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SENATE COMMITTEE ON FINANCE ✓

~~JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT~~  
~~CLOSING REPORT~~

DEPARTMENT OF TAXATION  
MAY 12, 2003

5/12

Full Finance  
Committee  
Closing

VOLUME I - DEPARTMENT OF TAXATION - 101-2361 - TAX-1 ✓ *done*

THE JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT HAS COMPLETED THE REVIEW OF THE DEPARTMENT OF TAXATION'S BUDGET FOR THE 2003-05 BIENNIUM RECOMMENDING APPROVAL WITH CERTAIN ADJUSTMENTS WHICH HAVE RESULTED IN ADDITIONAL GENERAL FUND COST OF \$119,954 IN FY 2004 AND \$72,850 IN FY 2005.

IN APPROVING THE BUDGET FOR THE DEPARTMENT, THE SUBCOMMITTEE CONSIDERED THE FOLLOWING ISSUES:

1. CONTINUED PRIVATIZATION OF LOCKBOX SERVICES.
2. FUNDING REQUIRED FOR THE IMPLEMENTATION OF S.B. 314.
3. IMPLEMENTATION OF NEW/INCREASED TAXES AS RECOMMENDED BY THE GOVERNOR AND APPROVED BY THE 2003 LEGISLATURE.

THE SUBCOMMITTEE CONCURRED WITH BUDGET AMENDMENT #129 AS SUBMITTED BY THE BUDGET DIVISION, WHICH WILL CONTINUE THE PRIVATIZATION OF LOCKBOX SERVICES FOR THE DEPARTMENT. APPROVAL OF THIS AMENDMENT RESULTED IN ADDITIONAL GENERAL FUND SUPPORT OF \$106,995 IN FY 2004 AND \$92,630 IN FY 2005; TOTAL COST FOR THE SERVICE IS \$414,000 PER YEAR. THE EXECUTIVE BUDGET ENVISIONED THE DEPARTMENT WOULD ASSUME THE LOCKBOX FUNCTION "IN-HOUSE" EFFECTIVE JULY 1, 2003 AND INCLUDED FOUR NEW POSITIONS, SEASONAL SALARY

COSTS AND RELATED OPERATING FUNDS FOR THE ASSUMPTION OF THIS FUNCTION. NOT INCLUDED IN THE EXECUTIVE BUDGET WAS APPROXIMATELY \$370,000 THAT WOULD HAVE BEEN REQUIRED FOR THE DEPARTMENT TO ACQUIRE THE NECESSARY EQUIPMENT AND TO HIRE STAFF DURING FY 2003 TO ASSUME THE FUNCTION EFFECTIVE JULY 1, 2003. SIX FIRMS RESPONDED TO RFP'S WITH BANK ONE BEING SELECTED AS THE VENDOR TO PROVIDE THE LOCKBOX SERVICE. THE CONTRACT WITH BANK ONE IS SCHEDULED FOR APPROVAL BY THE BOARD OF EXAMINERS AT THEIR MEETING ON MAY 13, 2003. IN APPROVING THIS FUNDING, THE SUBCOMMITTEE REQUESTED THE DEPARTMENT DEVELOP PERFORMANCE INDICATORS FOR REVIEW BY THE 2005 LEGISLATURE TO DOCUMENT THE VOLUME OF DOLLARS COLLECTED THROUGH THE LOCKBOX PROCESS. ADDITIONALLY, THE SUBCOMMITTEE REQUESTED THE DEPARTMENT TO EXPLORE THE USE OF ELECTRONIC FILING/COLLECTION OF TAXES IN THE DEVELOPMENT OF NEW TECHNOLOGY FOR THE COLLECTION OF NEW/INCREASED TAXES AS RECOMMENDED BY THE GOVERNOR AND APPROVED BY THE 2003 LEGISLATURE.

THE SUBCOMMITTEE ALSO APPROVED \$25,000 TO PERMIT CONTRACTING WITH THE UCCSN (STATE DEMOGRAPHER) TO COLLECT DATA REGARDING ELECTRONIC COMMERCE THAT IS CONDUCTED IN NEVADA AND TO REPORT THE RESULTS OF THAT STUDY TO THE 73<sup>RD</sup> SESSION OF THE NEVADA LEGISLATURE. THE REPORT IS INTENDED TO PROVIDE INFORMATION TO THE NEVADA LEGISLATURE THAT WILL DISCLOSE THE FINANCIAL IMPACT MORE STRINGENT REQUIREMENTS FOR THE COLLECTION OF THE SALES AND USE TAX ON ELECTRONIC COMMERCE WOULD HAVE IN RETAILERS IN NEVADA (S.B. 314).

