

**SENATE COMMITTEE ON FINANCE AND
ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT
CLOSING REPORT**

DEPARTMENT OF TAXATION

The Joint Subcommittee on General Government completed its review of the Department of Taxation. The closing recommendations of the Subcommittee result in General Fund reductions of \$2.3 million in FY 2016 and \$1.2 in FY 2017. The Subcommittee recommended approval of the following closing actions:

Department of Taxation (101-2361) TAXATION-9: The Subcommittee recommended not approving the Governor's recommendation of General Fund appropriations totaling \$3.8 million over the 2015-17 biennium to implement the recommendation to restructure the Business License Fee under the Department of Taxation, but instead recommended removing the \$3.8 million from the department's budget and add a \$3.8 million General Fund appropriation to the department in the back language of the 2015 Appropriation Act to fund additional staffing, programming and operating costs the department may need to implement any tax packages that may be approved by the 2015 Legislature.

The Subcommittee recommended approval of the Governor's recommendation to fund one new IT Professional position, which would serve as the Department's Information Security Officer and one new IT Technician position to provide onsite support to Southern Nevada offices and associated operating expenses funded with General Fund

appropriations totaling \$252,277 over the 2015-17 biennium and \$214,200 in FY 2017 for new Oracle Data Masking software; Data Partitioning software; and Advanced Database Security Encryption software.

The Subcommittee recommended approval of one new Economist position instead of one new Management Analyst position, as recommended by the Governor, since the economist classification appears to more closely align with the duties proposed by the department. The Subcommittees recommendation required additional General Fund appropriations totaling \$1,931 in FY 2016 and \$2,673 in FY 2017.

The Subcommittee recommended approval of one new Auditor as recommended by the Governor and three additional full time Auditor positions (total of four new Auditor positions) to enable the department to improve the Net Proceeds of Minerals' audit penetration rate by reducing the current audit cycle of each mine from ten years to five years. The three additional Auditor positions and associated operating costs required additional General Fund appropriations of \$221,635 in FY 2016 and \$203,710 in FY 2017.

The Subcommittee recommended approval of the Governor's recommendation to reclassify nine Auditor positions to Supervising Auditors funded with General Fund appropriations of \$60,940 over the 2015-17 biennium.

Lastly, the Subcommittee recommended approval of the Budget Amendment A150862361, which eliminated a contract with the University

of Nevada, Reno upon its expiration on June 30, 2015, and utilized the funding to fund a new unclassified State Demographer position and associated operating costs in the Department of Taxation totaling \$176,796 in FY 2016 and \$168,664 in FY 2017, and resulted in General Fund savings of \$9,390 in FY 2016 and \$17,522 in FY 2017, as reflected in the closing document.

The Subcommittee recommended approval of all other closing items, with the technical adjustments noted by staff and with authority for staff to make other technical adjustments as necessary.

Department of Taxation
General Fund Impacts of Subcommittee Closing

Page	Budget	Title	FY 2016	FY 2017
AS CLOSED BY SUBCOMMITTEE:				
TAXATION-9	101-2361	Department of Taxation	(2,263,831)	(1,202,257)
			(2,263,831)	(1,202,257)

* \$3.8 million is recommended to be added to the back language of the Appropriations Act, however, this amount could be modified based upon final actions on S.B. 252 or other bills.

Nevada Legislative Counsel Bureau
 Budget Closing Action Report
 Joint Subcommittee on General Government
 W03 - WORKING VERSION 3

Title: DEPARTMENT OF TAXATION
Account: 101 - 2361

Budget Page: TAXATION-9, Volume I

	2013-14 Actual	2014-15 WP	% Chg	2015-16 GOV REC	% Chg	2016-17 GOV REC	% Chg
Revenues							
BALANCE FORWARD	(397,643)	61,287	(115.41)				
GENERAL FUND	25,431,173	26,261,393	3.26	29,996,965	14.22	29,710,149	(0.96)
INTERAGENCY TRANSFER	229,208	231,935	1.19	248,843	7.29	255,193	2.55
INTERIM FINANCE	520,412	24,779	(95.24)				
OTHER FUND	746,165	761,940	2.11	658,803	(13.54)	657,671	(0.17)
Total Revenues	26,529,315	27,341,334	3.06	30,904,611	13.03	30,623,013	(0.91)
Total FTE		336.00		364.00		364.00	

