staff training, bringing the total approved funding for training to \$89,619 in each fiscal year. Actual training expenditures in FY 2014 were \$84,670. The Executive Budget includes \$45,001 per fiscal year (net of the recommended funding reduction) to fund ongoing training for the 2015-17 biennium. **This recommendation appears reasonable.**
9. Equipment Replacement (E-710, ELECTED-167): The Governor recommends Miscellaneous Program Fees of \$299 in FY 2016 and General Fund appropriations of \$1.0 million in FY 2016 and \$360,801 in FY 2017 to fund replacement hardware, software, and operating equipment. Replacement equipment includes: 137 desktop computers; 11 laptop computers with docking stations; 6 Equalogic Drives; 2 Dell Switches; 33 Dell Servers; 3 Dell Server Enclosures; 30 printers; 24 chairs; 1 camera; 1 shredder, 4 projectors and 1 fax machine. The Office has notified Fiscal staff that the \$299 for

equipment replacement in FY 2016 should be funded by a reduction to reserves instead of additional Miscellaneous Program Fees. **A technical adjustment has been included in the closing document to change the funding source from Miscellaneous Program Fees to reserves.**

The Office also reports that in FY 2009, it changed from a three-year to a five-year replacement cycle, with all equipment on the same replacement schedule. When asked by Fiscal staff whether the Office could postpone the replacement of any equipment until the 2017-19 biennium so as to split the refresh cycle, the Office responded that it does not recommend postponing any of the recommended replacement equipment in this decision unit as the Office contends that replacing all computers in the same year is good technology management.

Upon review of the equipment schedule recommended for replacement, Fiscal staff has concerns with the combined total of 188 desktop computers and laptop computers recommended for replacement in the Governor’s budget for the 2015-17 biennium, considering the total number of full-time staff is anticipated to be 135 FTEs in FY 2016 and 136 FTEs in FY 2017 as shown in the following table:

Recommended Funding for Computers	FY 2016	FY 2017	2015-17 Biennium
FTEs recommended in the Governor's Budget	135	136	136
Desktop Computers with Monitors	22	117	139
IT High-End Workstations	2	22	28
Laptops with Docking Stations	0	11	11
IT High-End-User Laptop Workstations	0	10	10
Total	24	160	188

According to information provided by the Office, The Executive Budget recommends a total of 167 replacement desktop computers, which includes 139 regular desktop computers and 28 high-end desktop workstations for the IT and business portal staff. Also recommended for replacement are 11 laptop computers and docking stations along with 10 high-end laptop workstations for IT staff. The Office indicates that the high-end desktop workstations (\$1,906 each) are recommended to be replaced for IT staff in addition to the replacement of 10 high-end laptop workstations (\$2,264 each), which would be assigned to the same IT staff to use in the Reno office or to take home for work purposes. It is unclear to Fiscal staff why these IT positions would not be able to utilize the high-end laptops for work in the office, as well as for work at home, thereby eliminating the need to replace a desktop computer for each IT staff to which a laptop is assigned.

The Office notes that the other 11 laptop computers with docking stations recommended for replacement are not assigned to specific individuals but are available for checkout on an as-needed basis. The Office also indicates there are 7 desktop computers for use in its IT testing lab. Further, according to the computer inventory report provided by the Office, the Office maintains approximately 25 computers as spares in the event a computer breaks. However, the Office reports a total of 6 spare desktop computers. Staff is unable to reconcile the difference at this time. The Office further reports that in FY 2014, 30 computers were swapped out due to software or hardware issues. According to the Office, spare computers allow the Office to have a computer configured and ready to swap to avoid downtime and loss of productivity.

Based upon the information above, at this time, Fiscal staff is unable to support the total number of computers that are recommended for replacement in the Governor’s budget. The Office recommends no reduction in the number of replacement desktop computers. However, with uncertainty as to the

number of actual computers that should be approved for replacement, an alternative option the Committee may wish to consider would be to approve the funding recommended by the Governor, but place the funding for equipment replacement into a special reserve category in this budget. The Office would be required to submit a more detailed plan for equipment replacement to the Interim Finance Committee for review and approval. Any unexpended funding remaining in the special reserve category at the end of the respective fiscal year would be reverted to the General Fund.

With regard to Other Closing Item 9, does the Committee wish to approve the Governor's recommendation of Miscellaneous Program Fees of \$299 in FY 2016 and General Fund appropriations of \$1.0 million in FY 2016 and \$360,801 in FY 2017, inclusive of the technical adjustment noted by staff for equipment replacement? If so, does the Committee wish to create a special reserve category to be accessed through the Interim Finance Committee work program revision process, and place the General Fund appropriations of \$1.0 million in FY 2016 and \$360,801 in FY 2017 in the special reserve category?