ALTHOUGH NOT INCLUDED IN THE DEPARTMENT'S BUDGET, THE SUBCOMMITTEE ACKNOWLEDGED \$12.5 MILLION IN FY 2004 AND \$20 MILLION IN FY 2005 THAT IS RECOMMENDED BY THE GOVERNOR FOR THE

IMPLEMENTATION OF THE GOVERNOR'S RECOMMENDED TAX PLAN. THE FUNDING THAT IS RECOMMENDED WILL BE CONSIDERED AS A SEPARATE ISSUE WHEN A TAX PLAN HAS BEEN DECIDED, WITH THE FUNDING TO IMPLEMENT THE PLAN INCLUDED IN THE LEGISLATION FOR THE PLAN. THE SUBCOMMITTEE URGED THE DEPARTMENT TO WORK WITH FISCAL STAFF ON DEVELOPING DEFINITIVE COSTS FOR IMPLEMENTING THE COLLECTION OF WHATEVER TAX PLAN IS ULTIMATELY APPROVED.

THE SUBCOMMITTEE CONCURRED WITH STAFF'S TECHNICAL ADJUSTMENTS FOR VACANCY SAVINGS, BUILDINGS AND GROUNDS ASSESSMENTS, COPIER AND LEASE COSTS, AND COMPUTER HARDWARE AND SOFTWARE PRICES.

Title: DEPARTMENT OF TAXATION  
Account: 101 - 2361

2003 - W01  
Wrkng Ver #1

	2002 Actual	2003 W. P.	% Chg	2004 Gov Rec	% Chg	2005 Gov Rec	% Chg
<b>Revenues</b>							
GENERAL FUND	11,970,487	14,577,170	21.78	16,082,024	10.32	16,654,232	3.56
BALANCE FORWARD	1,607,538	1,021,635	-36.45				
FEDERAL FUND	12,740						
HIGHWAY FUND	423,290						
INTER AGENCY TRANSFER	6,989			6,989		6,989	
OTHER FUND	1,092,553	636,850	-41.71	779,954	22.47	780,203	.03
<b>Total Revenues</b>	<b>15,113,597</b>	<b>16,235,655</b>	<b>7.42</b>	<b>16,868,967</b>	<b>3.90</b>	<b>17,441,424</b>	<b>3.39</b>
<b>Expenses</b>							
Base				15,987,947	of tot. 94.78	16,145,895	of tot. 92.57
Maintenance				613,936	3.64	774,264	4.44
Enhancement				267,084	1.58	521,265	2.99
<b>Total Expenses</b>				<b>16,868,967</b>		<b>17,441,424</b>	
<b>Percentage of Base</b>							
Maintenance					of tot. 3.84		of tot. 4.80
Enhancement					1.67		3.23
<b>Total FTE</b>		<b>224.02</b>		<b>229.02</b>		<b>229.02</b>	

**Adjustments to Revenue**

Dec Unit	Cat	GL	Description	FY2004	FY2005
B-000	00	2501	Adjust General Fund for Adjustment to Expenses	120	121
M-100	00	2501	Adjust General Fund for Tort Assessment	0	10
M-300	00	2501	Adjust General Fund for Vacancy Savings Recalculation	(27)	(33)
E-600	00	2501	Adjust General Fund for Adjustment to Expenses	94	39
E-710	00	2501	Adjust General Fund for Computer Software/Hardware Revisions	(11,928)	(19,917)
E-850	00	2501	Adjust General Fund to Privatize Lockbox Services - Budget Amendment # 129 and Funding to implement S.B. 314	131,695	92,630
<b>Sub-Total</b>				<b>119,954</b>	<b>72,850</b>
<b>Line Item Changes to Revenues</b>				<b>119,954</b>	<b>72,850</b>