Adjustments to Revenue

Dec Unit	Cat	GL	Description	2015-16	2016-17
E226	00	2501	Increase General Fund appropriations based on the Subcommittee's recommendation to approve one new Economist position instead of one new Management Analyst position, as recommended by the Governor. The Economist classification more closely aligns with the duties proposed by the Department.	1,931	2,673
E227	00	2501	Decrease General Fund appropriations as a result of savings from the elimination of the contract with UNR for the State Demographer and adding a new State Demographer position within the Department of Taxation per Budget Amendment A150862361.	(9,390)	(17,522)
E228	00	2501	Increase General Fund appropriations to add three new Auditor positions and associated operating costs as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	221,635	203,710
E230	00	2501	Decrease General Fund appropriations as approved by the Subcommittee, to remove Decision Unit E-230 for the restructured business license fee and to add to the back language of the appropriations act based on the final version of a tax package.	(2,477,757)	(1,355,491)
E710	00	2501	Decrease General Fund appropriations as a result of the decrease for equipment costs based on quotes provided by the Department.		(35,132)
E720	00	2501	Decrease General Fund appropriations as a result of the decrease for equipment costs based on quotes provided by the Department.	(250)	(495)
Sub-total				(2,263,831)	(1,202,257)
Line Item Changes to Revenues				(2,263,831)	(1,202,257)

Adjustments to Expenditures

Dec Unit	Cat	GL	Description	2015-16	2016-17
E226	01	5000	Increase the Personnel category based on the Subcommittee's recommendation to approve one new Economist position instead of one new Management Analyst position, as recommended by the Governor. The Economist classification more closely aligns with the duties proposed by the Department.	1,931	2,673
E227	01	5000	Increase the Personnel category to add a new unclassified Demographer position in the Department of Taxation.	123,193	121,875
E227	04	7000	Increase the Operating Expenses category for operating costs for the new State Demographer position.	2,953	3,806
E227	05	8000	Add office equipment for the new State Demographer position.	4,846	
E227	21	6000	Increase the Demographic Surveys category for travel costs for the new State Demographer position.	8,000	8,000

E227	21	7000	Increase the Demographic Surveys category for the operating costs for the new State Demographer position.	(186,186)	(186,186)
E227	21	7000	Add computer software for the new State Demographer position.	34,742	34,742
E227	26	7000	Increase the Information Services category for the operating costs for the new State Demographer position.	352	
E227	26	7000	Add computer hardware for the new Demographer position.	236	241
E227	26	8000	Increase the Demographic Surveys category for the operating costs for the new State Demographer position.	2,474	
E228	01	5000	Increase the Personnel category to add three new Auditor positions and associated operating costs as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	181,743	186,567
E228	03	6000	Increase the In-State Travel category to add three new Auditor positions and associated operating costs as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	3,864	3,864
E228	04	7000	Increase the Operating Expenses category to add three new Auditor positions and associated operating costs as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	12,022	10,307
E228	05	8000	Increase the Equipment category to add office equipment for the three new Auditor positions as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	14,145	
E228	26	7000	Increase the Information Services category to add computer software for three new Auditor positions as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	1,764	722
E228	26	8000	Increase the Information Services category to add computer hardware for the three new Auditor positions as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	5,847	
E228	30	7000	Increase the Training category to add registration costs to attend annual property tax training for the three new Auditor positions as recommended by the Subcommittee at the May 6, 2015, budget closing for the Net Proceeds of Minerals audits based on a 5-year audit cycle.	2,250	2,250
E230	01	5000	Decrease the Personnel category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates the costs for 24 new positions for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.	(494,620)	(1,067,225)
E230	03	6000	Decrease the In-State Travel category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates the in-state travel costs for the 24 new for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.		(6,439)
E230	04	7000	Decrease the Operating Expenses category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates the operating costs for the 24 new positions for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.	(150,995)	(164,155)
E230	05	8000	Decrease the Equipment category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates office equipment for the 24 new positions for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.	(96,369)	(49,950)

E230	15	7000	Decrease the Lockbox Services category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates the lockbox contract cost to process payments for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.	(358,719)	(17,936)
E230	26	7000	Decrease the Information Services category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates the computer hardware costs for the 24 new positions for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.	(1,299,104)	(36,966)
E230	26	8000	Decrease Equipment costs based on quotes provided by the Department.	(77,950)	(12,820)
E710	26	8000	Decrease Equipment costs based on quotes provided by the Department.		(35,132)
E720	26	8000	Decrease the Information Services category as a result of the removal of Decision Unit E-230 as approved by the Subcommittee, which eliminates the computer hardware costs for the 24 new positions for the restructured business license fee per S.B. 252, and instead add funding to the back language of the Appropriations Act based on a final tax package that may be approved by the 2015 Legislature.	(250)	(495)
Sub-total				(2,263,831)	(1,202,257)
Line Item Changes to Expenditures				(2,263,831)	(1,202,257)
Total				0	0
Grand Total General Fund Impact of Closing Changes				(2,263,831)	(1,202,257)

Overview

The Department of Taxation (Department) administers the majority of the state's non-gaming tax laws, as well as the Local Government Budget Act. The Department is also responsible for developing annual population estimates of the state, counties, cities, towns and townships. The Department is comprised of four major divisions: Administrative Services/Fiscal, Information Technology, Compliance, and Local Government Services. The Department's main office is located in Carson City, with district offices in Las Vegas, Henderson, and Reno.