10. New Equipment (E-720, ELECTED-167): The Executive Budget recommends Miscellaneous Program Fees of \$1,810 in FY 2016 and General Fund appropriations of \$296,004 over the 2015-17 biennium to fund software and maintenance renewals and upgrades, disaster recovery disk backups, performance drives, and one document shredder. The Office has notified Fiscal staff that the \$1,810 for new equipment in FY 2016 should be funded by a reduction to reserves instead of additional Miscellaneous Program Fees. **A technical adjustment has been included in the closing document to change the funding source from Miscellaneous Program Fees to reserves. With the technical adjustment, this recommendation appears reasonable.**

Fiscal staff recommends that Other Closing Items 1 through 8 and 10 be closed as recommended by the Governor, with the technical adjustments noted by staff, and requests authority to make other technical adjustments, as necessary.

Additional Information – No Action Required

1. Transfer Administration of Business License Fee to Department of Taxation (Volume I, INTRODUCTION 8): The Executive Budget, under "Additional Revenue Reforms," recommends the restructuring of the Business License Fee to a tiered structure based on company size as determined by revenues. Since FY 2010, the Secretary of State's Office has administered and collected the Business License Fee. In conjunction with this proposed restructuring of the Business License Fee, beginning in FY 2016, the Governor recommends the transfer of the administration of this function back to the Department of Taxation. Senate Bill 252, as amended, discussed in the Assembly Taxation Committee on April 14, 2015, would revise the provision governing the state business license fee.

Although The Executive Budget recommends General Fund appropriations of \$3.8 million over the 2015-17 biennium in the Department of Taxation's budget to implement the Governor's recommendation to restructure the Business License Fee, no offsetting reductions for the proposed transfer of the Business License Fee function were recommended in the Secretary of State's budget.

At the February 3, 2015, budget hearing, the Office testified that when the administration and collection of the Business License Fee was transferred to the Office from the Department of Taxation beginning in FY 2010, no additional staffing resources were provided to the Office. As a result, if the proposed transfer of the Business License fee function were approved, there would be no offsetting reductions in the Secretary of State's budget. The Secretary of State estimates there would be a fiscal impact to the Office. According to the fiscal note submitted by the Office, the total estimated fiscal impact of Senate Bill 252 on the Office of the Secretary of State would be \$451,410 in FY 2016 and \$238,661 in FY 2017 (for a total of \$690,071 over the 2015-17 biennium) for programming changes, customer

service support, and two additional revocation and reinstatement staff to process the increased volume of revocation and reinstatements of business licenses.

2. Senate Bill 60: Senate Bill 60, amended and referred to the Senate Finance Committee on April 14, 2015, would transfer the Confidential Address Program from the Office of the Secretary of State to the Office of the Attorney General. The Office submitted a letter of support to the Committee Chairman expressing support of the movement of the Confidential Address Program to the Office of the Attorney General. If this measure is approved, funding for the program (\$11,388 annual operating) that resides the Secretary of State's operating budget would need to be transferred to the Attorney General's operating budget.

Title: SOS - HAVA ELECTION REFORM
 Account: 101 - 1051

Budget Page: ELECTED-170, Volume I

Revenues	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
BALANCE FORWARD	802,660	2,396,440	198.56	1,650,165	(31.14)	988,221	(40.11)
FEDERAL FUND	178,800	378,927	111.93	100,000	(73.61)		
GENERAL FUND	100	100		100		100	
OTHER FUND	2,038	11,576	468.01	2,036	(82.41)	2,036	
Total Revenues	983,598	2,787,043	183.35	1,752,301	(37.13)	990,357	(43.48)
Total FTE		2.00		2.00		2.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16 Gov Rec	2016-17 Gov Rec
Sub-total				0	0
Line Item Changes to Revenues				0	0

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16 Gov Rec	2016-17 Gov Rec
Sub-total				0	0
Line Item Changes to Expenditures				0	0
Total				0	0
Grand Total General Fund Impact of Closing Changes				0	0

Overview

The Secretary of State HAVA Election Reform budget was created by the 2003 Legislature for the receipt and expenditure of federal and state funds to implement the provisions of the Help America Vote Act of 2002 (HAVA). The HAVA legislation mandates that states take significant actions to improve their election systems and authorizes federal funding to implement the HAVA requirements. Some of the elements included in HAVA are improvement of election administration; replacement of antiquated voting equipment; implementation of voting systems that allow voters the opportunity to check for and correct ballot errors in private; implementation of voting systems with manual audit capacity providing a permanent paper record; improvement of access and ability for disabled individuals to vote; provision of alternative language materials; implementation of an interactive, computerized statewide voter registration list; and allowance for the casting of provisional ballots.

Major Closing Issues

There are no major closing issues.

Other Closing Item

Voter Registration and Data Matching Initiatives (E-229, ELECTED-172): The Governor recommends federal Title II reserves of \$51,036 in FY 2017 for the administration of the statewide voter registration lists. Of this amount, projected printing and postage costs of \$5,477 and \$45,559, respectively, are recommended. According to the Office of the Secretary of State, the data matching initiatives involve the identification of duplicate and invalid records through record comparison with Nevada's Department of Motor Vehicles, Vital Statistics lists, and against other states' voter registration information, as well as providing outreach to potentially eligible but unregistered individuals throughout the state. **This recommendation appears reasonable.**

Fiscal staff recommends this budget be closed as recommended by the Governor and requests authority to make any necessary technical adjustments.