**Adjustments to Expenditures**

Dec Unit	Cat	GL	Description	FY2004	FY2005
B-000	01	5000	Recalculation of Vacancy Savings	(655)	(654)
B-000	04	7000	Adjust B & G Assessment - Eliminate Assessment for Out-of-State Auditors	(91)	(91)
B-000	04	7000	Adjust Copier Costs - New Copier in Reno Office	(235)	(235)
B-000	04	7000	Adjust Lease Payments for Copiers & Elko Postage Meter	1,101	1,101
M-100	04	7000	Adjust Tort Expense	0	10
M-300	01	5000	Recalculate Vacancy Saving	(27)	(33)
E-600	01	5000	Recalculate Vacancy Savings	(57)	(118)
E-600	04	7000	Add Employee Bond	3	3
E-600	04	7000	Add Employee Tort Expense	148	154
E-710	26	7000	Adjust Computer Software to Delete Items Funded in Base	(11,928)	(27,901)
E-710	26	8000	Adjust Computer Hardware per Updated Prices	0	7,984
E-850	01	5000	Eliminate Seasonal Salaries - Lockbox Privatized	(118,575)	(118,575)
E-850	01	5000	Eliminate Vacancy Savings - Lockbox Privatized	4,899	5,228
E-850	01	5000	Eliminate 2 Admin Aids - Lockbox Privatized	(62,414)	(68,684)
E-850	01	5000	Eliminate Admin Assist II - Lockbox Privatized	(35,636)	(39,031)
E-850	01	5000	Eliminate Admin Assist III - Lockbox Privatized	(38,184)	(41,771)

E-850	04	7000	Eliminate Consulting Services - Lockbox Privatized	(8,344)	(8,344)
E-850	04	7000	Eliminate Insurance - Lockbox Privatized	(585)	(585)
E-850	04	7000	Eliminate Insurance Expense - Lockbox Privatized	(12)	(12)
E-850	04	7000	Eliminate Nonstate Building Rent - Lockbox Privatized	(45,917)	(47,059)
E-850	04	7000	Eliminate Operating Supplies - Lockbox Privatized	(1,396)	(1,396)
E-850	04	7000	Eliminate Telephone - Lockbox Privatized	(1,141)	(1,141)
E-850	15	7000	Add Contract Funding for Lockbox Services	414,000	414,000
E-850	21	7000	Add Contract Funding per S.B. 314	25,000	0
<b>Sub-Total</b>				<b>119,954</b>	<b>72,850</b>
<b>Line Item Changes to Expenditures</b>				<b>119,954</b>	<b>72,850</b>
<b>Total</b>				<b>0</b>	<b>0</b>
<b>Grand Total General Fund Impact of Closing Changes</b>				<b>119,954</b>	<b>72,850</b>

## OVERVIEW

The Department of Taxation collects and distributes statewide sales and use tax, business tax, estate tax, liquor tax, cigarette and other tobacco products tax, insurance premium taxes, tire tax, short-term car lessor fee, net proceeds of mines tax and property tax on interstate and inter-county companies. The department is also responsible for administering various property tax programs and providing oversight to the financial administration of local governments. Effective January 1, 2002, the responsibility for the collection of taxes and fees imposed on certain motor fuels was transferred from the Department of Taxation to the Department of Motor Vehicles (A.B. 584, 1999). In FY 2001-02, gross revenue collected by the Department of Taxation was \$2,758,575,994, a decrease of \$290,276,459, or 9.52 percent below FY 2000-01 revenue collections. This decrease resulted primarily from the transfer of the responsibility for the collection of taxes and fees imposed on certain motor vehicle fuels (motor vehicle fuel taxes, jet fuel and petroleum products cleanup fees) to the Department of Motor Vehicles.

## CLOSING ISSUES

1. Continued privatization of lockbox services.
2. Funding required for implementing Senate Bill 314 as approved by the Senate Committee on Finance.
3. Implementation of new/increased taxes as recommended by the Governor and approved by the 2003 Legislature.