The Department is currently authorized for 336 full-time positions, of which one was approved by the Interim Finance Committee during the 2013-15 Interim. The Department received an allocation from the Interim Finance Committee Contingency Account in both fiscal years of the 2013-15 biennium to fund a new Tax Examiner position and programming modifications to the Department's Unified Tax System to implement the new excise tax imposed by Senate Bill 374, Section 24.4 of the 2013 Legislative Session. The legislation imposes a new excise tax of 2 percent on each wholesale sale of marijuana, edible marijuana products and marijuana-infused products between medical marijuana establishments; and on the retail sale of marijuana and such products from a medical marijuana dispensary to an end user. The new excise tax is in addition to the state and local sales and use taxes that are otherwise imposed on the sale of tangible personal property. The new Tax Examiner position was assigned to the Department's Compliance Division to provide taxpayer assistance and to provide oversight of account maintenance to ensure the proper distribution of funds received by the Department and the accuracy of all tax returns and payment of those returns for the excise tax.

Major Closing Issues

1. Restructuring of the State Business License Fee
2. Four New Positions
3. Reclassification of Nine Auditor Positions
4. New State Demographer Position (Budget Amendment A150862361)

Discussion of Major Closing Issues

1. **Restructuring of the State Business License Fee (E-230, TAXATION-13):** The Executive Budget, under “Additional Revenue Reforms” (Volume I - INTRODUCTION 8), recommends the restructuring of the Business License Fee (BLF) to a tiered structure based on company size as determined by revenues. The current BLF function is managed by the Secretary of State’s Office. The restructured BLF would be paid quarterly based upon the businesses prior year’s revenue, with an annual reconciliation on March 15 of each year. Senate Bill (S.B.) 252, amended and passed in the Senate on April 21, 2015, would implement this initiative. In conjunction with this proposal, the Governor recommends General Fund appropriations of \$3.8 million over the 2015-17 biennium to implement the recommendation to restructure the BLF. The \$3.8 million recommended would fund the following:

- 24 new positions (3 Management Analysts, 4 Accounting Assistants, 5 Tax Examiners, 10 Revenue Officers, 1 Information Technology (IT) Professional and 1 IT Technician) with associated operating costs, including but not limited to, computer hardware and software, furnishings, non-state owned building rent for a new office space located in Henderson, a new phone system for the new office space and in-state travel for the 10 new Revenue Officer positions for a total cost of \$815,254 in FY 2016 and \$1.3 million in FY 2017. The IT Professional position is recommended to start July 1, 2015, and the IT Technician position is recommended to start October 1, 2015. The 3 Management Analyst positions, the 4 Accounting Assistant positions, and the 5 Tax Examiner positions are recommended to start January 1, 2016, and the 10 Revenue Officer positions are recommended to start on January 1, 2017. The Department indicates that of the 24 positions recommended, 17 positions would be located at a new office located in Henderson and 7 positions would be located at the Carson City office. The Department indicates it used an effective date of January 1, 2016, for the Business License Fee, with the first returns expected in mid-May. Costs in the Governor’s recommended budget were based upon these dates. The Department indicates because the majority of Administrative Services and IT staff are located in Carson City, the Department would place the additional Administrative Services and IT staff recommended in Decision Unit E-230 in Carson City. Additionally, the Department notes because the majority of Nevada businesses are located in Clark County, the Department plans to locate the majority of Compliance staff in Southern Nevada. The Compliance staff would have front office and field contact directly with taxpayers and soon-to-be licensees.

For the 2015-17 biennium, the Department has not included positions to perform audits of the Business License Fee. The Department indicates audits of the Business License Fee would be conducted on the gross revenue of a business and the associated apportionment of Nevada revenue versus other state’s revenue. These audits would be conducted by Auditor positions, but the Department notes that these positions would not be needed until the 2017-19 biennium. Based on the estimated number of the Business License Fee accounts, the Department indicates for the 2017-19 biennium it anticipates that ten new Auditor positions (seven in Southern Nevada and three in Northern Nevada) to audit the Business License Fee program would be requested.

- Contracted programming costs through a Master Services Agreement (\$1.2 million in FY 2016) to update the Online Tax system to accept payments and returns for the new tax type, to update the Tax Administration System for the new tax type, and contract services to match Internal Revenue Service records to the Tax Administration system. The Department indicates the current online system was written almost ten years ago, and it is almost at the end of its useful life. In order to add new features to the online system, The Department advises the current online system needs to be upgraded.

To estimate the contract programming costs, the Department indicates it broke down the current online system into major achievable components, and further divided the project into multiple phases using the waterfall model. The Department's IT staff created a high-level work break down structure for each phase, developed high level estimates, and assigned different types of resources for each of the smallest work elements. This process provided labor hours to complete the work for the online system.

- Lockbox services totaling \$358,719 in FY 2016 and \$17,936 in FY 2017. Lockbox services include the processing and depositing of taxpayer payments, data capture, imaging and indexing of all transactions. In addition, the Department indicates this service facilitates the Department's compliance of *Nevada Revised Statutes* (NRS) 353.250(3), which states in part that "on any day if the money accumulated for deposit is \$10,000 or more, a deposit must be made no later than the next working day." In addition, the service provided ensures the distribution of monies as provided by state law to the State General Fund and local government entities within Nevada. The Department indicates the FY 2016 Lockbox costs were initially estimated by taking current lockbox volume and applying potential future Business License Fee receipts on an annual rate. The Department indicates it initially assumed that half of Business License Fee filers would send the returns and payments to the lockbox and the other half would be processed in-house. The recommended Accounting Assistant positions would support the in-house processing functions as well as the temporary clerical services. In FY 2017, estimated costs for Lockbox services are less as the Department anticipates having the new Business License Fee program in the Department's online filing system implemented.
- Temporary clerical services (\$65,144 in FY 2016 and \$21,705 in FY 2017) include three full-time positions for nine months in FY 2016 and three months in FY 2017 for the initial processing of returns. The Department indicates ten as the data transfer is processed with the Secretary of State's Office in the first few months of the Business License Fee transition, active Business License holder's information would need to be fed into the Unified Tax System. Additionally, the Department indicates the temporary clerical staff would provide support for tax return and payment processing. The Department notes 75 percent of the temporary clerical services is recommended in FY 2016 as the Department expects peak activity during this period and implementation of the online filing functionality is not expected until early in FY 2017. The remaining 25 percent of the temporary clerical services would be used in FY 2017 to transition the duties to permanent staff.

Fiscal Staff notes S.B. 252 was amended and passed on March 31, 2015, by the Senate Revenue and Economic Development Committee. Among other things, the amendment (No. 221) for S.B. 252 changed the effective date of the new Business License Fee from October 1 to July 1, 2015. Based on the amended bill, the Department has modified its fiscal note, which increases the Department's anticipated costs to manage the proposed Business License Fee as outlined in S.B. 252.

Since the March 5, 2015, budget hearing, the Department indicates it has completed its analysis of the provisions and the fiscal impact of S.B. 252. The Department has revised its estimated costs to implement S.B. 252, based on the amendment to the bill. The Department indicates it originally based Decision Unit E-230 on a start date of January 2016 and on a general understanding of how the fee would function, and it did not know how many businesses would be impacted. Since that time, the Department was able to collect information from the Secretary of State's Office on how many licensees are currently registered. In addition, the Department was able to obtain more accurate quotes from lockbox vendors and for operating costs. Based on S.B. 252 as written with amendment 221, the fiscal note attached to the bill includes starting positions in FY 2015 to prepare for the start date of July 1, 2015. The fiscal note also includes an increase in the number of positions needed for the 2015-17 biennium from 24 positions to 28 positions. The Department is projecting additional costs in

the FY 2015 totaling \$584,382 and an increase over the amounts recommended in The Executive Budget in Decision Unit E-230 for both years of the 2015-17 biennium. The cost for FY 2016 is estimated to increase from \$2.5 million as recommended in Decision Unit E-230 to \$2.7 million; and the cost for FY 2017 is estimated to increase from \$1.3 million to \$2.7 million, for a total estimated cost increase of \$1.6 million over the 2015-17 biennium over the amount recommended in this decision unit. Fiscal staff notes that a budget amendment increasing General Fund appropriations has not been received by the Executive Budget Office.

The Subcommittee may wish to consider the following options:

- a. **Approve the Governor’s recommendation of General Fund appropriations totaling \$3.8 million over the 2015-17 biennium to implement the recommendation to restructure the Business License Fee under the Department of Taxation, including authority for Fiscal staff to make technical adjustments contingent upon the final passage of Senate Bill 252 by the 2015 Legislature, including additional staff and increases to operating expenses, if necessary.**
- b. **Do not approve the Governor’s recommendation of General Fund appropriations totaling \$3.8 million over the 2015-17 biennium to implement the recommendation to restructure the Business License Fee under the Department of Taxation, but instead approve the recommendation to include General Fund appropriations totaling \$3.8 million over the 2015-17 biennium for the implementation of the restructuring of the Business License Fee in the back language of the appropriations act contingent upon the passage and approval of Senate Bill 252.**

The Subcommittee recommended not approving the Governor’s recommendation of General Fund appropriations totaling \$3.8 million over the 2015-17 biennium to implement the recommendation to restructure the Business License Fee under the Department of Taxation, but instead recommended removing the \$3.8 million General Fund appropriation from the budget and added a \$3.8 million appropriation to the “back language” of the Appropriation Act to fund the additional staffing, programming and operating costs the department may need to implement any tax package that may be approved by the 2015 Legislature.

2. Four New Positions (E-225 and E-226, TAXATION-11 and 12): In addition to the 24 new positions recommended by the Governor to implement the proposed restructuring of the BLF, The Executive Budget recommends an additional 4 new positions over the 2015-17 biennium. This brings the total new positions recommended in The Executive Budget for the 2015-17 biennium to 28 new positions, which would increase the Department’s position count from 336 full-time positions to 364 full-time positions. The 4 new recommended positions are as follows:

- Information Technology Professional and Information Technology Technician Positions (E-225, TAXATION-11 and 12): The Governor recommends General Fund appropriations of \$466,477 over the 2015-17 biennium for one IT Professional, which would serve as the Department’s Information Security Officer and one IT Technician to provide onsite support to Southern Nevada offices.