## DISCUSSION OF CLOSING ISSUES

1. Continued privatization of lockbox services. The Executive Budget in E-850 recommended a General Fund appropriation of \$307,305 in fiscal year 2004 and \$321,370 in fiscal year 2005 for the Department of Taxation to assume the lockbox function effective July 1, 2003. Not included in the recommended funding were the estimated costs to acquire the equipment and "start-up" costs for the department to assume the lockbox service (estimated cost of \$370,000). The Budget Division submitted amendment #129 to increase the General Fund appropriation by \$106,695 in fiscal year 2004 and \$92,630 in fiscal year 2005 (total of \$414,000 per fiscal year) to permit the department to continue the use of "privatized" lockbox services. This amendment deletes the four new positions, seasonal salary and operating costs that were recommended in The Executive Budget. The General Government Subcommittee has adopted this amendment, which is reflected in the closing of this budget. The Subcommittee has also recommended the Department develop performance indicators for review by the 2005 Legislature to document the volume of dollars that are collected through the lockbox process and to explore the use of electronic filing/collection of taxes in the development of new technology for the collection of new/increased taxes as recommended by the Governor.
2. Funding required for implementing Senate Bill 314 as approved by the Senate Committee on Finance. Senate Bill 314, as approved by the Senate Committee on Finance, requires the Department of Taxation to collect data regarding electronic commerce that is conducted in Nevada and to report the results of that study to the 73<sup>rd</sup> Session of the Nevada Legislature. This report is intended to provide information to the 73<sup>rd</sup> Session of the Nevada Legislature that will disclose the financial impact more stringent requirements for the collection of the sales and use tax on electronic commerce would have on retailers in Nevada. The General Government

Subcommittee has adjusted the recommended closing to reflect the department's estimated cost (\$25,000) to complete the study and compile the report. The department has provided information indicating a contract will be utilized to have the State Demographer, in conjunction with the UCCSN, to complete the study.

3. Implementation of new/increased taxes as recommended by the Governor and approved by the 2003 Legislature. The Executive Budget estimated a cost of approximately \$12.5 million in fiscal year 2004 and approximately \$20 million in fiscal year 2005 will be required to implement the Governor's tax plan. This funding is not included in the operating budget for the department and will be considered when a tax plan has been decided, with the funding to implement the plan included in the legislation for the plan.

### OTHER CLOSING ITEMS

1. E-600 - Addition of a Computer Network Technician position in lieu of continued use of a DoIT Network Technician. As included in The Executive Budget, General Fund savings of \$65,256 in fiscal year 2004 and \$49,226 in fiscal year 2005 is recommended based on the department's discontinuation of the use of DoIT services for this function. Staff has made a technical adjustment to provide funding for employee tort/bond costs for the position added. It should be noted the effective date of this position as recommended in The Executive Budget is October 1, 2003. The Subcommittee concurred with the technical adjustment and approved the Governor's recommendation of this decision unit.
2. E-710 - Funding for replacement computer hardware and software. Staff has reviewed this request with the department and has made adjustments to eliminate software costs that were funded in the base and has adjusted the prices for the remaining software and hardware to reflect the most current pricing. Funding as recommended will provide for 41 replacement desktop computers, 19 laptops with printers and docking stations, 1 file and print server, 2 database servers and 1 application server. The Subcommittee concurred with staff's adjustments to this decision unit and approved the decision unit as adjusted.
3. E-720 - Funding for two FAX machines (Carson City and Las Vegas) and a cash register for Elko. The Subcommittee approved this decision unit as recommended by the Governor.
4. Funding from Estate Tax Revenues to support the operation of the department's activities for the collection and distribution of estate tax revenue is recommended by the Governor to increase from \$126,971 in fiscal year 2002 to \$173,440 in each year of the 2003-05 biennium. The Subcommittee should be cognizant that revenue from estate tax collections will be diminishing due to the *Economic Growth and Tax Relief Reconciliation Act of 2001*, which the state estate tax credit is reduced by 25 percent in 2002, by 50 percent in 2003, and by 75 percent in 2004. In 2005, the state estate tax credit is repealed entirely. This act also changes estate tax exemptions from \$675,000 in 2001 to \$1.0 million in 2002 and \$1.5 million in 2004. Staff has not adjusted the funding from estate tax, since the only replacement revenue would be General Fund support. The Subcommittee acknowledged this issue in approving the budget.
5. Attorney General Cost Allocation - Staff has recently been advised the assessment for Attorney General Cost Allocation is recommended to be increased by approximately \$20,000+ in each year of the 2003-05 biennium with the increased cost being funded by an increase in "Audit Fees." This will result in audit fee revenue being increased from approximately \$38,000 as charged in fiscal year 2002 to in excess of \$62,000 in each year of the 2003-05 biennium. This adjustment is not reflected in the closing as presented, but will be adjusted when other closing adjustments are made, i.e., statewide cost allocation, etc. The Subcommittee acknowledged this issue in approving the budget.

### TECHNICAL ADJUSTMENTS

Staff has made technical adjustments for vacancy savings, buildings and grounds assessments, and copier and equipment lease costs. The Subcommittee approved the technical adjustments as made by staff.