The Department indicates the recommended IT Professional/Security Officer position would enable the Department’s IT Technical Services section to address regular security patching, security auditing and review of exceptions logs. The new position would advise the Technical Services section on security matters and ensure that security issues are addressed promptly and security policies are implemented and adhered to. In addition, the full-time dedicated Information Security

Officer would allow the Department to allocate adequate staffing to the essential function of securing taxpayer information collected and stored by the Department.

According to the Department, the recommended IT Technician position would provide desktop support for the Las Vegas and Henderson offices, which is currently provided by technicians based in Carson City. The Department indicates 92 users are located in Southern Nevada and would be better served by having a locally-based IT Technician who can respond to problems requiring physical access to the desktop. The Department indicates it currently sends technicians from Carson City to Southern Nevada approximately once a quarter to address user needs, and for urgent tasks, the Department uses PC Technicians under a Master Services Agreement. This position would also provide support for other offices using remote management capabilities from Southern Nevada. In addition, The Executive Budget recommends a net reduction of in-state travel for the Carson City-based technicians totaling \$2,181 for each year of the 2015-17 biennium. The Department indicates that more than 80 percent of the IT Technician's time would be focused supporting Southern Nevada offices. The Department further indicates a total of \$193 was expended in the last three fiscal years for a PC Technician hired under a Master Services Agreement to support the needs of users in Southern Nevada.

In addition to the two new positions, the funding recommended includes associated operating costs and \$214,200 in FY 2017 for Oracle Data Masking software; Data Partitioning software; and Advanced Database Security Encryption software. The Oracle Data Masking software allows advanced masking of production data as it is moved between production and development; allows developers to verify data while masked; and prevents unauthorized viewing of sensitive data. The Data Partitioning software allows the ability to transparently split the storage of a table into manageable sizes, which creates a performance boost for large tables. The Advanced Database Security Encryption software provides transparent encryption for data at rest including both table space and column level, and masking of viewed data by user function and allows for third-party directory management (active directory) for user management. The Department indicates it would still require the Advanced Database Security software, and the Oracle Data Masking and Oracle Data Partitioning software regardless of whether or not the two new positions recommended in this decision unit are approved.

- **Does the Subcommittee wish to approve the Governor's recommendation to fund one new IT Professional position, which would serve as the Department's Information Security Officer and one new IT Technician position to provide onsite support to Southern Nevada offices and associated operating expenses funded with General Fund appropriations totaling \$252,277 over the 2015-17 biennium and \$214,200 in FY 2017 for new Oracle Data Masking software; Data Partitioning software; and Advanced Database Security Encryption software?**

The Subcommittee recommended approving the Governor's recommendation to fund one new IT Professional position, which would serve as the Department's Information Security Officer and one new IT Technician position to provide onsite support to Southern Nevada offices and associated operating expenses funded with General Fund appropriations totaling \$252,277 over the 2015-17 biennium and \$214,200 in FY 2017 for new Oracle Data Masking software; Data Partitioning software; and Advanced Database Security Encryption software.

- Management Analyst and Auditor Positions (E-226, TAXATION-12): The Executive Budget recommends General Fund appropriations of \$260,085 over the 2015-17 biennium for one new Management Analyst position to perform statistical analyses related to revenue forecasting and one new Auditor position to be the team lead for the Net Proceeds of Minerals audits.

Management Analyst Position

The Department indicates the new Management Analyst position is needed due to increased responsibilities created by legislative mandates, which require statistical analysis for revenue forecasting, development of fiscal notes and tracking and analyzing various kinds of abatements. In addition, other state agencies have increased their requests for data and analysis, including the Department of Education, the Department of Health and Human Services, the Executive Budget Office and the State Treasurer. The Department provided additional information regarding the duties of the recommended Management Analyst positions as follows:

- The position would coordinate the collection of data necessary to project property tax revenue after application of abatements for local governments pursuant to NRS 361.4535(2). Coordinating the efforts of county treasurers to produce pro forma reports on projected property tax revenues assuming certain tax rates; analyzing the data for consistency and accuracy, and preparing projections of revenue based on the information provided, and providing a variety of scenarios depending on certain growth assumptions. These forecasts are currently also requested by the Budget Division and the Legislative Counsel Bureau.
- *Nevada Revised Statutes* 362.115(2) requires the Department to prepare estimates of net proceeds of minerals taxes for use by local governments. This position would coordinate the collection of industry data as reported to the Division of Local Government Services; and will also require additional research and analysis of price and production of minerals.
- *Nevada Revised Statutes* 360.690(9) and (10) require the Department to prepare revenue estimates for Consolidated Tax Distribution (CTX). This position would work closely with other divisions within the Department which supply data, and then apply forecasting techniques to project future revenue.
- *Nevada Revised Statutes* 365.550(11) requires the Committee on Local Government Finance (CLGF) to monitor the fiscal impact of the motor vehicle fuel taxes apportionment. The Department serves as staff to CLGF. In compliance with this statute, and as a courtesy to local governments, the Department also includes motor vehicle fuel tax estimates in the revenue projections required by NRS 360.690(9) and (10). As necessary, this position would work with current staff to coordinate the collection of this information and work to update current forecasting techniques.
- *Nevada Revised Statutes* 428.285 requires counties to remit an ad valorem tax to the state an amount of money determined by the Director of Health and Human Services (HHS). The Department of Taxation works with Health and Human Services from this tax source. This position would work with representatives of HHS to collect necessary data and project revenue available for those programs.
- Senate Bill 522 (2013) requires the Department to provide the State Superintendent of Public Instruction the certified total of ad valorem taxes to be received by each school district. The position would work with Department employees to coordinate this effort.
- The position would coordinate with county treasurers and assessors to obtain data necessary to produce the "Top Ten Taxpayers Report," as well as produce several schedules of information regarding property and sales taxes that become part of the bond issue report.
- *Nevada Revised Statutes* 701A.110(4) requires the Department to publish fiscal notes on the fiscal impact of the partial abatements of property taxes granted to green buildings, which is

disseminated to local governments. This position would analyze each application and prepare the estimated fiscal impact required for local governments.

As outlined in the class specifications, a Management Analyst position performs technically complex assignments critical to agency operations. The position would conduct more complex, sensitive, investigative and analytical studies that may involve any aspect of the agency's operations such as planning, research, policy development, budgeting and legislative drafting.

In analyzing the recommendation for a new Management Analyst position and comparing the proposed duties of the position with other class specifications, it appears the proposed duties would align closer to an Economist position, as indicated in the following paragraph.

As outlined in the class specifications, an Economist position would prepare and conduct research, analysis and studies of economic, social, fiscal and other factors in relation to topic of study. Conduct research and analysis of economic, social, industrial and/or employment factors in order to identify trends and/or possible implications on the state. Collect, analyze and interpret data such as labor market trends, population projections, and industrial activity in order to produce economic forecasts and/or to be used by other state agencies in forecasting budgetary and service delivery levels. Provide technical assistance to state and local officials by providing and interpreting data and analysis and assisting in strategic planning based upon analysis. Make presentations to community groups regarding national and state economic trends and resulting implications. Produce reports containing graphs, tables, and written analysis of statistical and economic data for internal use, submission to the state and federal government, or publication and distribution to local governments and the general public.

Based on the proposed duties provided by the Department for the Management Analyst position, Fiscal staff would recommend an Economist position instead of the Management Analyst position, which would cost approximately 4 percent more than the amount recommended by Governor for the Management Analyst position (increase of approximately \$1,931 in FY 2016 and \$2,673 in FY 2017).

Relating to the Management Analyst position, the Subcommittee may wish to consider the following options:

- a. **Approve one new Management Analyst position, as recommended by the Governor.**
- b. **Approve one new Economist position, which appears to be more closely aligned with the duties proposed by the Department, which would require additional General Fund appropriations totaling \$1,931 in FY 2016 and \$2,673 in FY 2017.**

The Subcommittee recommended approving one new Economist position instead of one new Management Analyst position, as recommended by the Governor, since the Economist classification appears to more closely align with the duties proposed by the department. The Subcommittee's recommendation required additional General Fund appropriations totaling \$1,931 in FY 2016 and \$2,673 in FY 2017.

Auditor Position

The Executive Budget also recommends one Auditor position to act as a team lead position for the Net Proceed of Minerals Tax (NPMT) audits. Due to the complex nature of the NPMT audits, the Department believes that staff effectiveness and efficiency would be further enhanced with a team lead to provide supervision for this area of audits. The Department indicates the

recommended Auditor/Team Leader would be expected to have an in-depth knowledge of the net proceeds taxation and the minerals industry in order to provide assistance to the lower-level auditors with more difficult questions and situations, as well as to improve the audit penetration rate.

As background, the Audit section of the Division of Local Government Services (LGS) under the Department was created in October 2012. The Audit section is responsible for four programs: (1) Net Proceeds of Minerals Tax audits per NRS 362.200, (2) Performance Audits of the Property Tax System per NRS 360.720 thru 736, (3) Real Property Transfer Tax (RPTT) Administration per NRS 375.019(2) and 375.400, and (4) RPTT Audits per NRS 375.019(1).

Senate Bill 493, Section 17, approved by the 2011 Legislature, required the Department to submit a comprehensive audit program that set forth the Department's plan for completing an audit of every mining operator or other person who is required to file a statement concerning the extraction of minerals in the State of Nevada. The Department indicates that when the NPMT audit program began, the Department anticipated that all mine operators, approximately 102, could be audited during a three-year rotation period. However, the Department reports that the original audit plan was overly optimistic at the current staffing levels. Since October 2012, the Audit section has completed or is nearing completion of four audits and has assisted in the settlement of a long outstanding audit. Because of the importance of NPMT audits, all staff members in the Audit section were reassigned to NPMT audits. As a result, the desired penetration rates of the other audit programs (RPTT and Performance Audits) were reduced to virtually zero. The Department indicates the Audit section changed and streamlined NPMT audit programs for effectiveness and efficiency. As a result, the Audit section recently opened eight new audits scheduled for completion in May 2015. However, the Department's goal assumes continued diversion of resources away from RPTT and Performance Audits in favor of NPMT audits. The Department indicates insufficient staffing precludes increasing the audit penetration rates to desired levels. However, the Department indicates the current audit penetration rate is 1.0 percent and in FY 2014, the audit penetration rate was 1.03 percent. The Department has generally targeted a 1.0 percent audit penetration rate as its goal.

Fiscal staff notes that since the approval of Senate Bill 493, the Department indicates two Auditor positions were reassigned from the Compliance Division (the Real Property Transfer Tax Auditor and the Performance Auditor from the Division of Local Government Services) to perform net proceeds audits, for a total of four positions working on NPMT audits. The Department indicates the desired annual penetration rate for the net proceeds of minerals tax audits would be 11 percent annually. The current annual audit penetration rate for NPMT audits is about 8 percent. The Department indicates the new Auditor position would improve the audit penetration rate by about 3 percent to a total of 11 percent. However, the Department further indicates that while the addition of a new Auditor/Team lead position would help in meeting the desired audit penetration rate of 11 percent, it also assumes that the real property transfer tax and performance audit programs would have limited resources as auditors for those programs would continue to be devoted to the NPMT audits 100 percent of the time.

The current audit schedule for a full audit of each mine for the Net Proceeds of Minerals' audits is a 10-year cycle. The Department was asked by the Subcommittee what resources would be needed for a full audit of each mine based on a 5-year and a 7-year audit schedule for the Net Proceeds of Minerals' audits. Following is a summary of the Department's response:

- The Local Government Services section of Taxation currently has three Auditor II and one Supervising Auditor II positions (total of four positions). The Department indicates the four Auditor positions are currently producing an audit penetration rate of 8 percent. An additional Auditor III is requested in Decision Unit E-226, and with the one additional Auditor position the Department is projecting an audit penetration rate of 11 percent.
- A 7-year audit cycle would require an audit penetration rate of 14 percent. The Department indicates in addition to the one new Auditor position recommended in this decision unit, an additional Auditor position would be needed. The Department estimates the cost of an additional Auditor position, with supporting expenses, would be \$74,647 in FY 2016, and \$68,577 in FY 2017.
- A 5-year audit cycle would require an audit penetration rate of 20 percent. The Department indicates in addition to the one new Auditor position recommended in this decision unit, the Department would need three additional Auditor positions (each position producing about 3 percent of the total audits). The Department estimates the cost of three additional Auditor positions, with supporting expenses would be \$221,635 in FY 2016, and \$203,710 in FY 2017.

Relating to the Auditor position, the Subcommittee may wish to consider the following options:

- Approve one new Auditor position as recommended by the Governor.**
- Approve one new Auditor position as recommended by the Governor and add one additional Auditor position (total of two new Auditor positions) to enable the Department to improve the Net Proceeds of Minerals' audits penetration rate by reducing the current audit cycle of each mine to seven years, including authority for Fiscal staff to make technical adjustments based upon the final decision of the Subcommittee. This option would require estimated additional General Fund appropriations of \$74,647 in FY 2016 and \$68,577 in FY 2017.**
- Approve one new Auditor position as recommended by the Governor and add three additional Auditor position (total of four new Auditor positions) to enable the Department to improve the Net Proceeds of Minerals' audits penetration rate by reducing the current audit cycle of each mine to five years, including authority for Fiscal staff to make technical adjustments based upon the final decision of the Subcommittee. This option would require estimated additional General Fund appropriations of \$221,635 in FY 2016 and \$203,710 in FY 2017.**

The Subcommittee recommended approving one new Auditor position as recommended by the Governor and three additional Auditor positions (total of four new Auditor positions) to enable the department to improve the Net Proceeds of Minerals' audit penetration rate by reducing the current audit cycle of each mine from ten years to five years. The three additional Auditor positions and associated operating costs required additional General Fund appropriations of \$221,635 in FY 2016 and \$203,710 in FY 2017.

- Reclassification of Nine Auditor Positions (E-807, TAXATION-15): The Governor recommends General Fund appropriations of \$60,940 over the 2015-17 biennium to reclassify nine Auditor positions to Supervising Auditors. The Department indicates the positions being reclassified are section supervisors, supervising a staff of at least four lower-level auditors. The incumbents review all completed audits in their section and serve as the first step in resolving appealed determinations. Additionally, as justification for the recommended reclassification of the nine Auditor positions the

Department cites the inability to retain qualified candidates based on the scope and responsibilities of the job; the implementation of major new tax programs (the Medical Marijuana Tax, Excise Tax on Short-term Vehicle Rentals, Modified Business Tax, Modified Business Tax Financial Institutions, Live Entertainment Tax, Bank Excise Tax, and Film Credits) that are administered by the Department; the frequent changes to current tax programs; and the non-competitive salary range offered for the position.

Does the Subcommittee wish to approve the Governor's recommendation to reclassify nine Auditor positions to Supervising Auditors funded with General Fund appropriations of \$60,940 over the 2015-17 biennium?

The Subcommittee recommended approving the Governor's recommendation to reclassify nine Auditor positions to Supervising Auditors funded with General Fund appropriations of \$60,940 over the 2015-17 biennium.

4. New State Demographer Position (Budget Amendment A150862361): The Executive Budget Office submitted Budget Amendment A150862361 on April 30, 2015, which proposes to eliminate the current contract with the University of Nevada, Reno upon its June 30, 2015, expiration. The General Fund appropriations totaling \$186,186 in each fiscal year of the 2015-17 biennium recommended in The Executive Budget would then be used to fund a new unclassified State Demographer position and associated operating costs in the Department of Taxation. The transition from a contract with the University of Nevada, Reno to a new unclassified State Demographer position with associated operating costs in the Department of Taxation would result in a General Fund savings of \$9,390 in FY 2016 and \$17,522 in FY 2017. The Department indicates the new unclassified State Demographer position in the Department of Taxation would allow the Department to have control of the resources utilized to produce demographic information. Pursuant to NRS 360.283, the Department is required to establish a method for annually determining the population of each town, township, city and county in this state and prepare and submit to the Governor annually the Department's determination of the population. *Nevada Revised Statutes* 360.283 also requires the Department to employ a demographer to assist in the determination of population and the projection of population pursuant to NRS 360.289.

Does the Subcommittee wish to approve Budget Amendment A150862361, which would eliminate the contract with the University of Nevada, Reno upon its expiration on June 30, 2015, and utilize the funding to fund a new unclassified State Demographer position and associated operating costs in the Department of Taxation totaling \$176,796 in FY 2016 and \$168,664 in FY 2017, and would result in a General Fund savings of \$9,390 in FY 2016 and \$17,522 in FY 2017, as reflected in the closing document?

The Subcommittee recommended approving the Budget Amendment A150862361, which eliminated the contract with the University of Nevada, Reno upon its expiration on June 30, 2015, and utilized the funding to fund a new unclassified State Demographer position and associated operating costs in the Department of Taxation totaling \$176,796 in FY 2016 and \$168,664 in FY 2017, and would result in General Fund savings of \$9,390 in FY 2016 and \$17,522 in FY 2017, as reflected in the closing document.

Other Closing Items

1. Replacement Equipment (E-710, TAXATION-14): The Governor recommends a General Fund appropriation of \$112,091 in FY 2016 and \$340,316 in FY 2017 to replace computer hardware and software for staff, 2 document scanners, 1 iPad and 30 executive office chairs. The quote provided by the Department for the 2 document scanners does not reconcile to the amounts recommended in The Executive Budget. The Department inadvertently entered the incorrect unit price for the 2 document scanners, which upon using the correct unit price results in a decrease of General Fund

appropriations of \$35,132 in FY 2017. **Fiscal staff has included a technical adjustment in this closing document to decrease General Fund appropriations by \$35,132 in FY 2017. With this adjustment, this decision unit appears reasonable**

2. New Computer Equipment (E-720, TAXATION-14): The Executive Budget recommends a General Fund appropriation of \$5,400 in FY 2016 and \$495 in FY 2017 for a hard drive sanitizer to ensure retired data storage devices meet state security standards. The quote provided by the Department for the hard drive sanitizer does not reconcile to the amounts recommended in The Executive Budget. The Department inadvertently entered the incorrect unit price for the hard drive sanitizer and maintenance agreement, which upon using the correct unit price results in the decrease of General Fund appropriations of \$250 in FY 2016 and \$495 in FY 2017. **Fiscal staff has included a technical adjustment in this closing document to decrease General Fund appropriations of \$250 in FY 2016 and \$495 in FY 2017. With this adjustment, this decision unit appears reasonable.**
3. Cost Allocation for Centralized Agency Human Resources (E-804, TAXATION-14 and 15): The Governor recommends General Fund appropriations of \$9,831 in FY 2016 and \$13,222 in FY 2017 to fund increases in the centralized personnel cost allocation for the services provided by the Division of Human Resource Management. **This recommendation appears reasonable.**

Staff recommends that all Other Closing Items be closed as recommended by the Governor with the technical adjustments noted by staff and with authority to make other technical adjustments as necessary.

<p>The Subcommittee recommended approving the Other Closing Items as recommended by the Governor, including authority for Fiscal staff to make technical adjustments as noted.</p>
